UNITED STATES DEPARTMENT OF DEFENSE

AGENCY FINANCIAL REPORT

FISCAL YEAR 2019

Service members render honors following wreath laying ceremony at Arlington National Cemetery, May 27, 2019
DoD photo by Lisa Ferdinando

Department of Defense at a Glance

www.defense.gov

BRIEF HISTORY

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

MISSION

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

HEADQUARTERS

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

EMPLOYEES

The Department of Defense is the country's largest employer, with more than 2.1 million Military Service members and over 770 thousand civilian employees.

For information on DoD Humanitarian Efforts, go to ***DoD Helping Hands***.

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About the Department of Defense Agency Financial Report

The United States Department of Defense (DoD) Agency Financial Report (AFR) for Fiscal Year (FY) 2019 provides an overview of the Department's financial information as well as preliminary summary-level performance results. The AFR demonstrates to the Congress, the President, and the public the Department's commitment to its mission and to accountability and stewardship over the resources entrusted to it. This report satisfies the reporting requirements contained in the following legislation:

- Federal Managers' Financial Integrity Act (FMFIA) of 1982 – requires ongoing evaluations and reports of the adequacy of internal accounting and administrative controls;
- Chief Financial Officers (CFO) Act of 1990 – established the position of Chief Financial Officer and requires audited financial statements for each major executive agency;
- Government Management Reform Act (GMRA) of 1994 – delegates authority to the Director of the Office of Management and Budget to prescribe the form and content of the financial statements and to identify the components of executive agencies that will be required to have audited financial statements;
- Federal Financial Management Improvement Act (FFMIA) of 1996 – requires financial statement audits to assess the compliance of an agency's financial management systems with Federal requirements, Federal accounting standards, and the United States Government General Ledger;
- Reports Consolidation Act of 2000 – permits agencies to consolidate any statutorily required reports into a single annual report and requires certain information be contained in the consolidated report;
- Accountability of Tax Dollars Act (ATDA) of 2002 – expands the requirement for audited financial statements to additional executive agencies;
- Improper Payments Information Act (IPIA) of 2002, as amended by Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 – requires agencies to report on their efforts to identify, prevent, reduce, and recover improper payments;
- Fraud Reduction and Data Analytics Act of 2015 – requires agencies to report on progress in implementing financial and administrative controls related to fraud, identifying risks and vulnerabilities to fraud, and establishing steps to curb fraud.

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

- An AFR, published in November 2019, which focuses primarily on financial results and a high-level discussion of performance results, and
- An Annual Performance Report (APR), published in February 2020, which details DoD strategic goals and performance measures and results.

The estimated cost of this report or study for the Department of Defense is approximately $436,000 in Fiscal Years 2019 – 2020. This includes $158,000 in expenses and $279,000 in DoD labor.

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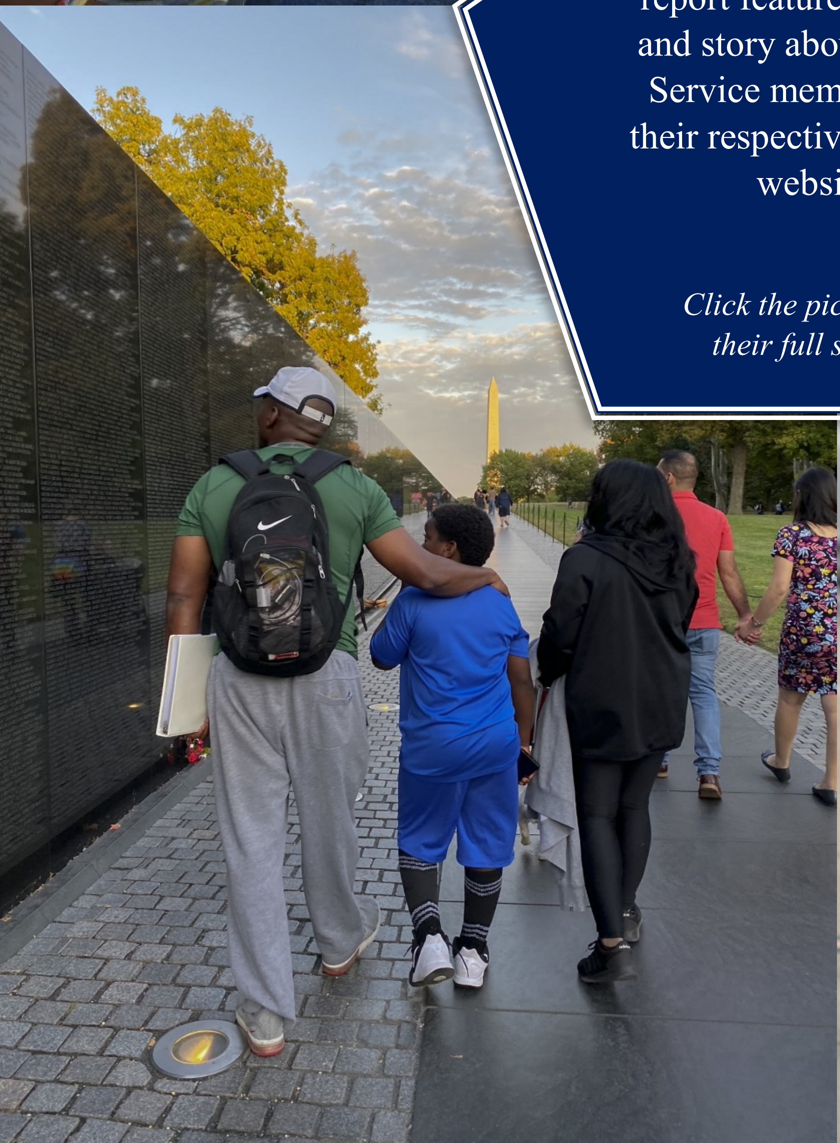
Each section cover of this report features a picture and story about Military Service members from their respective Service's website.

Click the pictures for their full stories.



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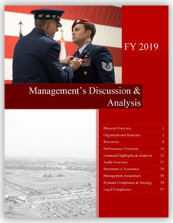
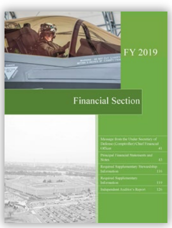


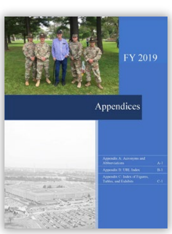
MANAGEMENT'S DISCUSSION & ANALYSIS

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



FINANCIAL SECTION

OTHER INFORMATION



APPENDICES

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MESSAGE FROM THE SECRETARY OF DEFENSE

November 15, 2019

On behalf of our nation's sentinels serving at home and around the world, I am honored to present the Department of Defense Agency Financial Report for Fiscal Year 2019. This report provides the President, Congress, and the American people with information on the taxpayer resources entrusted to the Department in fiscal year 2019, as well as the means to assess our management of those resources, our accomplishments, challenges, and vision for the future.

Our mission at the Department of Defense is to provide the combat-credible military forces needed to deter war, ensure our national security, and protect our vital interests. Should deterrence fail, the Joint Force is prepared to fight and win. Reinforcing America's traditional tool of diplomacy, the Department provides military options so the President and our diplomats always negotiate from positions of strength. The strategic approach outlined in the National Defense Strategy continues to guide and inform our plans and actions as we fulfill this critical role. The Management's Discussion and Analysis section of this report provides additional information on the alignment of our efforts to the National Defense Strategy.

This year, the Department continued its annual full-scope financial statement audit regimen. As expected, the audit resulted in a Disclaimer of Opinion and the identification of multiple material weaknesses. However, we have made some progress and auditor findings and recommendations continue to provide us with invaluable information that help us target and prioritize corrective actions as we strive to achieve an unmodified audit opinion. The Management's Discussion and Analysis section of this report provides my Statement of Assurance, which outlines the Department's assessment of material weaknesses and compliance with relevant laws and regulations. The Financial Section of this report provides the independent auditor's report, which details the results of the audit.

Along with our audit remediation efforts, we are devoted to modernizing and reforming our business practices to ensure effective stewardship of taxpayer resources. In this era of mounting fiscal challenges and competing demands, we have a responsibility to gain full value from every taxpayer dollar spent on defense. We are actively seeking ways to identify and execute any opportunity that improves our support to the warfighter and enhances the efficient use of our resources. These efficiency enhancements will free up time, money, and manpower that can be reallocated to our highest priorities in support of the National Defense Strategy.

We in the Department of Defense are grateful to the Congress for its support and investment in us, which has allowed us to continue our vital work in protecting the American people and our interests. We continue to strive to demonstrate that the Department manages its resources with the same precision and confidence that we bring to our military operations. I am certain that reading this report will impart a greater understanding and appreciation for the Department's complexities and commitment to fiscal transparency and effectiveness.

Mark T. Esper

Dr. Mark T. Esper

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FY 2019

Management's Discussion & Analysis

Kentucky Air Guardsman Earns Air Force Cross for Valor in Afghanistan

Click picture above for full article

Mission Overview

The enduring mission of the Department of Defense (DoD or the Department) is to provide the military forces needed to deter war and protect the security of the nation. The Department is committed to ensuring the United States (U.S.) military remains the best prepared and most lethal Joint Force in the world, and that the President and American diplomats negotiate from a position of strength. Should deterrence fail, the U.S. military is prepared to fight and win.

Today, the U.S. faces an increasingly dynamic and unpredictable security environment characterized by a decline in the long-standing free and open international order established following World War II. Rapid advances in commercial technologies such as big data analytics, artificial intelligence, robotics, quantum science, autonomy, and additive manufacturing (e.g., 3D printing) present both important opportunities as well as threats and will shape the character of future wars. Additionally, non-state actors and rogue regimes remain a concern, enabled by increasingly sophisticated capabilities.

Infantry Soldiers with 1st Battalion, 8th Infantry Regiment, 3rd Armored Brigade Combat Team, 4th Infantry Division, fire an FGM-148 Javelin during a combined arms live fire exercise in Jordan on August 27, 2019, in support of Eager Lion.

U.S. Army photo by Sgt. Liane Hatch

In response to this complex global security environment, the Department continues to carry out its mission objectives as outlined in the January 2018 National Defense Strategy (*NDS*). The NDS builds on the December 2017 *National Security Strategy* and provides a thorough examination of the U.S. military's capabilities, capacity, posture, and readiness. It also articulates an effective strategy to address global security challenges and provide for the common defense. The NDS continues to serve as the key strategic document driving the Department's priorities, investments, and programmatic decisions along three distinct lines of effort:

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

The Department continues to faithfully implement these lines of effort thanks to the ongoing congressional support provided through the *Bipartisan Budget Act of 2019*, the National Defense Authorization Act *(NDAA) for Fiscal Year 2019*, and the *DoD Appropriations Act of 2019*. This support has enabled the Department to continue to adapt and improve as necessary to execute its critical mission on behalf of the President, the Congress, and the American people. Through the use of creative approaches, sustained investments, and disciplined execution in the field, the Department will continue to foster a dominant Joint Force that will protect the security of the nation, increase American influence, preserve access to markets that will improve the American standard of living, and strengthen cohesion among allies and partners. Although, the Department is currently operating under a continuing resolution, which disrupts progress towards these goals and reduces buying power, the Department appreciates and looks forward to a swift resolution and enactment of the Fiscal Year 2020 authorization and appropriation bills.

Organizational Structure

The Department maintains and, when directed, uses armed forces to support and defend the Constitution; protect the security of the United States, its possessions, and areas vital to its interests; and deter potential adversaries from aggression. This mission requires a lethal, resilient, and rapidly innovating Joint Force; strong relationships with allies and partners; and continued efforts to reform the Department's business practices for performance and affordability. As such, the Department's management structure and processes are not written in stone, rather, they are a means to an end—empowering the warfighter with the knowledge, equipment, and support systems to fight and win. DoD leaders adapt, consolidate, eliminate, or restructure their organizational structures as needed to best support the Joint Force.

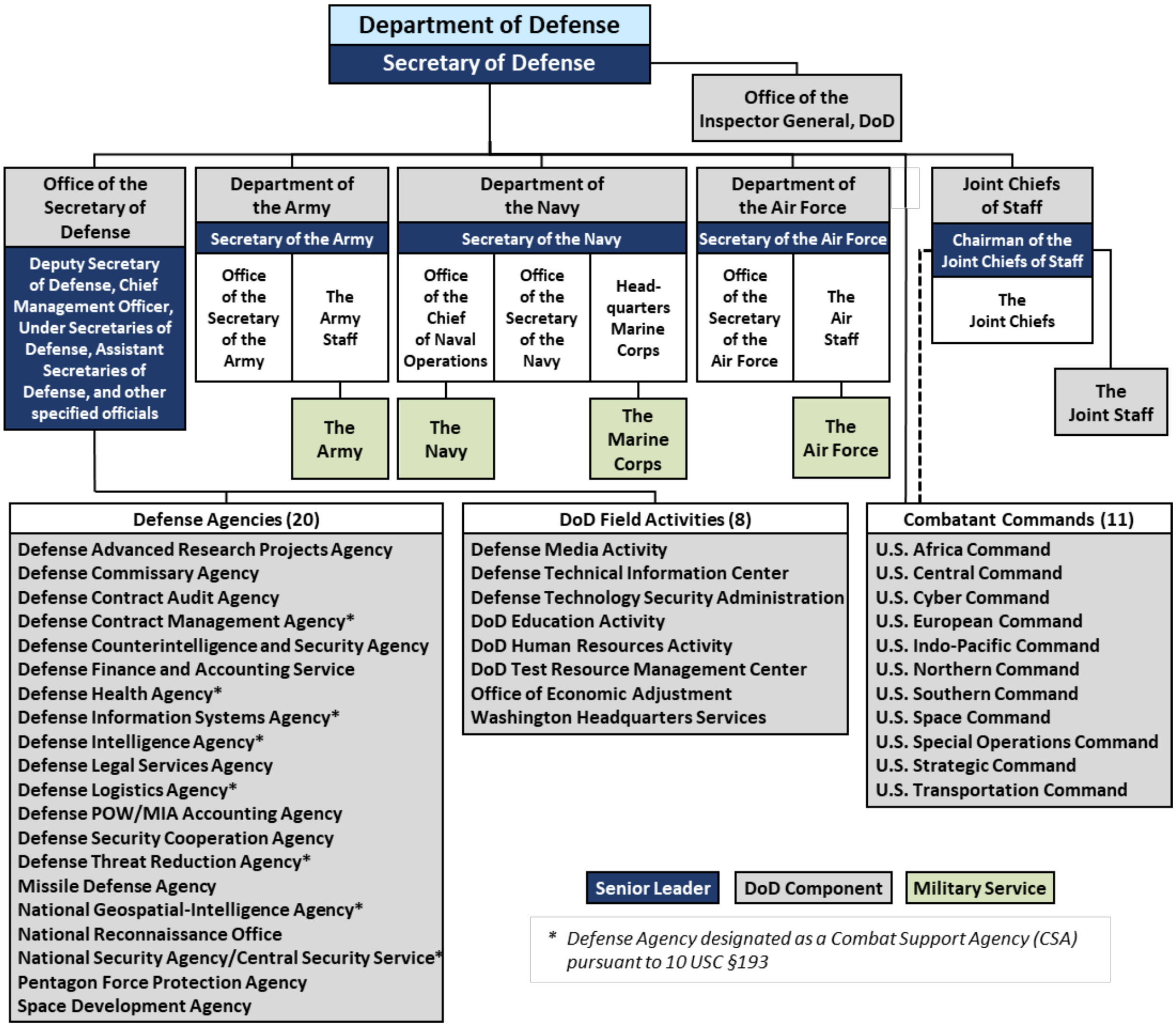
The Department is one of the nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 personnel serving in the National Guard and Reserve forces, and approximately 770,000 civilian employees. DoD Military Service members and civilians operate globally in all domains, including air, land, sea, space, and cyber space. In carrying out the Department's mission to protect national security, Military Service members operate approximately 16,000 aircraft and over 290 Battle Force ships.

The Department manages one of the Federal Government's largest portfolios of real property, with nearly 573,000 assets (buildings, structures, and linear structures) located on over 4,500 sites worldwide as of the beginning of Fiscal Year 2019. The Department's assets are situated on sites located in all 50 states, 7 U.S. territories, and over 40 foreign countries. These sites represent a total of nearly 26.3 million acres that individually vary in size from training ranges with over 3.3 million acres, such as the *White Sands Missile Range*, to single weather towers or navigational aids isolated on sites of less than one one-hundredth (0.01) of an acre. The acreage consists of various interest types ranging from fee interest (i.e., owned by the U.S. Government) to other legal interests such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond the mission-specific areas of installations (such as runways, training areas, and industrial complexes), DoD installations also contain many types of facilities and operations found in municipalities or on university campuses (such as hospital and medical facilities, public safety facilities, community support complexes, housing and dormitories, dining facilities, religious facilities, utility systems, and roadways).

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

The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands. The Chairman of the Joint Chiefs of Staff functions within the chain of command by transmitting the orders of the President and the Secretary of Defense to the Commanders of the Combatant Commands.

Figure 1. Department of Defense Organizational Structure

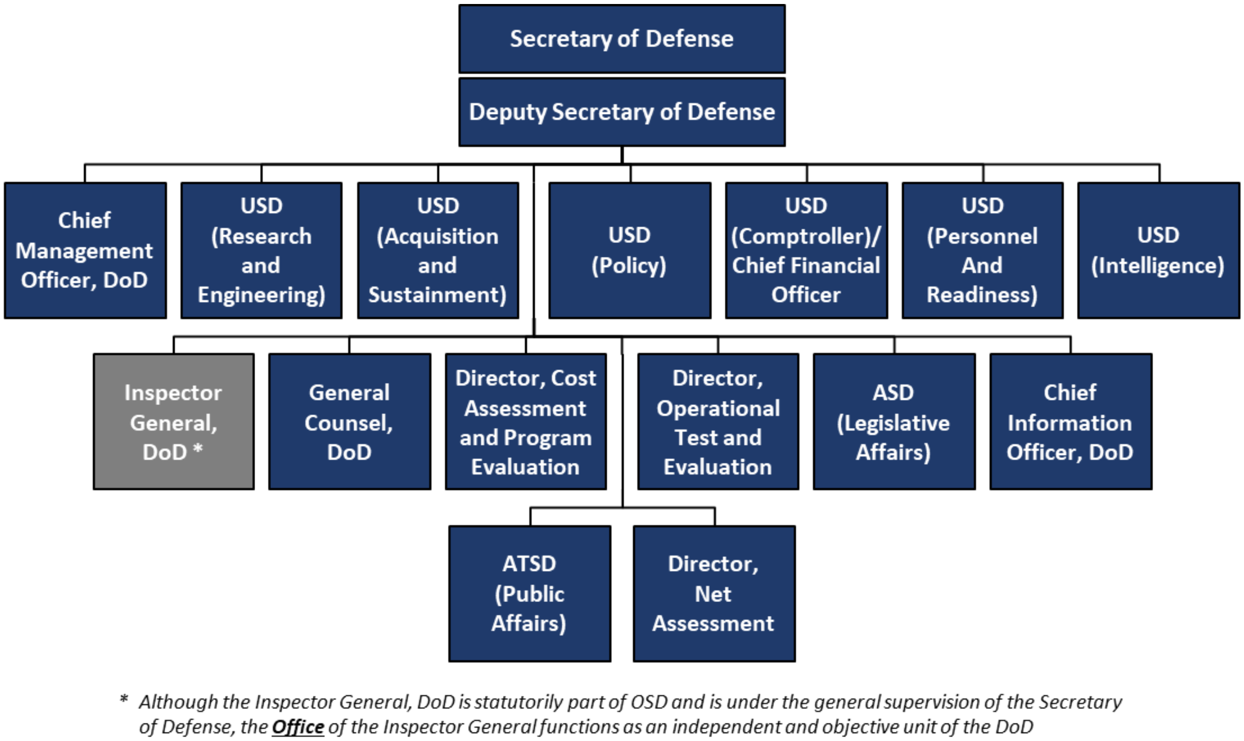


Office of the Secretary of Defense

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

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

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



The Joint Chiefs of Staff and the Joint Staff

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

Office of the Inspector General

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

Military Departments

The Military Departments consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force. Upon the declaration of war, if Congress so directs in the declaration or when the President directs, the Coast Guard becomes a special component of the Navy; otherwise, it is part of the Department of Homeland Security. The Army, Navy, Marine Corps, Air Force, and Coast Guard are referred to as the Military Services. The three Military Departments organize, train, and equip the four Military Services (or five when including the Coast Guard), and provide administrative and logistics support to the Combatant Commands by managing operational costs and execution. The Combatant Commands are responsible for maintaining the readiness of the forces assigned or allocated to them and are responsible for conducting military operations.

The Military Departments include both Active and Reserve Components. The Active Component is composed of units under the authority of the Secretary of Defense, manned by active duty Military Service members. The Reserve Component includes the *National Guard* and the Reserve Forces of each Military Service (see Figure 3). The National Guard, which has a unique dual mission with both federal and state responsibilities, can be called into action during local, statewide, or other emergencies (such as storms, drought, and civil disturbances) and in some cases to support federal purposes for training or other duty (non-federalized service) when directed by the governor of each state or territory.

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

Figure 3. Reserve Components – Reserve and National Guard

Federal Missions

United States Army Reserve
United States Navy Reserve
United States Air Force Reserve
United States Marine Corps Reserve
United States Coast Guard Reserve

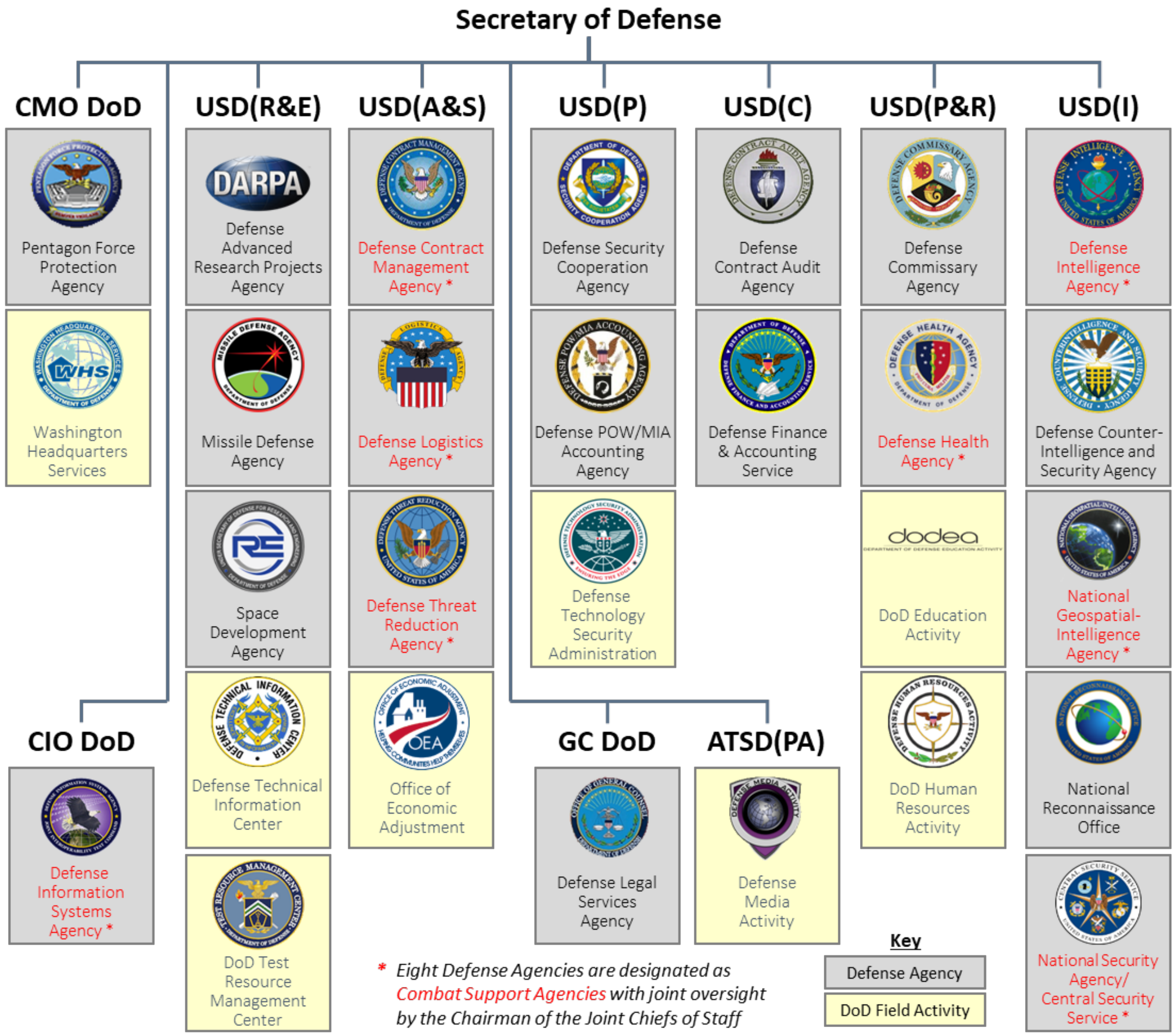
Federal and State Missions

Air National Guard
Army National Guard

Defense Agencies and DoD Field Activities

Defense Agencies and DoD Field Activities are established as DoD Components by law, the President, or the Secretary of Defense to provide, on a Department-wide basis, a supply or service activity common to more than one Military Department when it is more effective, economical, or efficient to do so. Although both Defense Agencies and DoD Field Activities fulfill similar functions, the former tend to be larger, normally provide a broader scope of supplies and services, and can be designated as Combat Support Agencies to directly support the Combatant Commands. Each of the 20 Defense Agencies and eight DoD Field Activities operate under the authority, direction, and control of the Secretary of Defense through an OSD Principal Staff Assistant (see Figure 4).

Figure 4. Defense Agencies and DoD Field Activities



Combatant Commands

The Commanders of the Combatant Commands are responsible for accomplishing the military missions assigned to them (see Figure 5). Combatant Commanders exercise command authority over assigned and allocated forces, as directed by the Secretary of Defense. The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands. The CJCS functions within the chain of command by transmitting the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

This year, the Department established the United States Space Command (*USSPACECOM*) as the eleventh Unified Combatant Command. The USSPACECOM increases the ability of the Joint Force to project power and influence, reduces decision timelines for space operations, and brings focused attention to defending U.S. interests in space. The USSPACECOM is distinct from and complementary to the proposed U.S. Space Force.

Among Combatant Commands, the U.S. Special Operations Command (*USSOCOM*) has additional responsibilities and authorities similar to a number of authorities exercised by the Military Departments and Defense Agencies, including programming, budgeting, acquisition, training, organizing, equipping, and providing Special Operations Forces (SOF), and developing SOF's strategy, doctrine, tactics, and procedures. The USSOCOM is reliant on the Military Services for ensuring combat readiness of the forces assigned to it.

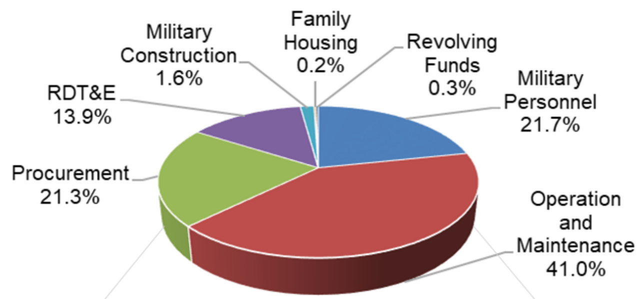
Figure 5. Combatant Commands

Resources

In Fiscal Year (FY) 2019, the Department had discretionary budget authority of $687.8 billion. Figure 6 displays FY 2019 DoD budget authority by appropriation category. These resources and the programs they funded supported the Department's operations consistent with the three NDS lines of effort.

Appropriation Categories

Figure 6. FY 2019 DoD Budget Authority



Appropriation Category	$ in Billions	%
Operation and Maintenance	$281.8	41.0%
Military Personnel	149.4	21.7%
Procurement	146.5	21.3%
RDT&E	95.3	13.9%
Military Construction	11.3	1.6%
Revolving Funds	1.9	0.3%
Family Housing	1.6	0.2%
Total	**$687.8**	**100.0%**

Operation and Maintenance (O&M) – FY 2019 O&M funding increased $8.6 billion over the amount enacted for FY 2018. Funds in this category included major programmatic increases to programs such as the Military Departments' readiness efforts to increase the frequency and quality of individual and collective training, as well as improvements to home station and depot maintenance of weapons systems and platforms. Additionally, $1.2 billion was received to support disaster recovery efforts associated with Hurricanes Florence and Michael as well as flooding in the Midwest.

Military Personnel – FY 2019 Military Personnel funding increased $5.4 billion over the amount enacted for FY 2018. Funds in this category provided for an increase of 16,400 end strength above the FY 2018 authorized levels across all of the Military Services and supported the full implementation of the new *Blended Retirement System*. The increased end strength is designed to grow overall capacity and improve readiness through reduced operational and personnel tempo while addressing advanced capabilities (such as cyber, electronic warfare, and special operations) needed to contend with our most capable potential adversaries.

Procurement – FY 2019 Procurement funding decreased $0.9 billion over the amount enacted for FY 2018. Funds in this category provided for the acquisition of equipment including unmanned aerial systems, air and missile defense systems across the operational force, additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter. The funding also allowed for increased rates of procurement for new and replacement weapons systems, resulting in accelerated transition timelines from legacy platforms and increased lethality and efficiency across the Military Services. For instance, the Navy was provided with the necessary funding for the procurement of three Arleigh Burke-class guided missile destroyers, two Virginia-class fast attack submarines, one littoral combat ship, 37 F-35 Joint Strike Fighters, and 24 F/A-18E/F fighters.

Research, Development, Test, and Evaluation (RDT&E) – FY 2019 RDT&E funding increased $3.6 billion over the amount enacted for FY 2018. Funds in this category provided for critical investments in basic and applied technologies, advanced technology development, prototypes, and design and development for major acquisition programs. The funds also provided for upgrades to ensure that weapon systems used today and those developed for the future will provide capabilities to maintain a technological advantage over our potential adversaries. Significant increases in next generation aviation and space systems development led the way, especially with such programs as the Long Range Strike Bomber, F-35 Continuous Capability Development and Delivery, 6th generation jet fighter development, modernization of nuclear enterprise systems, and the Next Generation Overhead Infrared Reconnaissance satellite development. Additionally, the Department solidified its investment in key technologies (such as artificial intelligence, hypersonics, directed energy, and autonomous/unmanned systems) that are likely to revolutionize the future of warfare.

Military Construction – Funds in this category provided for the improvement of existing infrastructure as well as the construction of new facilities for operational and training needs, barracks, and other buildings to support the DoD mission around the world. Additionally, these funds provided support for European reassurance and deterrence initiatives as well as $0.9 billion to repair or replace DoD facilities damaged as a result of Hurricane Florence, Hurricane Michael, and flooding across the American Midwest.

Revolving Funds – Funds in this category included direct appropriations to the Defense Commissary Agency (*DeCA*) that supported its commissary operations, including the cost of operating the commissaries, headquarters operations, and field operating activities.

Family Housing – Funds in this category provided for the construction of new housing, improvements to existing housing units, operation and maintenance of government-owned housing, and the leasing of housing facilities domestically and internationally. Examples of family housing construction efforts supported by these funds include the Army's projects at Vicenza, Italy; Camp Humphreys and Camp Walker in South Korea; and the Navy's project in Guam. The funds additionally provide for the oversight of the Military Housing Privatization Initiative (*MHPI*), which enables the Military Departments to leverage private sector expertise and funding to accelerate the improvement and sustainment of quality installation housing in the U.S. and its territories. Under the MHPI program, private sector partners own, operate, and maintain housing units under a ground lease with the host installation.

A B-2 Spirit Stealth Bomber, assigned to the 509th Bomb Wing at Whiteman Air Force Base, Missouri, two Royal Air Force F-35 Lightning IIs assigned to RAF Marham, England, and two F-15 Eagles assigned to the 48th Fighter Wing at RAF Lakenheath, England, fly in formation behind a KC-135 Stratotanker, assigned to RAF Mildenhall, England, during a training mission for Bomber Task Force Europe on September 16, 2019.

U.S. Air Force photo by Senior Airman Thomas Barley

Illustrative Examples of Resources Expended in Support of the NDS

Rebuilding Military Readiness and Building a More Lethal Joint Force

Prioritizing Preparedness for War

Consistent with the NDS, the FY 2019 budget provided funding to continue building the Joint Force's capacity to deter, defeat, and disrupt aggression in order to protect the American people and defend the nation's vital interests. The Department identified goals and metrics to measure and manage progress toward increasing warfighting readiness, which focus on rebuilding individual Military Service readiness while developing collective and joint capabilities.

As such, each Military Service has unique requirements for meeting its individual readiness goals, which are focused on similar objectives—training, equipment, sustainment, and installations. Readiness improvements enabled by the FY 2019 budget include:

- Army increased use of Combat Training Centers and home station training to help develop crucial anti-access and area-denial capabilities for full-spectrum warfare and the conversion of an Infantry Brigade Combat Team to an Armored Brigade Combat Team;
- The Navy achieved their goal of 80% mission-capable rate on its F-18 and F-35 fleets;
- Marine Corps continued modernization programs that directly correlate to improved readiness by reducing unit costs, increasing efficiencies, and providing needed operational capabilities sooner; and
- Air Force increased the availability of air superiority, global precision attack, and rapid global mobility platforms, such as the F-22, F-16, C-5, and KC-135.

The FY 2019 budget also included funding the Combatant Commander Exercise and Engagement and Training Transformation (CE2T2) program, including support for over 100 major annual exercises. CE2T2 exercises support Joint Force readiness, future force development and design, strategic messaging and posture (deterrence and assurance), inter-agency integration, multi-national interoperability, and strengthening of relationships with allies and partners. This is accomplished through the use of realistic and robust combat training, realistic opposing forces, feedback, and lessons learned.

NATO allies demonstrate joint capabilities on land, air and sea for an audience of distinguished visitors and media at Trondheim, Norway during exercise Trident Juncture 18 on Oct. 30, 2018.

U.S. Air Force photo by Tech. Sgt. Brian Kimball

Modernizing Key Capabilities

The FY 2019 budget addressed resource gaps in the capabilities, readiness, and capacity needed to project power globally in contested environments, while emphasizing preparedness for future high-end security challenges. The Department must be able to address near-term threats while maintaining competitive military advantages in the future, particularly through anti-access and area denial capabilities, systems, and corresponding strategies. The increased funding in the FY 2019 budget was invested in advanced capabilities to reassert a technological edge over potential future adversaries, while shifting emphasis toward a more surge-capable posture for warfighting.

The Department's FY 2019 RDT&E program continues its focus on the development and advancement of technologically superior systems, ensuring an overmatched capability to counter any new and emerging threats. These efforts include applied research and development; advanced prototyping to foster innovation and leverage commercial and non-traditional technologies; advanced manufacturing techniques; technology demonstrations; and technology experimentation. The Department's FY 2019 funding for the Science and Technology program increased by more than $1.0 billion to $14.1 billion, including a Defense Advanced Research Projects Agency (*DARPA*) budget of $3.4 billion to develop technologies for revolutionary, high-payoff military capabilities. The Department's increased efforts in prototyping under the Advanced Component Development and Prototype program and the System Development and Demonstration program will help drive down technical risk, gain warfighter feedback to better inform requirements, and ensure that concepts going forward into acquisition programs provide robust capabilities in a timely and affordable manner. In addition, the Department is addressing the erosion of technological superiority by identifying and investing in innovative technologies and processes that sustain and advance America's military dominance.

U.S. Sailors from the aviation intermediate maintenance department jet shop performs a jet engine test cell on an F/A-18 Super Hornet jet engine on the fantail aboard the aircraft carrier USS Dwight D. Eisenhower (CVN 69) in the Atlantic Ocean, April 14, 2019.

U.S. Navy photo by Mass Communication Specialist 3rd Class Andrew Waters

Strengthening Alliances and Attracting New Partners

U.S. Army Lt. Col. Angela Gentry, Washington Army National Guard, discusses battle drills with her Malaysian army counterpart, Maj. Nurkhairunisa, during Exercise Bersama Warrior in Malaysia, March 10, 2019.

U.S. Army National Guard photo by Sgt. 1st Class Jason Kriess

The Department's FY 2019 budget included $68.8 billion of Overseas Contingency Operations funds (not including $2.7 billion in Supplemental Disaster Relief funds) primarily to conduct Operation Freedom's Sentinel in Afghanistan, Operation Inherent Resolve in Iraq and Syria, efforts to support European allies and deter aggression, and global counterterrorism operations. These activities included maintaining a U.S. presence to train, advise, and assist Afghan security forces; supporting counterterrorism efforts in Afghanistan; sustaining personnel forward-deployed to the Middle East to conduct operations to defeat the Islamic State of Iraq and Syria (ISIS); building the capacity of the Iraqi security forces and Syrian opposition forces to counter ISIS in support of the U.S. comprehensive regional strategy; and enhancing U.S. assurance and deterrence activities in Eastern Europe to support North Atlantic Treaty Organization (*NATO*) allies and partners and deter aggressive actions.

Reforming the Department's Business Practices for Greater Performance and Affordability

As outlined in the NDS, the Department is committed to reforming its business practices and maintaining its responsibility to gain full value from every taxpayer dollar entrusted to it. The FY 2019 budget provided funding to support this continued effort in areas such as acquisition reform, infrastructure and support activity reform, increased availability of enterprise-wide data, audit remediation initiatives, and improved cost accounting.

The Department also continues to employ the use of multiple cross-functional teams to identify and implement reforms to improve operational effectiveness and maximize cost efficiencies across the Department, especially those that can provide immediate benefits. These teams receive oversight and guidance from the Reform Management Group—a senior leadership governance board consisting of numerous Principal Staff Assistants—and use data to propose and evaluate reform recommendations.

Additionally, the FY 2019 budget provided funding for the Department to continue the annual financial statement audit regimen in compliance with the *Chief Financial Officer's Act of 1990* and remediate the identified audit findings. The focus of the audit remediation efforts is on improving the quality and timeliness of financial information through sustaining reliable and well-controlled business processes. The annual audits provide valuable feedback that enhance the Department's efforts to improve systems, processes, and internal controls across the organization.

Honoring the Commitment to DoD Personnel

The Military (Active, Reserve, and National Guard) and Civilian personnel are the foundation of the Department and constitute its premier asset. As such, they must have the full support of the nation and the Department to ensure they successfully accomplish the arduous mission of defending the U.S. and its interests. Therefore, the Department is committed to providing a robust compensation and benefits package for those individuals willing to serve their country voluntarily.

To demonstrate this commitment, the FY 2019 budget provided for a 2.6% military pay raise effective January 1, 2019 to ensure the Department remains appropriately positioned to compete with the private-sector marketplace for new recruits and to retain a well-trained and quality Joint Force. This adjustment is comparable to the average annual increase in wages and salaries of private industry employees and represents the largest military pay raise in nine years. Additionally, the new Blended Retirement System allows the roughly 80% of Military Service members who serve for fewer than 20 years to accrue a retirement benefit that transitions with them. The Department also manages the Military Health System (*MHS*), a complex system that incorporates health care delivery, medical education, public health, private sector partnerships, and cutting-edge medical research and development. The MHS provides health care for approximately 9.5 million eligible beneficiaries including all Active Military Service members, retirees, military families, dependent survivors, and certain eligible Reserve Component members.

The DoD civilian workforce—a vital element in maintaining the viability and capabilities of the Joint Force—provide a wide range of services including logistics and supply chain management, financial management, human resource management, cyber defense, information technology management, health care management, and community services. The Department actively utilizes the distinct capabilities provided by Military Service members (in both the Active and Reserve Components), civilian personnel, and contract support to fulfill the DoD mission effectively and efficiently. The Department continues to assess and adjust this personnel mix, as necessary, and employs process automation to realign personnel efforts to high value, high impact areas. Cost savings from these efforts can be repurposed to support force readiness and modernization initiatives.

A U.S. Marine jumps from an MV-22B Osprey aircraft during parachute training operations, Marine Corps Air Station Kaneohe Bay, Marine Corps Base Hawaii, June 7, 2019.

U.S. Marine Corps photo by Cpl. Luke Kuennen

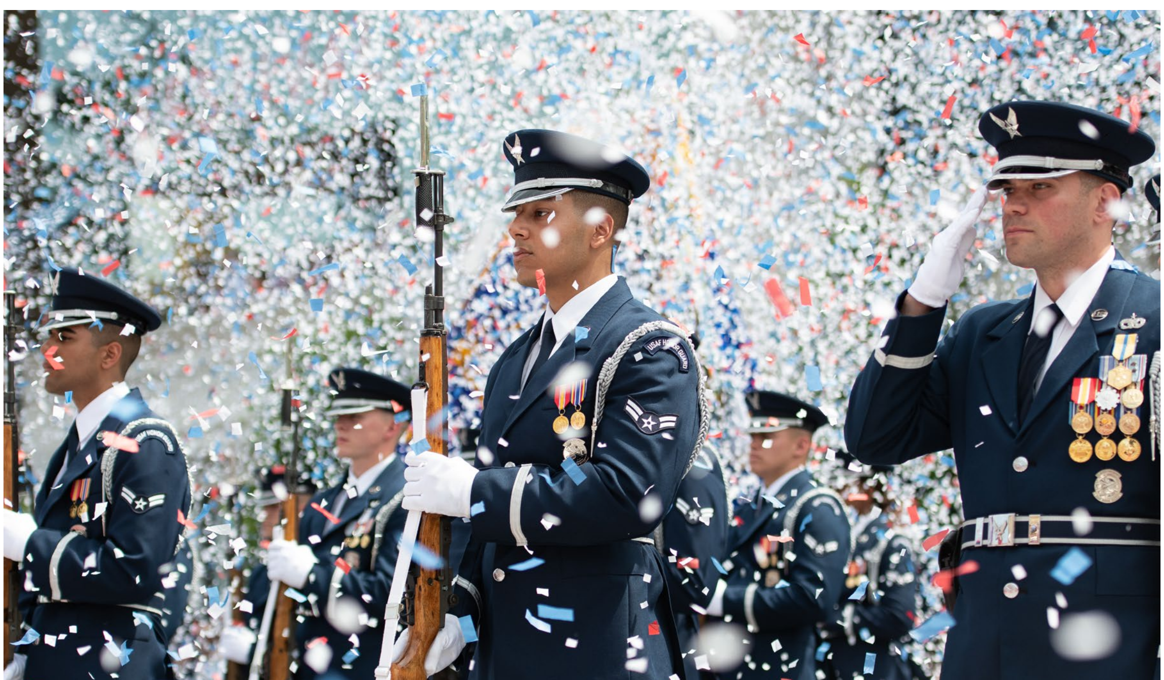
Performance Overview

As stated in the NDS, the nation must focus on fielding a larger, more capable, and more lethal Joint Force to protect the American people and U.S. vital interests. The FY 2018 – FY 2022 National Defense Business Operations Plan (*NDBOP*) guides the execution of the DoD mission by aligning the daily activities of the Department to the lines of effort established in the NDS:

- Rebuild military readiness and build a more lethal Joint Force;
- Strengthen alliances and attract new partners; and
- Reform the Department's business practices for greater performance and affordability.

The NDBOP fulfills requirements of the Government Performance and Results Act of 1993 (*GPRA*), the GPRA Modernization Act of 2010 (*GPRAMA*), and the Office of Management and Budget (*OMB*) *Circular No. A-11*. The Department measures implementation of both the NDS and the NDBOP by tracking performance goals and measures that evidence progress towards achieving the NDS lines of effort.

This section provides an overview of the Department's performance results through Quarter 3 (Q3), FY 2019, based on the *FY 2020 Annual Performance Plan* (which covers the FY 2019 budget execution year). Detailed narrative information and performance results that support this overview are available in the Third Quarter, FY 2019 *Performance Results Summary*, which succeeds and fulfills the purpose formerly accomplished by the *Organizational Assessment Report*. Complete FY 2019 performance results through fiscal year-end will be published in the *Annual Performance Report* section of the Department's FY 2021 President's Budget Request in February 2020, which will be available on the Office of the Chief Management Officer's website at *https://cmo.defense.gov*.



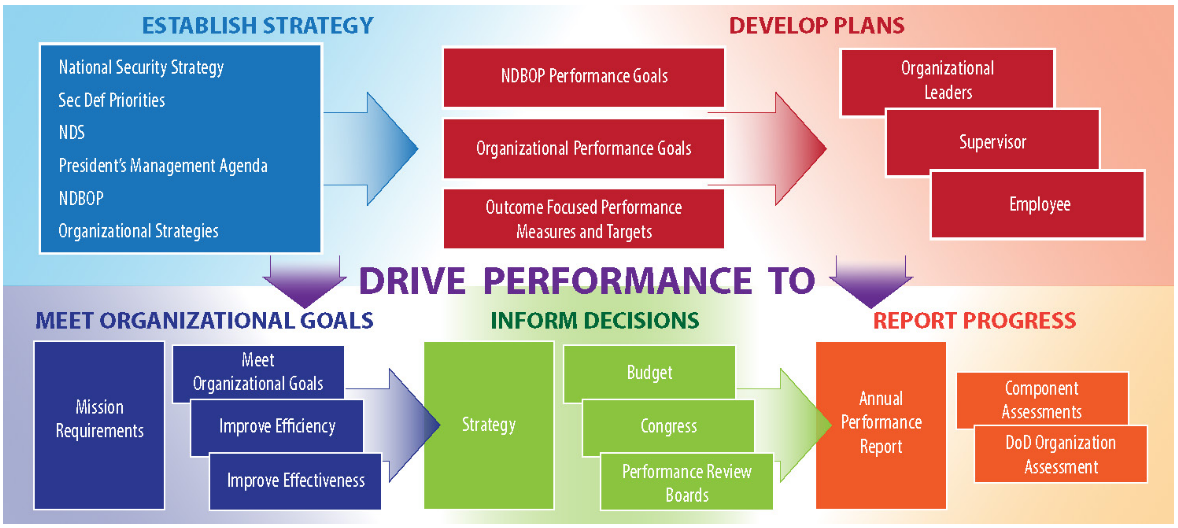
Members of the U.S. Air Force Honor Guard Drill Team stand at attention during the playing of The Star-Spangled Banner prior to the 500 Festival Parade in Indianapolis, May 25, 2019.

U.S. Air National Guard photo by Senior Airman Jonathan W. Padish

Enterprise Performance Management

The Department is a performance-based organization committed to using performance data to drive decision-making and improve business operations. Leaders at all levels throughout the Department are responsible for meeting the performance goals and measures set out in the Annual Performance Plan (APP) that relate to their functional areas. Additionally, the APP performance goals and measures are used to inform critical elements of senior executive performance plans in order to empower leaders to focus on achieving measurable outcomes that align with the NDS and NDBOP (see Figure 7).

Figure 7. DoD Performance Measurement and Evaluation Process



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

A U.S. Army mobile gun system Stryker variant belonging to Quickstrike Troop, 4th Squadron, 2nd Cavalry Regiment fires upon several targets during a week long gunnery range at the Grafenwoehr Training Area, Germany, Feb. 14, 2019.

U.S.Army photo by Sgt. Timothy Hamlin

Summary of Strategic Goals, Objectives, and Performance Results

Figure 8. DoD Strategic Goals and Objectives

Strategic Goal	Strategic Objective
Goal 1: Rebuild Military Readiness and Build a More Lethal Joint Force	1.1 – Restore military readiness to build a more lethal force
	1.2 – Modernize key capabilities
	1.3 – Enhance information technology and cybersecurity defense capabilities
	1.4 – Deliver timely and relevant intelligence to warfighters and decision makers to provide decisive and dominant advantage over adversaries
	1.5 – Implement initiatives to recruit and retain the best total force to bolster capabilities and readiness
	1.6 – Ensure the U.S. technological advantage
	1.7 – Evolve innovative operational concepts
Goal 2: Strengthen Alliances and Attract New Partners	2.1 – Reform the Security Cooperation Enterprise
	2.2 – Expand regional consultative mechanisms and collaborative planning
Goal 3: Reform the Department's Business Practices for Greater Performance and Affordability	3.1 – Improve and strengthen business operations through a move to DoD-enterprise or shared services; reduce administrative and regulatory burden
	3.2 – Expand our data analytics capability and cultivate data-driven solutions
	3.3 – Improve the quality of budgetary and financial information that is most valuable in managing the DoD
	3.4 – Streamline rapid, iterative approaches from development to fielding
	3.5 – Harness and protect the National Security Base

Through Q3, FY 2019 the Department has been successful in meeting or exceeding 92% of the APP performance targets for which performance results were available, including those related to achieving efficiencies, effectiveness, and cost savings; audit remediation; and reforming the Department's business operations. Results for performance targets not measured at Q3 as well as updated performance results for the entire fiscal year (i.e., measured as of Q4) will be published in the Annual Performance Report.

The Department assesses its progress towards the achievement of performance goals and measures using the following threshold definitions:

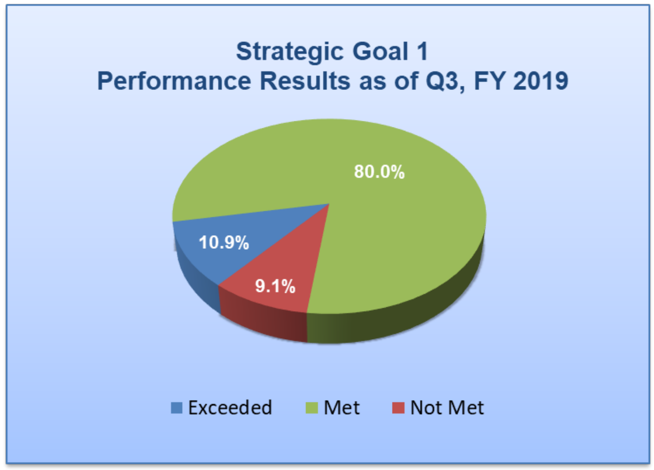
- Exceeded: Actual performance more than 100% of target
- Met: Actual performance 90-100% of target
- Not Met: Actual performance below 90% of target

To ensure the quality of the assessed performance data, the Office of the Chief Management Officer requires written attestation from DoD goal owners attesting that (1) all performance information is complete, accurate, and reliable, and (2) verification and validation procedures were performed on the data, the procedures were documented, and supporting documentation is available upon request.

Strategic Goal 1: Rebuild Military Readiness and Build a More Lethal Joint Force

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

Figure 9. Strategic Goal 1 Performance Result Summary



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

Figure 9 provides summary performance results for the Strategic Goal 1 performance targets measured at of Q3, FY 2019 (55 of 87 performance targets). Updated performance results for all performance targets will be available in the Annual Performance Report.

A formation of U.S. Air Force F-35 Lightning IIs assigned to the 388th and 419th Fighter Wings stationed at Hill Air Force Base perform aerial maneuvers during as part of a combat power exercise over Utah Test and Training Range, Nov. 19, 2018.

U.S. Air Force photo by Staff Sgt. Cory D. Payne

Illustrative Performance Results

Readiness Recovery Framework

During FY 2019, the Department continued to utilize the Readiness Recovery Framework (R2F) to measure, assess, and understand the various metrics that indicate Joint Force readiness. The R2F metrics and goals measure each Military Service's progress related to key readiness drivers such as personnel accessions and retention, training, equipment availability, and maintenance shortfalls. The Department uses this R2F data to help inform policy and programming decisions to improve readiness conditions in line with the NDS, address risks to national security, and identify opportunities for modernization and innovation.

Marines with Combat Logistics Battalion 31 ride aboard a landing craft after completing a simulated Humanitarian Assistance-Disaster Relief mission, Philippine Sea, Feb. 3, 2019.

U.S. Marine Corps photo by Lance Cpl. Harrison C. Rakhshani

As of Q3, FY 2019 the Department conducted semi-annual assessments of Military Service force elements, thereby maturing and improving management's understanding of DoD readiness drivers, contextualizing the number of force elements facing readiness shortfalls, and providing an assessment of progress toward readiness recovery. The R2F was also validated and updated where necessary through the Executive Readiness Management Group (comprised of General/Flag Officers and Senior Executive Service members with expertise in readiness) and reported to the Deputy Secretary of Defense, Secretary of Defense, and Congress. The Department has identified that external factors—such as the lack of stable, predictable, and adequate funding; changes in operational tempo; and real-world actions of near-peer adversaries—may pose challenges to the R2F.

Civilian Time to Hire

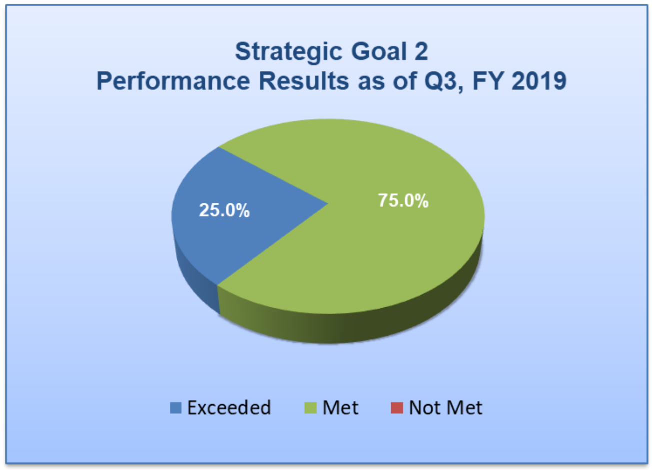
Having a well-staffed and highly capable workforce is of utmost importance to the Department's efforts to improve Joint Force readiness and increase lethality. To accomplish this, the Department must efficiently and effectively hire a diverse cadre of top-quality candidates to provide the skills needed to support the success of the DoD mission now and in the future. The length of the hiring process has a direct impact on the accomplishment of this goal—prolonged hiring times force DoD leaders to operate with limited resources for longer intervals and may result in the loss of top talent to competing opportunities, leaving hiring managers with less qualified candidates.

The Department uses Time to Hire (TTH) as a metric to measure and assess its ability to hire new talent efficiently. The goal for this metric, 80 days, is established by the *Office of Personnel Management* Hiring Elements End-to-End *Hiring Roadmap*. As a result of targeted initiatives—such as Department-wide collaboration on hiring improvement, increased use of available direct hire authorities, and streamlining of the *Priority Placement Program*—the average civilian TTH as of Q3, FY 2019 decreased by nine days as compared to the FY 2018 average of 100 days.

Strategic Goal 2: Strengthen our Alliances & Attract New Partners

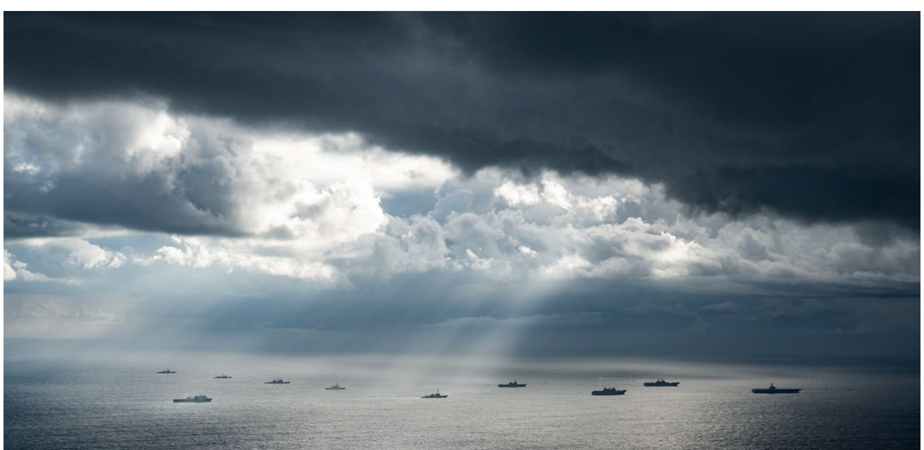
Mutually beneficial alliances and partnerships are crucial to the Department's strategy of providing a durable, asymmetric strategic advantage that no competitor or rival can match. By working together with allies and partners, the Department amasses the greatest possible strength for the long-term advancement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

Figure 10. Strategic Goal 2 Performance Result Summary



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

Figure 10 provides summary performance results for the Strategic Goal 2 performance targets measured at of Q3, FY 2019 (8 of 10 performance targets). Updated performance results for all performance targets will be available in the Annual Performance Report.



The Royal Australian Navy amphibious assault ship HMAS Canberra (L 02), the U.S. Navy Nimitz-class aircraft carrier USS Ronald Reagan (CVN 76), the U.S. Navy amphibious assault ship USS Wasp (LHD 1), and the Japan Maritime Self-Defense Force helicopter destroyer JS Ise (DDH-182) sail in formation with 14 other ships from the U.S. Navy, U.S. Coast Guard, Royal Australian Navy, Royal Canadian Navy and Japan Maritime Self-Defense Force (JMSDF) during Talisman Sabre 2019.

U.S. Navy photo by Mass Communication Specialist 3rd Class Jason Tarleton

Illustrative Performance Results

Foreign Military Sales

In accordance with *22 U.S.C. §2752*, the *Secretary of State* is responsible for management and supervision of all aspects of U.S. security cooperation programs – including the Foreign Military Sales (*FMS*) program. The Secretary of Defense implements FMS programs to transfer defense articles and services to the countries and international organizations approved by the Secretary of State. The Department of Defense also prepares the Security Assistance Accounts (SAA) financial statements, which include FMS program financial activity and position. (Note: The SAA financial statements are not consolidated in the DoD Agency-Wide financial statements but are consolidated directly into the *Financial Report of the United States Government* as a separate stand-alone Significant Reporting Entity in accordance with Treasury Financial Manual Volume 1, Part 2, Chapter 4700, *Appendix 1a*.)

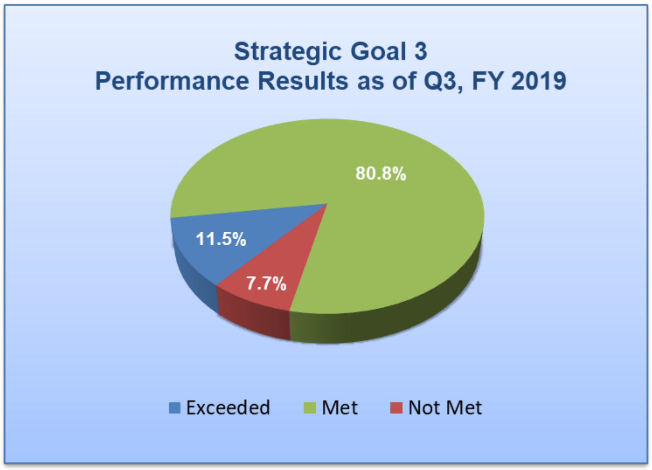
The Defense Security Cooperation Agency (*DSCA*) administers the execution of individual FMS cases by leveraging its existing acquisition and accounting systems to fill orders, primarily by placing them on DoD contracts. In carrying out this role, the DSCA continued focusing on improving overall FMS case development performance through the implementation of incremental process and policy improvements. "Case development" refers to the process for responding to the submission of a Letter of Request for information from an eligible foreign partner; see Security Assistance Management Manual (*SAMM*), *Chapter 5* for additional information about FMS case development. One key performance target established in the SAMM is for implementing agencies to offer or implement 85% of their Letter of Offer and Acceptance documents on or before the relevant anticipated offer date timeline. As of Q3, FY 2019 the performance of this metric increased to 76%, from 70% in FY 2018. Additionally, based on detailed analyses and reviews, the DSCA lowered the FMS administrative surcharge from 3.5% to 3.2% and reduced seven FMS transportation rates by varying amounts.

U.S. Soldiers assigned to the 65th Field Artillery Brigade, and soldiers from the Kuwait Land Forces fire their High Mobility Artillery Rocket Systems (U.S.) and BM-30 Smerch rocket systems (Kuwait) during a joint live-fire exercise, Jan. 8, 2019, near Camp Buehring, Kuwait.

U.S. Army photo by Sgt. James Lefty Larimer

Strategic Goal 3: Reform the Department's Business Practices for Greater Performance and Affordability

Figure 11. Strategic Goal 3 Performance Result Summary



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

In line with this vision, the Department continues to examine all of its business operations to identify time, money, and manpower that can be reallocated to higher priorities (such as enhancing lethality, readiness, and modernization). The reform examinations will be based on cost-informed performance data measured, tracked, and reported by the Office of the Chief Management Officer. This effort is currently demonstrating value as the Department continues to execute the reform agenda outlined in the FY 2019 – FY 2023 Defense Program Review—an estimated $6 billion budget savings have been realized.

Figure 11 provides summary performance results for the Strategic Goal 3 performance targets measured at of Q3, FY 2019 (26 of 60 performance targets). Updated performance results for all performance targets will be available in the Annual Performance Report.

U.S. Marine Corps Cpl. Chancelor J. Kelso, a scout sniper team leader with Weapons Company, Battalion Landing Team, 1st Battalion, 4th Marines, posts security during reconnaissance and surveillance training at Camp Hansen, Okinawa, Japan, Dec. 12, 2018.

U.S. Marine Corps photo by Lance Cpl. Tanner D. Lambert

Illustrative Performance Results

Information Technology

The Department continues to evaluate reform activities related to Information Technology (IT). In FY 2019, the IT reform activities achieved the following:

- Fourth Estate Network and Service Optimization: The Department completed assessments and migration plans for 14 Fourth Estate (i.e., OSD, Defense Agencies, and DoD Field Activities) networks to facilitate migration to a single service provider. The Department also issued a Global Service Desk Request for Quote (RFQ) to enable the consolidation of 17 Fourth Estate help desks to a single enterprise solution and initiated the development of a business case to identify the solution that offers the greatest benefit to the Department.
- Fourth Estate Cloud and Data Center Optimization: The Department completed assessments of approximately 800 Fourth Estate applications/systems to identify opportunities for migration and data center closures. Migration plans were then developed to understand resource requirements and enable tracking of Fourth Estate consolidation progress. This enabled the successful migration of 244 systems to enterprise-level hosting environments and the closure of 17 Fourth Estate data centers.
- Enterprise Collaboration and IT Tools: The Department developed an acquisition strategy to support the issuance of the Defense Enterprise Office Solution (*DEOS*) RFQ. The DEOS contract will create an enterprise collaboration capability for the Department to enable the migration of over 3.1 million Non-classified Internet Protocol Router (NIPR) Network users and over 600 thousand Secret Internet Protocol Router (SIPR) Network users to an enterprise collaboration solution.

Logistics and Supply Chain

In collaboration with the senior logistics commanders and staffs, the Logistics Reform Team developed a portfolio of 24 initiatives around four key themes: (1) standardizing processes and reducing duplication; (2) establishing single process owners and governance structures; (3) leveraging data and data interoperability; and (4) adopting well-aligned and authoritative performance measures. The team then prioritized each initiative by assessing it against projected impact on readiness, projected return on investment, and ease of implementation in order to deliver reform improvements quickly. Against this prioritized list, the Logistics Reform Team developed a number of proofs of concept, most of which are scheduled to be completed by the end of calendar year 2019. These proofs of concept will validate or reject the initial estimated cost/readiness improvements and determine whether the initiatives should be implemented across the enterprise. Examples of logistics reform successes through Q3, FY 2019 include:

- The Secretary of Defense approved three initiatives for implementation:
  - Alternatives to Forecasting Methods provides strategies for setting stock levels that will improve cost and supply availability performance for items with inherently unforecastable demand patterns compared against conventional forecasting methodologies.
  - Enterprise Buying (formerly Strategic Sourcing of Sustainment for Commodity Procurement) will rely on a single organization as the primary buyer to achieve savings through economies of scale.
  - Non-tactical Warehouse Integration (NWI) study showed that vast improvements in space utilization are possible. The Warehouse Utilization effort will implement the findings from the NWI study across the Department.

- Defense Logistics Agency (DLA) anticipates $84 million cost avoidance during FY 2019 from efficiencies implemented through consolidation of Industrial Supply, Storage, and Distribution functions.
- DLA realized $25 million in savings in FY 2019 through the Whole of Government initiative, which expanded support to the Department of Veteran's Affairs and increased DLA's buying power.

Reduce Regulatory Burden

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

U.S. Marines with the 12th Marine Regiment, 3rd Marine Division, compete against each other during a field meet at Camp Hansen, Okinawa, Japan, Jan. 18 2019.

U.S. Marine Corps photo by Lance Cpl. D'Angelo Yanez.

The DoD Regulatory Reform Task Force review, which was completed by Q1, FY 2019, recommended 248 (35%) regulations for repeal, 49 (7%) for replacement, 80 (11%) for modification, and 339 (47%) for retention. The Department has established a goal of implementing at least 50 Task Force recommendations a year. In FY 2019, through Q3, the Department implemented 44 recommendations that resulted in repealing 35 regulations, replacing 3, modifying 3, and retaining 3.

Enterprise Data

In FY 2018, the Department established its first Chief Data Officer (CDO) to lead the extraction and analysis of data to support business reform. The CDO, in partnership with the Office of the Under Secretary of Defense (Comptroller), is establishing data as a stand-alone shared service, allowing data to be the foundation for business decisions. Data is a strategic, mission-essential asset, rather than an IT consideration. DoD leaders require data-driven insights that provide a "fair and accurate," Department-wide representation of DoD operations and management. Readily available, good quality data (i.e., data that is complete, correct, and current) enables DoD leaders to manage mission performance and accountability, as well as to prioritize and ensure the best use of resources.

In Q3, FY 2019 the CDO developed and implemented Enterprise Cost Management pilot programs for three lines of business (Acquisition, Supply Chain/Maintenance, and Human Resources) to extract common enterprise data from relevant systems and analyze the data to generate operational insights that answer critical business questions from DoD leaders. These pilot programs will evolve into a data management and analytics shared services for the purposes of supporting enhanced oversight and management.

Forward-Looking Information

Over recent fiscal years, the Department has made great strides to improve its current readiness, while simultaneously making significant investments in future capabilities and force modernization. Given the breadth and complexity of its mission, the Department faces a myriad of emerging risks and challenges. Nevertheless, the Department is committed to ensuring a clear-eyed appraisal of these risks and in identifying every opportunity that may optimize its operational performance. These risks include:

Inaccurate/incomplete General Property, Plant and Equipment (PP&E) data may negatively affect decision-making.

Incomplete system records, inability to demonstrate the right of occupancy or ownership, and missing/inadequate supporting documentation for General PP&E may cause inaccuracy in the financial records used by DoD leaders for decision-making. As a result, there exists a risk that DoD leaders may make inefficient asset acquisition and deployment decisions based on inaccurate and incomplete data. To mitigate this risk, DoD leaders prioritized floor-to-book and book-to-floor physical inventories for General PP&E to ensure that all General PP&E are properly accounted for in an accountable property system of record.

The disparate systems that comprise the DoD Information Network may be vulnerable to unauthorized access by internal and external parties.

Over the past decade, DoD core functions have become increasingly reliant on the internet and other networks at various classification levels. Many of these functions (such as financial management, logistics, and personnel services) are split across multiple systems owned by various DoD Components. This wide and disparate systems infrastructure complicates the efficient sharing of information (such as requests for removal or modification of user access); increases the number of attack vectors adversaries could use to gain unauthorized access to sensitive or classified data; and increases the difficulty of implementing consistent, effective cybersecurity protocols. The Department is implementing a wide range of initiatives to mitigate these risks, including increased management and review of user access rights, consolidation of networks through the deployment of Joint Regional Security Stacks, and increased collaboration with private-sector partners through the Defense Industrial Base (DIB) Cybersecurity Program. Additionally, the Department maintains the DoD Cybersecurity Policy Chart to assist cybersecurity professionals in remaining cognizant of the breadth of applicable policies.

The Department's use of unsupported journal vouchers may increase the risk of material misstatements in the DoD financial statements.

The Department continues to operate hundreds of financial and feeder systems across the enterprise. These legacy systems, many of which were designed and implemented in the 1960s, are not able to capture all of the transaction-level data attributes needed to satisfy various accountability and reporting requirements. As a result, the Department must perform manual work-around processes utilizing journal vouchers, some of which are not adequately supported by substantiating documentation. In the absence of support, the accuracy and applicability of the data captured by journal vouchers cannot be verified. To mitigate this risk, the Department is continuing its efforts to aggressively retire and replace legacy systems while conducting analyses to determine the root causes of unsupported journal vouchers to inform the development of corrective actions.

Budget impasses and continuing resolutions may negatively impact DoD planning and readiness.

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

Natural disasters may disrupt DoD operations, pose danger to DoD property and personnel, and necessitate additional funding to support disaster recovery efforts.

As DoD installations and personnel are located around the globe, the Department is often affected by a variety of natural disasters. The effects of these events may manifest as costs incurred for preventative relocation of assets and personnel and/or costs to conduct significant repairs. Additionally, supporting American disaster recovery efforts and those of our allies is inherent to the Department's mission of protecting the American people and national interests. To mitigate the financial and operational risks presented by natural disasters, the Department maintains robust continuity of operations plans to ensure availability of critical assets, capabilities, and infrastructure. The DoD OIG conducted an audit of the extent of the Department's natural disaster preparedness as described in *DODIG-2019-086* and found that the Department has implemented a framework of guidance, recurring exercises in disaster scenarios, corrective action programs that incorporate lessons learned and after-action reports, training, advanced contracts, and agreements.

U.S. Air Force Tech. Sgt. Frank Babauta, a structural craftsman with the 254th Rapid Engineer Deployable Heavy Operational Repair Squadron Engineers, assesses a home damaged by Super Typhoon Yutu in the village of Koblerville, Saipan, Commonwealth of Northern Mariana Islands, Nov. 12, 2018.

U.S. Air Force photo by Tech. Sgt. Joshua J. Garcia

Emergence of a new health advisory and potential regulation by the Environmental Protection Agency of an emerging chemical of concern, found in fire-fighting foam used by the Department may necessitate the need for additional funding.

Poly- and Per-Fluoronated Alkyl Substances (PFAS) are a group of chemicals found in everyday consumer items such as non-stick cookware, microwave popcorn bags, fast-food wrappers, water-resistant clothing, shampoo, dental floss, nail polish, and eye makeup. They are also found in firefighting foam, known as aqueous film-forming foam (AFFF), used by the Department, commercial airports, and other industries. In 2016, the *Environmental Protection Agency* issued a drinking water lifetime Health Advisory for perfluorooctane sulfonate (PFOS) and perfluorooctanoic acid (PFOA), two PFASs used widely throughout the United States. The Department is addressing past releases of these chemicals from DoD activities under *42 U.S.C. §9601*, assessing the potential health impacts of exposure to Military Service members; researching fire-fighting alternatives, and evaluating options/requirements involved in altering or replacing equipment used for AFFF distribution.

GAO High Risk List

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

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

GAO measures agency progress in addressing the risks identified in their list along five criteria: leadership commitment; capacity; action plan; monitoring; and demonstrated progress. Based on these criteria, the GAO removed one DoD-specific area (DoD Supply Chain Management) from the previous (FY 2017) High Risk List and documented progress made toward addressing three of the remaining risks (DoD Support Infrastructure Management, DoD Financial Management, and DoD Business System Modernization). The Department is committed to driving continual progress towards addressing these risks in support of more effective and efficient operations.

Financial Highlights and Analysis

The principal financial statements are prepared to report the financial position and results of operations of the Department, pursuant to the requirements of *31 U.S.C. §3515(b)*. The statements are prepared from the books and records of the Department in accordance with the formats prescribed by OMB *Circular No. A-136* and, to the extent possible, with U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

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

- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position
- Statement of Budgetary Resources

Engineman 2nd Class Christian McCain of Arlington, Texas engages opposing forces while dismounted with a M240 machine gun. The Coastal Riverine Squadron (CRS) 1 convoy section is being assessed for measure of performance at Naval Air Station Point Mugu, Calif. CRS-1 is qualifying for future mobilization requirements.

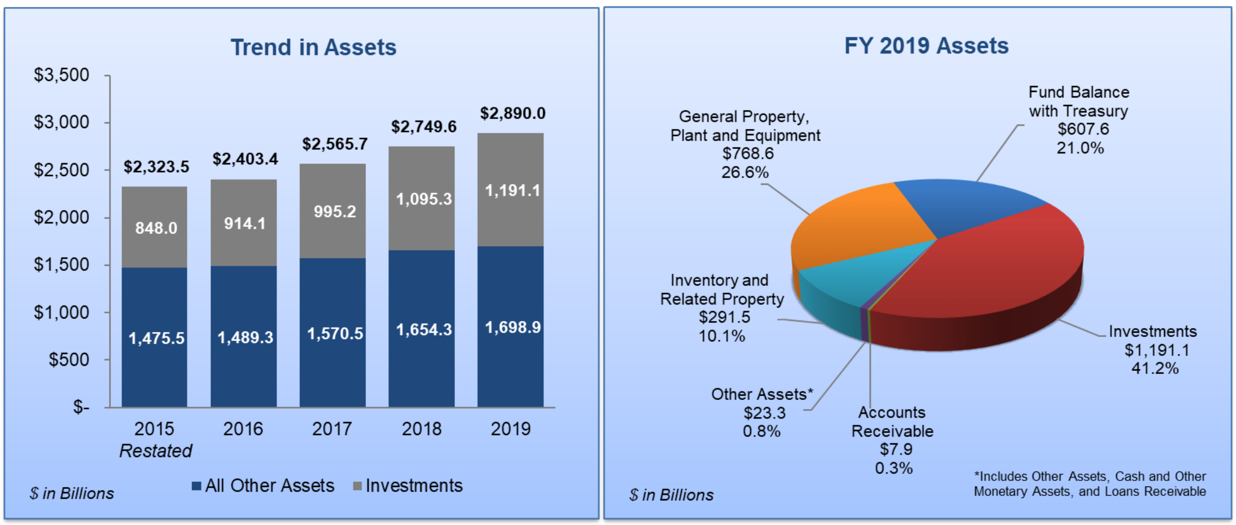
U.S. Navy photo by Hospital Corpsman 1st Class Kenji Shiroma

Balance Sheet

The Balance Sheet, which reflects the Department's financial position as of September 30, 2019 and September 30, 2018, reports probable future economic benefits obtained or controlled by the Department (Assets), claims against those assets (Liabilities), and the residual amounts (Net Position). The Department anticipates annual fluctuations in the Balance Sheet as a result of changes in budget authority and the annual audit, which is driving improved internal controls and more disciplined accounting and financial reporting.

The $2.9 trillion in assets shown in Figure 12 represents amounts the Department owns and manages. Fund Balance with Treasury (FBwT), Investments, Inventory and Related Property (I&RP), and General PP&E represent 98.9% of the Department's assets.

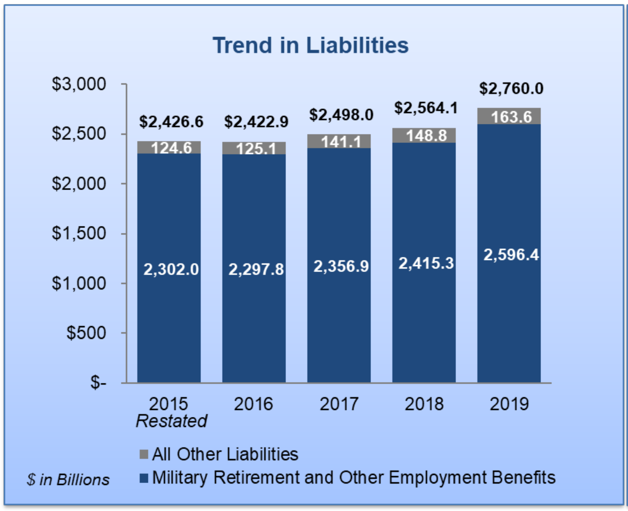
Figure 12. Summary of Total Assets

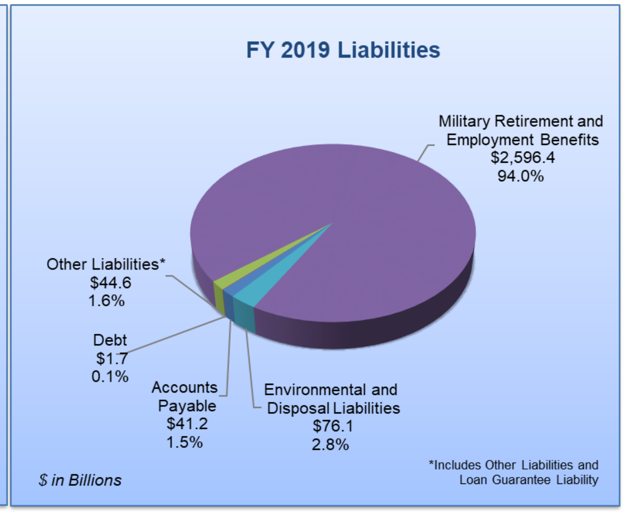


During FY 2019, total assets increased $140.4 billion (5.1%) from FY 2018, primarily attributable to additional investments in Department of Treasury (*Treasury*) securities ($95.8 billion) to cover the future cost of Military Retirement and Health Benefits. Each year, Treasury contributes a specified sum to cover unfunded Military Retirement and Health Benefits and the Uniformed Services (i.e., the Military Services, National Oceanic and Atmospheric Administration, and the Public Health Service) fund the Department's current year cost. The remaining $44.6 billion increase is primarily attributable to increases in FBwT, I&RP, and General PP&E as a result of additional budget authority (in recent years) and more disciplined accounting practices (e.g., completeness and existence of I&RP and General PP&E, asset valuation, and compliance with accounting standards (capitalization versus expense)).

The Department's $2.8 trillion of liabilities shown in Figure 13 are backed by the full faith and credit of the U.S. Government. Military Retirement/Other Federal Benefits and Environmental/Disposal Liabilities represent 96.8% of the Department's liabilities.

Figure 13. Summary of Total Liabilities

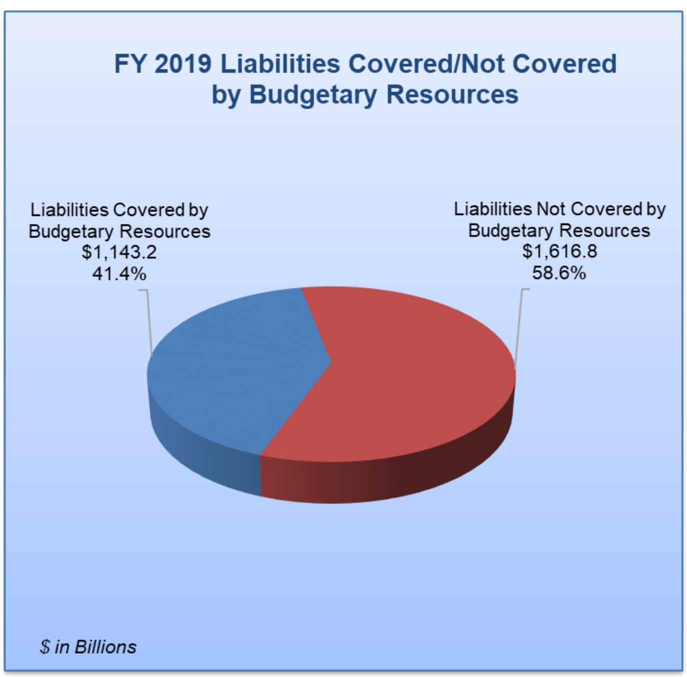


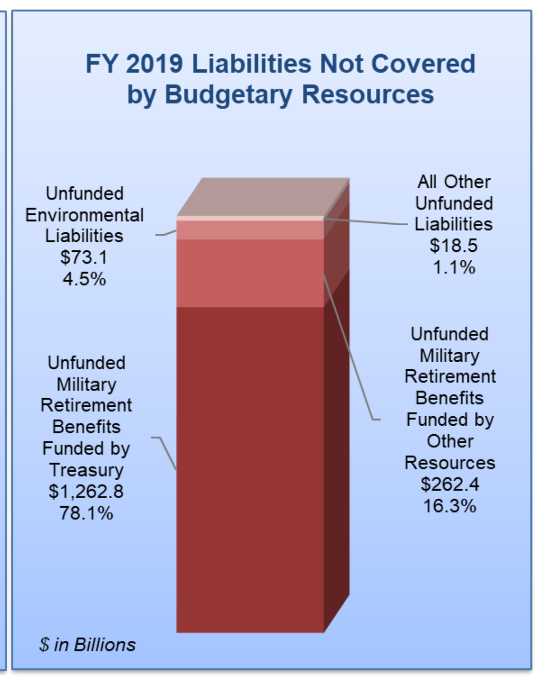


During FY 2019, the Department's total liabilities increased $195.9 billion (7.6%) primarily due to revised actuarial estimates associated with Military Retirement Benefits (an increase of $181.1 billion). This actuarial adjustment considers expected interest costs, normal costs, and changes in actuarial assumptions, net of benefit outlays. The remaining $14.8 billion increase is primarily attributable to additional Environmental and Disposal Liabilities ($5.7 billion) and all other liabilities ($9.1 billion).

Figure 14 shows the amount of liabilities covered by budgetary resources and the amount that is not covered by budgetary resources. It also shows the composition of liabilities not covered by budgetary resources, which primarily consists of unfunded military retirement benefits to be funded by Treasury.

Figure 14. Liabilities Covered/Not Covered by Budgetary Resources

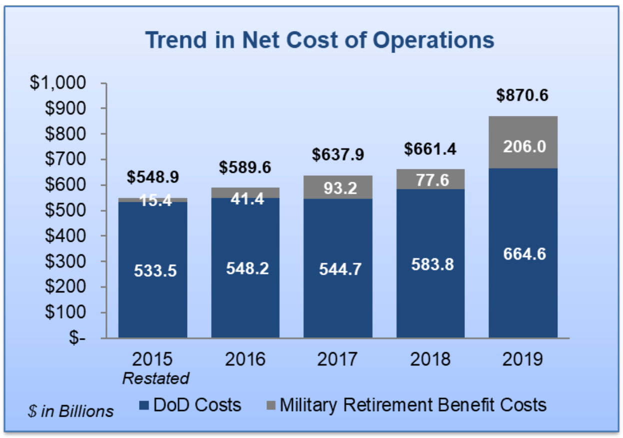


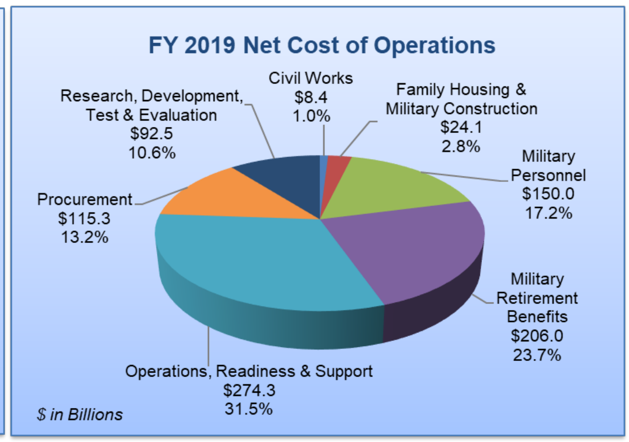


Statement of Net Cost

The Statement of Net Cost presents the net cost of all the Department's programs. The statement reports total expenses incurred less revenues earned from external sources to finance those expenses. Generally, the differences between net costs reflected on the Statement of Net Cost and net outlays reported on the Statement of Budgetary Resources arise from the timing of expense recognition. These timing differences include the capitalization of assets purchased during the fiscal year; changes to the balances of various assets and accrued liabilities; and the depreciation expense on property, plant and equipment. Additional information regarding these differences is located in the Financial Section of this report.

Figure 15. Summary of Net Cost of Operations





Note: The FY 2019 Military Retirement Benefits net program cost does not include a $2.4 billion Loss from Actuarial Assumptions related to pre-Medicare-Eligible Health Benefits that is included in the net program cost of Operations, Readiness and Support.

The Department's seven major programs are reflected in Figure 15. The below outlines the types of costs incurred during the fiscal years ended September 30, 2019 and September 30, 2018, by program:

- Operations, Readiness, and Support includes expenditures from which benefits are derived for a limited period of time, such as salaries and related benefits, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, purchases from Defense Working Capital Funds (e.g., spare parts), base operations support, and assets with a system unit cost less than the current capitalization threshold.
- Military Personnel includes expenditures for the salaries and other compensation for active military personnel, reserve, and guard forces. Other compensation includes a variety of expenditures, such as housing, subsistence, and other allowances; special pay categories (e.g., incentive pay for hazardous duty); and contributions for future benefits under the Medicare-Eligible Retiree Health Care Fund.
- Procurement includes expenditures for the acquisition of items which provide long-term benefits as well as all costs necessary to bring the items to the condition and location for their intended operational use.
- Military Retirement Benefits includes expenditures that cover eligible members' retirement pay, disability retirement pay, and/or health care benefits for Medicare-eligible members and their dependents or survivors.
- Research, Development, Test, and Evaluation includes expenditures related to efforts that increase the Department's knowledge and understanding of emerging technologies, determine solutions for specific recognized needs, and establish technological feasibility of new developments. These

efforts include all costs necessary to develop and test prototypes, including purchases of end-items, weapons, equipment, components, and materials, as well as the performance of services.

- Family Housing includes expenditures associated with purchasing, leasing, and support services for property that house Military Service members and their families.
- Military Construction includes expenditures related to planning, designing, constructing, altering, and improving the Department's worldwide portfolio of military facilities.
- Civil Works includes expenditures related to Energy and Water Development programs executed by the U.S. Army Corps of Engineers (*USACE*) that primarily fulfill three mission areas: commercial navigation; flood and storm damage reduction; and aquatic ecosystem restoration.

The major programs comprising the greatest share of the Department's costs incurred during FY 2019 were Operations, Readiness, and Support; Military Personnel; and Procurement. The Department's gross costs were offset by investment earnings and contributions to support retirement and health benefit requirements, as well as earnings from reimbursed activities. This activity resulted in a Net Cost of Operations of $870.6 billion during the fiscal year.

Net Costs increased $209.2 billion (31.6%) in FY 2019, primarily as the result of a $122.1 billion loss from actuarial assumption changes for Military Retirement Benefits, which consider factors such as actual/projected demographic trends and plan amendments.

U.S. Air Force Airman 1st Class Noah Coger, a broadcast journalist with the 86th Airlift Wing public affairs office, shows video to some students of the Home de la vierge des Pauvres Gatagara/Nyanza in the Nyanza District, Rwanda, March 5, 2019.

U.S. Air Forces photo by Tech. Sgt. Timothy Moore

Statement of Changes in Net Position

The Statement of Changes in Net Position (SCNP) presents the total cumulative results of operations since inception and unexpended appropriations at the end of the fiscal year. The SCNP displays the components of Net Position separately to enable the financial statement user to obtain a better understanding of the nature of changes to Net Position as a whole. The statement focuses on how the Department's Net Cost of Operations is financed and the resulting effect on the Department's Net Position. The Department's ending Net Position decreased $55.5 billion (29.9%) during FY 2019, which was predominately attributable to the $209.2 billion increase in Net Cost of Operations.

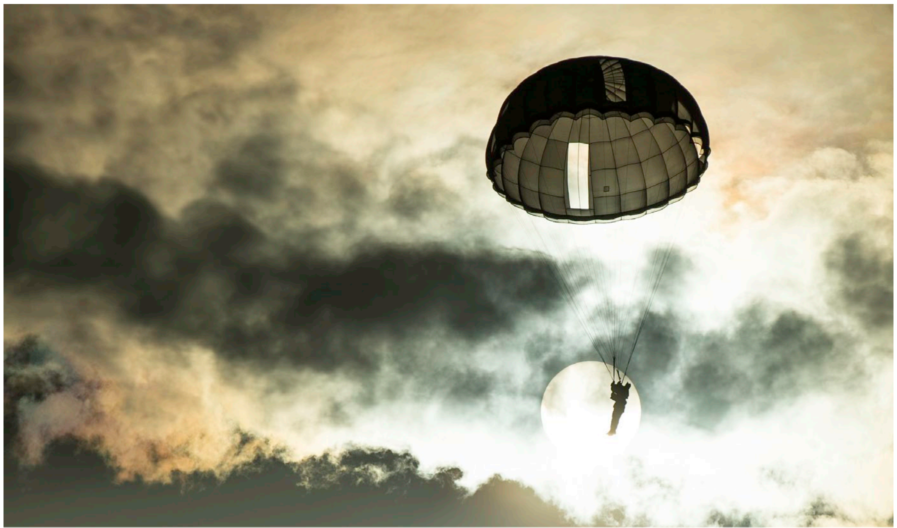
The Department started FY 2019 with a Net Position of $185.6 billion and its Net Cost of Operations in FY 2019 was $870.6 billion. These costs were financed by reduced unexpended appropriation balances ($15.4 billion), adjustments to the beginning Cumulative Results of Operations ($11.5 billion), budgetary financing sources ($766.5 billion), and other financing sources ($21.6 billion) to end FY 2019 with a Net Position of $130.0 billion.

Unexpended appropriations increased $15.4 billion from $529.8 billion in FY 2018 to $545.2 billion in FY 2019, primarily due to a large unexpended balance carried forward from FY 2018 ($71.9 billion) and increased DoD budget authority ($17.2 billion).

The beginning Cumulative Results of Operations were adjusted upward by $7.2 billion through corrections of an error under FASAB Statement of Federal Financial Accounting Standards *(SFFAS) 21*. In addition, the Department adjusted the beginning Cumulative Results of Operations upward by $4.3 billion due to changes in accounting principles primarily related to establishing opening balances and revising valuations for General PP&E, which also increased by the same amount, as the Department continued to implement *SFFAS 48* and *SFFAS 50*.

Budgetary Financing Sources increased by $64.5 billion primarily due to an increase in appropriations used ($62.7 billion), appropriations are the primary source of the Department's financing.

Other Financing Sources increased $13.9 billion primarily due to a $22.0 billion gain from the revaluation of the net book value of equipment being reclassified as inventory offset by $10.3 billion in losses from revaluation of inventory.



A U.S. Army paratrooper descends to a drop zone near Camp Lemonnier, Djibouti, June 10, 2019.

U.S. Air Force photo by Staff Sgt. Devin Boyer

Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) presents the Department's total budgetary resources, their status at the end of the fiscal year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items. In FY 2019, the Department reported $1.3 trillion in total budgetary authority (as shown in Figure 16).

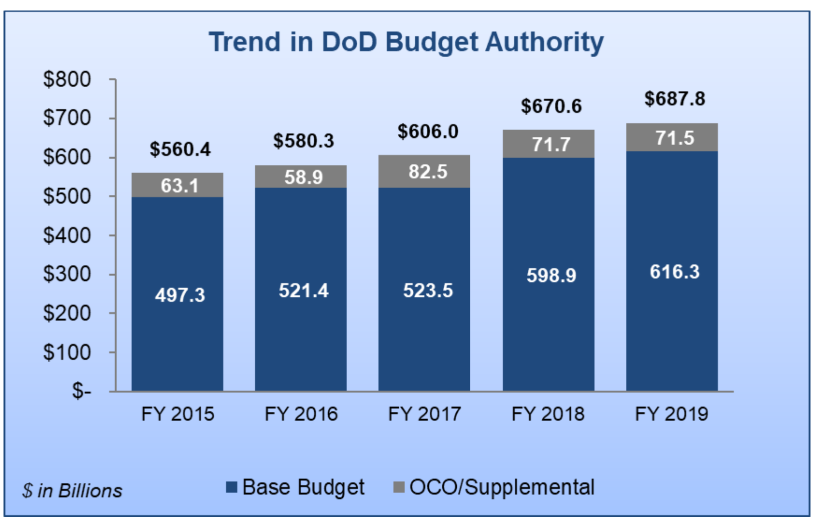
Figure 16. Composition of DoD Total Budgetary Resources

Description	FY 2019 ($ in Billions)	FY 2018 ($ in Billions)
DoD Budget Authority *	$ 687.8	$ 670.6
Treasury contribution for Military Retirement and Health Benefits	101.6	96.3
Civil Works Projects executed by USACE	8.2	22.8
Trust Fund Receipts	172.5	164.2
Trust Fund Resources Temporarily not Available	(95.7)	(90.3)
Appropriations (Discretionary and Mandatory) Reported on SBR	**$874.4**	**$863.6**
Unobligated Balances from Prior Year Budget Authority	226.8	181.0
Spending Authority from Offsetting Collections	113.0	119.4
Contract Authority	86.8	88.4
Total Budgetary Resource	**$1,301.0**	**$1,252.4**

** FY 2019 DoD Budget Authority from Figure 6 and Figure 17*

The total amount of $874.4 billion for "Appropriations (Discretionary and Mandatory)" reported on the SBR primarily consists of appropriations enacted for the Department, contributions for DoD military retirement and health benefits made by the Treasury, and Civil Works appropriations managed by USACE. Current year Trust Fund Receipts, including those received into the Military Retirement Fund and the Medicare-Eligible Retiree Health Care Fund, are also included in the SBR line item amount. Trust Fund Resources Temporarily not Available represent budget authority that the Department will execute in future years to pay the current unfunded liabilities carried in these large funds.

Figure 17. Trend in DoD Budget Authority



Of the $1.3 trillion in total budgetary resources, $1.1 trillion was obligated and $0.8 trillion of obligations were disbursed. The remaining unobligated budgetary resources balance relates primarily to appropriations available to cover multi-year investment projects. These projects require additional time for delivery of goods and services. Expired appropriations remain available for valid upward adjustments to prior year obligations but are not available for new obligations.

In FY 2019, the Department reduced the amount of expired unobligated balances by $5.0 billion ($27.7 billion in FY 2018 to $22.7 billion in FY 2019) by improving its financial management of expiring resources. In carrying out its operations, the Department must balance the goal of prudently obligating available budget resources before they expire with the mandate to avoid over-obligating or over-expending funds in violation of the Antideficiency Act. The vast amount and variety of contracts, projects, and activities (e.g., construction projects, complex acquisitions, cutting-edge technology efforts, and contingency operations) that must be carried out without exceeding available budget authority often result in adjustments that must be recorded beyond the year(s) of initial obligation, as authorized by 31 U.S.C. §1553. Consequently, the Department must always maintain a prudent level of expired unobligated appropriations to facilitate these adjustments.

Financial Performance Summary

The Department's financial performance is summarized in Figure 18. This table represents the Department's condensed financial position and results of operations, including comparisons of financial balances from the current year to the prior year. Although the Department received a Disclaimer of Opinion on its financial statements, audit remediation efforts will continue to improve the Department's financial information.

Figure 18. Financial Performance Summary

Dollars in Billions	FY 2019	FY 2018	Increase/(Decrease) $	%
COSTS				
Total Financing Sources	$ 788.1	$ 709.7	$ 78.4	11.0%
Less: Net Cost	(870.6)	(661.4)	(209.2)	31.6%
Net Change of Cumulative Results of Operations	**$ (82.5)**	**$ 48.3**	**$ (130.8)**	**-270.8%**
NET POSITION				
Assets:				
Fund Balance with Treasury	$ 607.6	$ 580.2	$ 27.4	4.7%
Investments	1,191.1	1,095.3	95.8	8.7%
Accounts Receivable	7.9	7.6	0.3	3.9%
Other Assets *	23.3	32.0	(8.7)	-27.2%
Inventory and Related Property, Net	291.5	275.7	15.8	5.7%
General Property, Plant and Equipment, Net	768.6	758.8	9.8	1.3%
Total Assets	**$ 2,890.0**	**$ 2,749.6**	**$ 140.4**	**5.1%**
Liabilities:				
Accounts Payable	$ 41.2	31.1	$ 10.1	32.5%
Other Liabilities **	46.3	47.3	(1.0)	-2.1%
Military Retirement and Other Federal Employment Benefits	2,596.4	2,415.3	181.1	7.5%
Environmental and Disposal Liabilities	76.1	70.4	5.7	8.1%
Total Liabilities	**$ 2,760.0**	**$ 2,564.1**	**$ 195.9**	**7.6%**
Net Position (Assets minus Liabilities)	**$ 130.0**	**$ 185.5**	**$ (55.5)**	**-29.9%**

** Other Assets includes Other Assets, Cash and Other Monetary Assets, and Loans Receivable*

*** Other Liabilities includes Debt, Other Liabilities, and Loan Guarantee Liability*

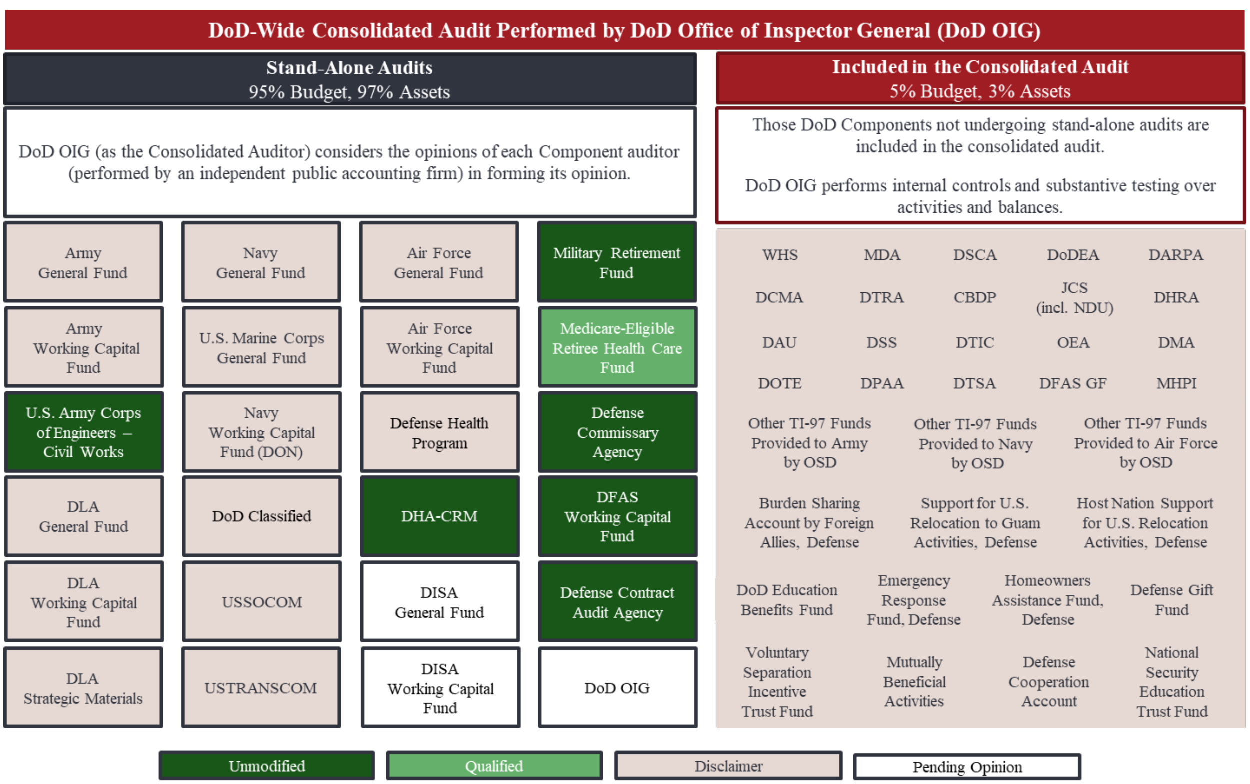
Audit Overview

The annual financial statement audit regimen is foundational to reforming the Department's business practices consistent with the NDS. Data from the audits provide an additional means to define our remediation goals, measure progress, and evaluate alternatives. The FY 2019 audit covered the Department's total assets of more than $2.9 trillion and involved more than 1,400 auditors, who conducted over 600 site visits. Auditor findings and recommendations help DoD leaders prioritize improvements, drive efficiencies, identify issues with systems, measure progress, and inform business reform efforts. The outcomes of the audit remediation efforts will include greater financial data integrity, better support for the warfighter, and increased transparency for Congress and the American people.

FY 2019 Audit Results

Auditors conducted 24 standalone audits of DoD reporting entities and the DoD OIG performed the overarching consolidated audit. Six reporting entities received unmodified opinions, one received a qualified opinion, and three are pending opinion as shown in Figure 19. Opinions for the Defense Information Systems Agency (DISA) General Fund, DISA Working Capital Fund, and the DoD OIG are expected to be received in January 2020.

Figure 19. FY 2019 Audit Structure and Results



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

As of November 15, 2019, the FY 2019 audits resulted in the issuance of more than 1,300 Notices of Findings and Recommendations (NFRs). The Department anticipates receiving significantly more NFRs as the auditors finish compiling their findings and developing the related NFRs. In addition to issuing NFRs, each auditor identified the audited DoD Component's material weaknesses in their Independent Auditor's Report. Understanding how the various DoD Component NFRs align to the DoD Agency-wide material weaknesses provides a consistent framework for categorizing NFRs, allows DoD leaders to better prioritize corrective actions, and focuses remediation efforts on the challenges that are the most significant and widespread.

The DoD OIG's Independent Auditor's Report on the FY 2019 DoD Agency-wide financial statements is available in the Financial Section. A summary of the DoD Agency-wide audit- and management-identified material weaknesses, as well as planned corrective actions, is available in Other Information.

FY 2019 Audit Priorities

The Department established its FY 2019 financial statement audit priorities by focusing corrective actions on operational improvements that provided the greatest value to the warfighters in the near-term. Although some issues related to these business areas may require long-term solutions (such as retiring legacy systems), the FY 2019 audit priorities contained various opportunities that were immediately actionable at multiple levels throughout the Department. The FY 2019 audit priorities were:

- Real Property (Existence and Completeness)
- Inventory, and Operating Materials and Supplies
- Government Property in the Possession of Contractors
- Access Controls for IT Systems

Examples of Military Department progress in addressing these priorities include:

- The Army's IT application controls over the Logistics Modernization Program system were found by auditors to be effective and no exceptions were noted in auditor testing;
- The Navy completed 100% inventory of real property assets resulting in a 98% accuracy rate; and
- Air Force completed floor-to-book and book-to-floor inventories over 96% of its buildings.

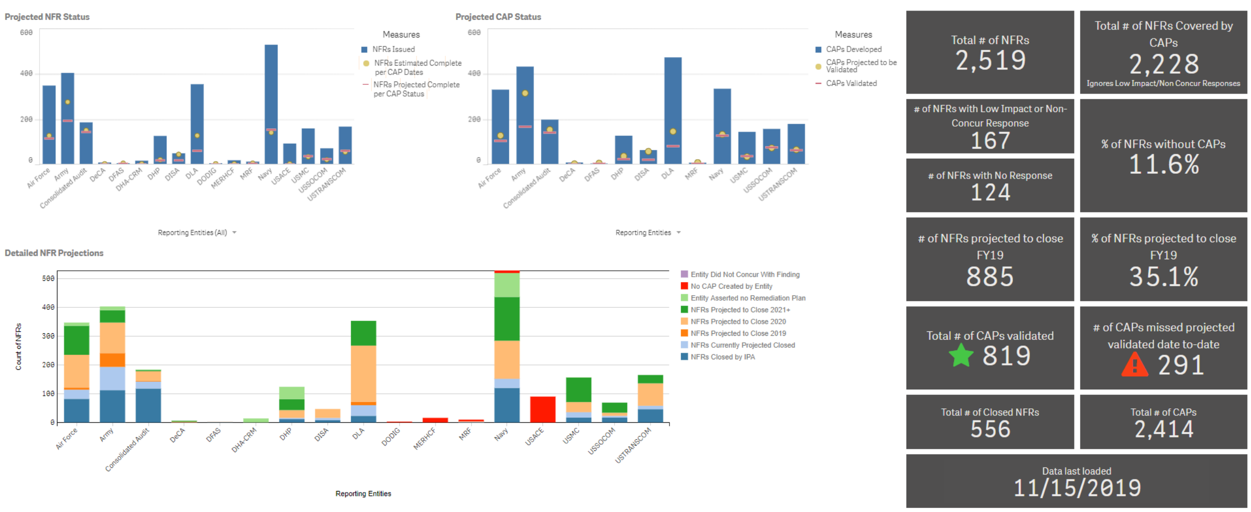
A U.S. Navy MH-60R Seahawk helicopter assigned to the "Spartans" of Helicopter Maritime Strike Squadron (HSM) 70 shoots an AGM-114N Hellfire missile during exercise Baltic Operations (BALTOPS) 2019 in the Baltic Sea, June 14, 2019.

U.S. Navy photo by Mass Communication Specialist 1st Class Theodore Green

Measuring Progress

The number of auditor findings closed and material weaknesses downgraded from year to year is the independent benchmark for measuring progress toward achieving an unmodified audit opinion. During FY 2019, the Department succeeded in closing over 20% of the NFRs issued during the FY 2018 audit. However, many of the corrective actions implemented were not in effect long enough for the auditors to validate their effectiveness in addressing the issues identified in the NFRs. As such, the Department anticipates NFRs closing at increased rates over time as the audit and related remediation efforts mature. As the closings of these NFRs grow, the related material weaknesses are expected to downgrade or be resolved as the effect of implemented corrective actions continue to manifest. See Figure 20 for a snapshot of the status of the Department's FY 2018 NFRs and CAPs as of November 15, 2019. (Note: the numbers in this figure include progress made after the FY 2019 end date of September 30, 2019.)

Figure 20. FY 2018 DoD NFRs and CAPs as of November 15, 2019



Additionally, the Department measures progress by:

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

Ultimately, the Department will track progress by the number of reporting entities moving from disclaimers of opinion to qualified opinions and from qualified opinions to unmodified opinions.

Statement of Assurance

November 15, 2019

The Department's management is responsible for establishing and maintaining effective internal controls to comply with the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA). In FY 2019, the DoD Office of Inspector General completed its second annual full-scope audit of DoD's consolidated financial statements. The Department continues to use a risk-based approach to address audit findings, and prioritize remediation activities and corrective actions affecting the financial statements. As the Department matures its audit posture, it will continue to improve its controls to support reliable financial reporting; effective and efficient programmatic operations; and compliance with applicable laws and regulations, including federal financial management systems requirements.

The Department assessed the effectiveness of internal controls over financial reporting in accordance with FMFIA §2 and OMB Circular No. A-123. While DoD internal controls continue to improve, the Department concluded that the controls in place to support reliable financial reporting as of September 30, 2019, were not effective to provide reasonable assurance that the financial statements were fairly stated in all material respects. Deficiencies in the design and operation of internal controls over financial reporting include ineffective processes and controls over the posting of transactions to the general ledger and reconciling with the Department of the Treasury; ineffective processes and controls over compiling financial statements, reconciling data, and supporting entries (including journal vouchers); and ineffective processes and controls over accounting for valuing, and supporting Property, Plant, and Equipment.

The Department assessed the effectiveness of internal controls over operations and compliance with applicable laws and regulations in accordance with the FMFIA §2 and the OMB Circular No. A-123. Based on this assessment, the Department provides a modified statement of reasonable assurance of the effectiveness of internal controls in place to support effective and efficient programmatic operations and compliance with applicable laws and regulations as of September 30, 2019. The Department continues to address all material weaknesses, with increased focus in the areas of acquisition, contract administration, resource management, and cyber security.

The Department assessed the compliance of DoD financial management systems with federal financial management systems requirements in accordance with FMFIA §4; FFMIA §803(a); and OMB Circular No. A-123, Appendix D. This requires federal agencies to implement and maintain financial management systems that comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction-level. While the Department continues to achieve progress implementing corrective actions to address various systems limitations, the assessment found that the Department's financial management systems do not fully comply with the requirements of FMFIA §4 and FFMIA §803(a) as of September 30, 2019.

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

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

Matt T. Esper

Dr. Mark T. Esper
Secretary of Defense

Management Assurances

The Department is committed to ensuring an effective system of internal controls to provide reasonable assurance that its critical mission is met. An effective system of internal controls is central to supporting the NDS line of effort to reform business practices for greater performance and affordability. By appropriately assessing internal controls, the Department can identify opportunities to improve business operations and support effective financial stewardship.

The Federal Managers' Financial Integrity Act of 1982 (*FMFIA*) requires federal agencies to evaluate and report on the effectiveness of the organization's internal controls to support effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The Office of the Chief Management Officer (*OCMO*) and the Office of the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer (*ODCFO*) lead the Department's effort in fulfilling this requirement via Enterprise Risk Management (ERM) and Internal Control Program (ICP) responsibilities. The DoD ERM/ICP holds both operational and financial managers accountable for ensuring they are effectively managing risks and internal controls in their areas of responsibility. In accordance with Office of Management and Budget (*OMB*) *Circular No. A-123* and GAO Standards for Internal Control in the Federal Government ("*Green Book*"), the Department continually strives to integrate proactive risk management and effective internal controls into existing business activities.

U.S. Navy Chief Mass Communication Specialist Shannon E. Renfroe photographs F/A-18E Super Hornets from Strike Fighter Squadron (VFA) 136 Knighthawks as they fly in formation during a photo exercise over the Pacific Ocean, March 12, 2019.

U.S. Navy photo by Mass Communication Specialist 2nd Class Morgan K. Nall

The Department advocates a "tone-at-the-top" approach, with an emphasis on the importance of the internal control program. The Department established a governance model comprising a variety of stakeholders to serve as the mechanism to identify and prioritize enterprise-wide risks and drive cross-functional solutions to Department-wide financial management challenges. Central to the governance model is the Financial Improvement Audit Remediation Governance Board (FGB). This Senior Executive Committee serves as the Senior Management Council, chartered to assess and monitor deficiencies in internal controls. FGB membership includes the Under Secretary of Defense (Comptroller)/CFO and the CMO; Senior Executives that cover acquisition, human capital, and information technology; and Senior Executives representing material (major) DoD Components. Additionally, Functional Councils were established to coordinate and facilitate the remediation of priority issues impacting the Department's ability to obtain an unmodified audit opinion. This governance framework supports decision-making and ensures Department-wide deficiencies are reported in a timely manner and associated CAPs are monitored throughout the DoD Components.

In relation to this, the Department continues to work toward the goal of implementing and incorporating ERM into the decision-making process at all levels of management. ERM promotes the identification of a full spectrum of risk registers and prioritizes them into a risk portfolio to inform and impact strategic, operational, reporting, and compliance objectives. In FY 2019, the Department made progress in maturing the ERM/ICP with the goal of integrating risk management and internal controls testing. To achieve this, the Department conducted a thorough risk assessment through the Statement of Assurance process to establish a business operations risk register. This assessment process will ensure that significant business operation risks are identified, addressed, and aligned to DoD Component significant deficiencies and material weaknesses. This risk-based approach assists the DoD Components with prioritizing audit remediation corrective actions, internal control testing, and risk mitigation. In addition, the ODCFO identifies Department-wide focus areas for testing based on the Department-wide materiality level and possible impact on financial statement line items. This process leverages OMB Circular No. A-123 and the Green Book to ensure the Department has the appropriate oversight to prioritize and mitigate systemic, operational, and financial risks.

In accordance with *DoD Instruction 5010.40*, each DoD Component assesses key functional, operational, and financial areas that are essential to the completion of its mission and objectives. DoD Components rely upon appointed assessable unit managers for each key area to identify and report internal control improvement opportunities as well as deficiencies for review and remediation. DoD Components that produce standalone financial statements are also required to assert to the effectiveness of internal controls over financial reporting, operations, and financial management system requirements. The goal of the ERM/ICP is to support the Department's mission by implementing appropriate controls to identify, prioritize, and mitigate risks before they negatively impact the mission. In addition, the Department is leveraging the financial statement audit as a tool to identify high-risk areas and integrate audit and internal control remediation efforts.

FY 2019 Improvements in Internal Controls

Strong internal controls are essential to achieving and sustaining an efficient and effective organization. Despite many challenges, the Department is steadily improving internal controls, which resulted in cost avoidance and operational improvements. Some significant accomplishments to the internal control environment are highlighted below.

Department of the Army

As of Q4, FY 2019, the Department of the Army has completed the implementation of corrective actions for 65% of the NFRs issued during their FY 2018 financial statement audit related to Information Technology General Controls (ITGCs) over its material ERPs and Legacy Financial and Non-Financial systems. The implemented corrective actions improved the Army's ITGCs related to a variety of systems process areas including access controls, segregation of duties, configuration management, security management, and contingency planning. During FY 2019, the independent public accounting firm conducting the Army's standalone financial statement audit reviewed and validated the effectiveness of 97% of the implemented ITGC corrective actions.

Department of the Navy

In FY 2019, the Department of the Navy initiated an assessment of 30 financially significant applications to identify possible segregation of duties conflicts. To facilitate the assessment, the Navy created an automated tool that allows time-consuming and labor-intensive reviews to be automated. This tool generates a report in as few as five minutes that previously would have taken days to weeks to complete.

The Navy completed a full inventory of all Real Property assets located on Navy installations. The inventory included over 115,000 assets and found approximately 19,600 errors. The errors were evenly divided between existence (the asset was reflected in Navy records but were previously disposed of), completeness (the asset was present on a Navy installation but not reflected in the records), and data attributes (information about the asset was incorrectly reflected in Navy records, such as the use of the wrong facility category code). Navy corrected all of the errors in the accountable property system of record (APSR). Correcting these errors improved the completeness, existence, and accuracy of the data reflected on the Navy's Balance Sheet related to General Property, Plant, and Equipment and contributed to downgrading the associated Navy material weakness.

Department of the Air Force

In FY 2019, the Air Force identified the complete population of programs where contractors possess and manage Air Force-owned spare parts. In order to improve its accountability over Government Furnished Material, the Air Force implemented updated procedures to require contractors to perform an annual review of all Air Force-owned spare parts in their possession and provide the data for reconciliation with the APSR. Sustaining these procedural changes will allow the Air Force to maintain full accountability of its spare parts in the possession of contractors.

Defense Finance and Accounting Service (DFAS)

DFAS implemented new policies and procedures to strengthen its system of internal controls in response to audit findings related to suspense account balances, the Treasury Statement of Differences (SOD), and Cash Management Report (CMR) variances. This resulted in a 95% reduction ($34.0 billion) in DoD suspense account balances, $3.8 billion reduction in Treasury SODs, and $1.5 billion reduction in

CMR variances. As a result, DFAS was able to deliver a complete universe of transactions for these Fund Balance with Treasury risk areas, including beginning balances.

Defense Health Agency (DHA)

DHA developed a series of reconciliations that tie the General Ledger (GL) details from six unique accounting systems to the financial statements. As a result, DHA was able to support the financial statement line items down to the supporting GL system detail for over $22.2 billion in assets. DHA was also able to reconcile trial balances produced by different systems, which helped resolve almost $213.0 billion in variances.

Department of Defense Agency-Wide

Multiple IT NFRs were issued across the Department during the FY 2018 audit related to ineffective or non-existent Access Controls. These NFRs comprised 46% of all FY 2018 NFRs issued. During FY 2019, the Office of the Under Secretary of Defense (Comptroller) partnered with the Office of the Chief Management Officer and the Office of the Chief Information Officer to identify the root causes and begin remediating these NFRs. In July 2019, a joint memo was issued from these offices instructing DoD Components to take action on audit deficiencies with both a high audit impact and high cybersecurity impact. The status of corrective actions for these high priority deficiencies is being actively monitored. In addition, an automated solution for provisioning and managing access to audit-impacting applications has been selected for DoD Components that do not already have this capability in place. This solution will be put in place as the Department pursues a longer term identity and credential management capability. Once fully implemented, the Department anticipates that auditors will validate the effectiveness of these tools in addressing the NFRs, which should be closed as a result.

A U.S. Marine Corps military dog, Larry, is prepared to go with the Maritime Raid Force (MRF), 26th Marine Expeditionary Unit (MEU), is prepared to conduct a raid during Realistic Urban Training (RUT) on Camp Lejeune, North Carolina, June 9, 2019.

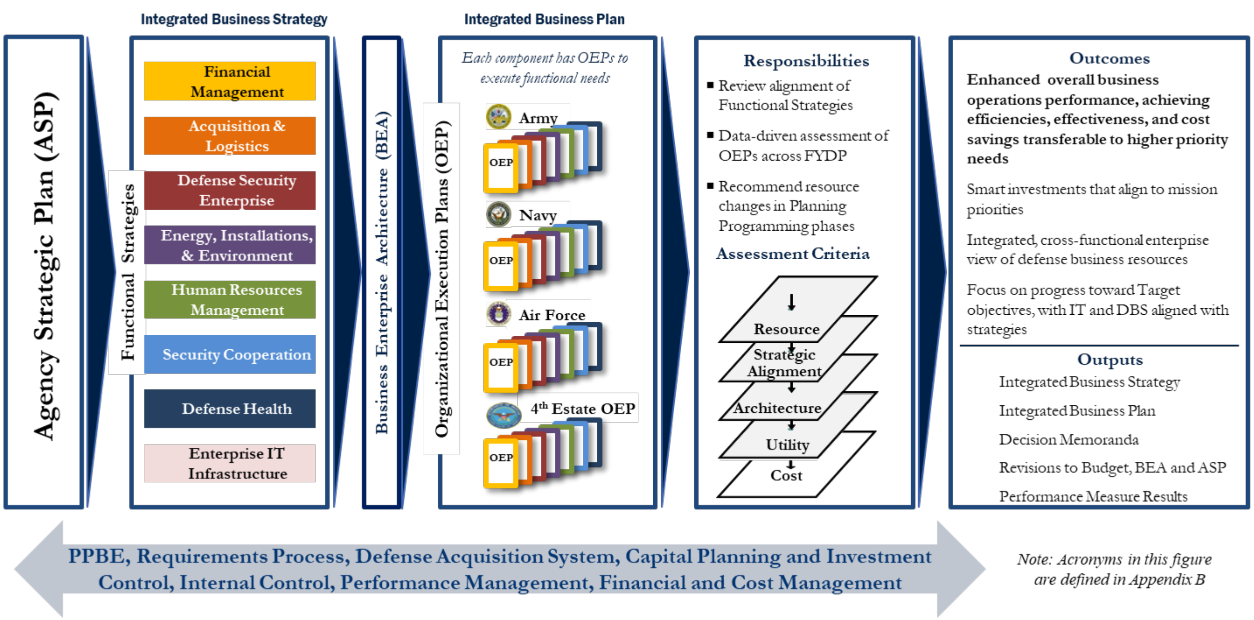
U.S. Marine Corps photo by Cpl. Tanner Seims

Systems Compliance and Strategy

The Department is engaged in a complex and challenging transformation to reform its financial management (FM) environment for enhanced mission effectiveness and auditability. This necessarily includes improving business systems compliance with the Federal Financial Management Improvement Act of 1996 (*FFMIA*) and OMB Circular No. A-123, *Appendix D*. Modernization and improved interoperability of DoD business systems is critical to efficiently respond to warfighter needs and sustain public confidence in the Department's stewardship of taxpayer funds.

After *10 U.S.C. §2222* was amended by the *NDAA for FY 2012* to modify requirements for review of defense business system investments, the Department significantly changed the requirement structure and processes for investment reviews and the certification of defense business systems, which must occur before funds are obligated. The Department's investment review process is used to assess whether investments in business systems align with the Department-wide integrated business strategy (Figure 21). These assessments also include retirement plans for legacy financial systems. The retirement of these systems eliminates redundant activity; maximizes operating efficiency by streamlining business processes; and increases the availability of timely, accurate, and useful business information for use in data-driven decision-making.

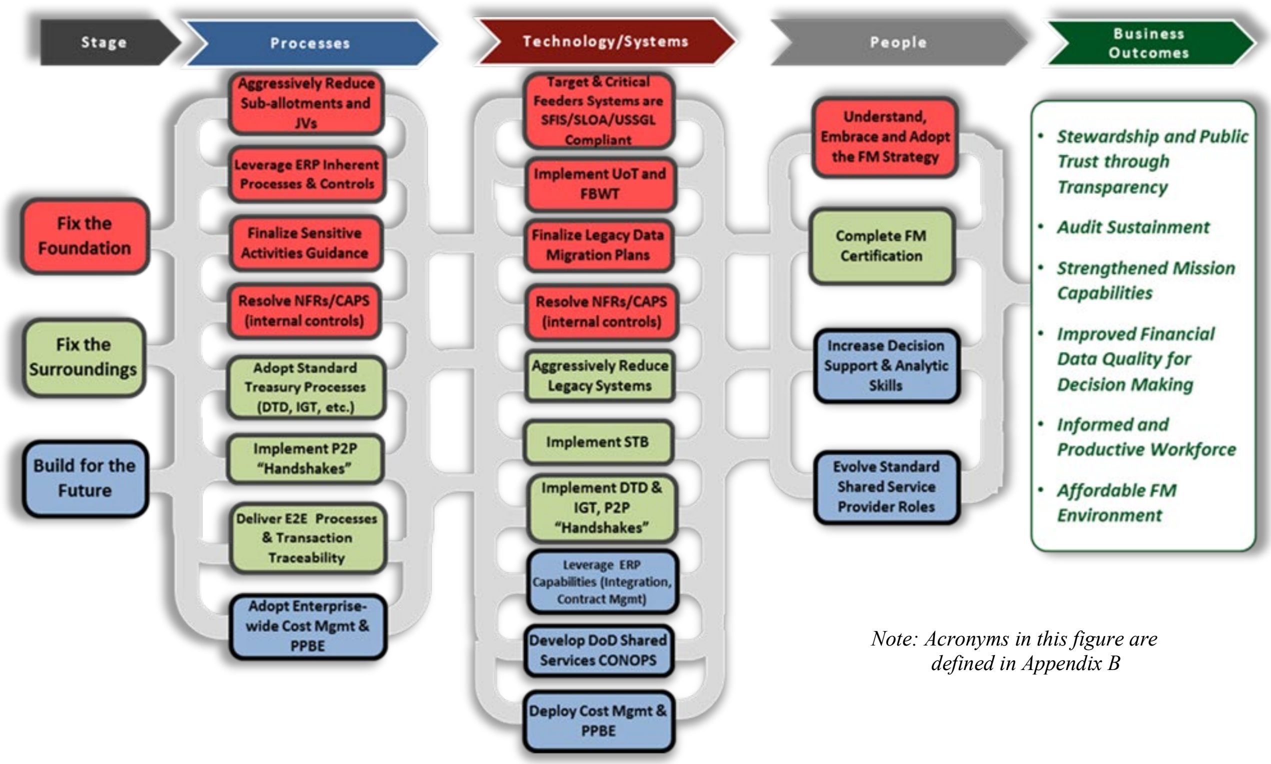
Figure 21. DoD Integrated Business Framework



The Department's FM Functional Strategy provides the Department's vision, initiatives, goals, target environment, and expected outcomes over five years. Rooted in fiscal accountability and financial improvement, the FM Functional Strategy for FY 2019 – FY 2023 will lead to strategic outcomes that are essential for the optimal utilization of the resources provided to the Department to carry out its mission.

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

Figure 22. DoD FM Systems Improvement Initiatives



Note: Acronyms in this figure are defined in Appendix B

Enterprise Resource Planning Systems

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

Department of the Army

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

The Logistics Modernization Program (*LMP*) is one of the world's largest, fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. The LMP mission is to sustain, monitor, measure, and improve the modernized, national-level logistics support solution. By modernizing both the systems and the processes associated with managing the Army's supply chain at the national and installation levels, LMP will permit planning, forecasting, and rapid order fulfillment to supply lines. It will also improve distribution, reduce theater footprint, and ensure the warfighter is equipped and ready to respond to present and future threats.

Global Combat Support System – Army (*GCSS-A*) is an acquisition system that provides enterprise-wide visibility into various logistic areas and is a key enabler for the Army in achieving auditability. GCSS-A provides the tactical warfighter with supply, maintenance, property accountability, integrated materiel management center, management functionality, and support for tactical financial processes.

Integrated Personnel Pay System – Army (*IPPS-A*) is a hybrid solution using ERP software to deliver an integrated personnel and pay capability. Once fully implemented, IPPS-A will provide the Army with an integrated, multi-component personnel and pay system that streamlines Army Human Resources processes, enhances the efficiency and accuracy of Army personnel and pay procedures, and supports soldiers and their families. IPPS-A will improve internal controls to prevent erroneous military payments and loss of funds.

U.S. Army Sgt. Madeliene R. Biltz (right), a maintenance chief from San Diego, California, and U.S. Army Pfc. Cody L. Rouse (left), a maintenance crew member from Bull Mountain, Texas, both assigned to Delta Company, 1st Engineers Battalion, 1st Armored Brigade Combat Team, 1st Infantry Division push an Unmanned Aerial Vehicle onto a launching ramp during UAV training at Trzebien, Poland, May 07, 2019.

U.S. Army photo by Spc. Yon Trimble

Department of the Navy

Navy Enterprise Resource Planning (*Navy ERP*) is an integrated business system that provides streamlined financial, acquisition, and supply chain management to the Navy's systems commands.

Global Combat Support System – Marine Corps (*GCSS-MC*) is focused on the acquisition and implementation of the initial set of logistics capabilities to deliver improved supply, maintenance management services, inventory and equipment accountability, and rapid equipment task organization. As the technology centerpiece of the Marine Corps' overall logistics modernization effort, GCSS-MC provides advanced expeditionary logistics capabilities and functionality to ensure future combat efficiency.

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

Department of the Air Force

Defense Enterprise Accounting and Management System (DEAMS) is an automated accounting and financial management execution system for the Air Force and U.S. Transportation Command. DEAMS is the core accounting and financial management solution for the Transportation Working Capital Fund and General Fund. It serves as the financial foundation for all enterprise business system modernization across the Air Force. DEAMS provides accurate and timely financial information using standardized business processes and complies with applicable federal laws, regulations, and policies.

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

U.S. Air Force Special Tactics Operators and Jordanian Special Forces protect a patient from sand as a medical helicopter lands for evacuation during a scenario as part of Eager Lion 2019 near Sahab District, Hashemite Kingdom of Jordan, Sept. 3, 2019.

U.S. Air Force photo by Staff Sgt. Rose Gudex

Other Defense Organization ERPs

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

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

Legal Compliance

Antideficiency Act (ADA)

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

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

During FY 2019, four ADA violations were reported totaling $30.4 million. The cause of the cases were:

- The Department violated the purpose rule by inappropriately purchasing supplies from a contractor that did not comply with the requirements of the Berry Amendment (*10 U.S.C. §2533a*);
- The Department violated the purpose rule by incorrectly concluding that an exception to the Berry Amendment applied when executing a contract to procure protective footwear;
- The Department violated the purpose rule by inappropriately obligating and expending Operations & Maintenance (O&M) funds instead of Military Construction funds to convert a building in violation of *10 U.S.C. §§2802* and *2805*; and
- The Department violated the purpose rule by inappropriately obligating and expending O&M funds instead of Research, Development, Testing and Evaluation funds to develop and implement an IT system.

The Department has implemented several measures to prevent a recurrence of these type of violations such as issuing new policies and guidance and improving procedures and internal controls. Further information about each of the Department's reported ADA violations and the remedial actions taken are included in GAO's annual compilation of *Antideficiency Act Reports*.

Digital Accountability and Transparency (DATA) Act

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

The Department and USACE (for whom DATA Act submission is audited separately) have been compliant with the DATA Act reporting requirements since September 2018, when they began reporting award financial data for grant assistance and contracts. As of June 2019, the Department reported the alignment of over $52.3 billion across approximately 999,300 active contract and assistance awards (98% of the population) through DATA Act submissions. The Department is fully committed to enabling transparency into the use of the taxpayer dollars entrusted to it as the Department continues to reform and modernize its operations for greater affordability, accountability, and performance.

Federal Civil Penalties Inflation Adjustment Act

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

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

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

U.S. Navy Ensign Lacey Kelley, right, from Tahlequah, Oklahoma, practices taking down a member of the security forces training team after being sprayed with oleoresin capsicum spray during security reaction force basic training on the flight deck of the Arleigh Burke-class guided-missile destroyer USS Stockdale (DDG 106) in the East China Sea Nov. 23, 2018.

U.S. Navy photo by Mass Communication Specialist 3rd Class Abigayle Lutz

Fraud Reduction and Data Analytics Act

The Fraud Reduction and Data Analytics Act of 2015 (*FRDAA*) was enacted on June 30, 2016 to help improve the ability of federal agencies to prevent, detect, and respond to fraud. Under the FRDAA, federal agencies are required to: (1) conduct an evaluation of fraud risks and use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; (2) collect and analyze data on detected fraud to monitor fraud trends and use the data and information to continuously improve fraud controls; and (3) use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response. In FY 2018, the Department furthered its FRDAA compliance efforts by developing an enterprise-wide Fraud Risk Management (FRM) framework and appointed the Office of the Under Secretary of Defense (Comptroller) as the lead for supporting the DoD Components in implementing fraud controls.

In FY 2019, all DoD Components conducted enterprise fraud control and fraud risk assessments to establish a baseline for fraud programs across the Department. The results of these assessments will be used to develop a maturity plan to improve fraud mitigation efforts across the Department. The Department strengthened and communicated its commitment to FRM through an annual Town Hall, working groups, newsletters, and employee training. The Department continued to mature data analytics capabilities to detect and monitor fraud, and established an approach to use results from investigations and audits to improve fraud prevention, detection, and response. As these and other efforts progress, the Department will continue to assess the compliance and maturity of FRM across the Department, including the evaluation of internal controls related to fraud risks; the use of data analytics (including improper payments); and the number of fraud risks identified and mitigated. Detailed information regarding the Department's FY 2019 FRDAA compliance efforts is located in Other Information.

Improper Payments Elimination and Recovery Act (IPERA)

In accordance with the Improper Payments Information Act of 2002 (*IPIA*), as amended by the Improper Payments Elimination and Recovery Act of 2010 (*IPERA*) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (*IPERIA*), and OMB Circular No. A-123, *Appendix C*, the Department is required to report the status and recovery of improper payments to the President and Congress in the following program categories:

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

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

The Department is committed to improving payment accuracy in all of its programs. Each DoD disbursing activity and reporting component is committed to identifying the root causes of improper payments, establishing appropriate sampling methodologies, developing and implementing corrective action plans, and monitoring to ensure prevention of improper payments and compliance with IPERA. In

FY 2019, the Department accomplished the following to increase the level of oversight on improper payments:

- Implemented a more thorough review of military payroll payments;
- Developed a more thorough review of civilian payroll payments to be implemented in FY 2020; and
- Assessed additional payments (such as transportation, purchase card, civilian mariner payroll, and academy cadet stipends) for risk of improper payments.

The Department has an improper payments estimation and reporting process that has been in place for many years, and has been iteratively improved by numerous corrective actions to prevent and reduce improper payments. Preventing and recovering improper payments are among the top financial management priorities of the Department. Detailed information regarding improper payments is located in Other Information.

Prompt Payment Act

The Prompt Payment Act (*PPA*) requires federal agencies to pay vendors timely and to pay interest penalties when payments are made late. The Department complies with the PPA when applicable by statute and regulation and within the terms of the contract. DFAS is responsible for consolidating interest penalty data for the Department; however, each DoD Component is responsible for capturing, validating, and explaining the results of their data.

The Department tracks timely payments through established metrics for interest penalties for late payments to contractors and vendors. The Department's goal is to average $90 or less in interest dollars paid per million PPA dollars disbursed monthly across all applicable contracts. This year, the Department paid an average of $135.51 per million PPA dollars disbursed monthly. The Department is researching the root causes for this deficiency and implementing Department-wide solutions to exceed the goal in the following year.

U.S. Marine Corps Cpl. Katye Spivey, a network administrator with 11th Marine Regiment, 1st Marine Division, practices sword manual for a Command Sponsored Corporals Course (CSCC), at Marine Corps Base Camp Pendleton, California, June 17, 2019.

U.S. Marine Corps Photo by Cpl. Teagan Fredericks

FY 2019

Financial Section

First Female F-35B Pilot

Click picture above for full article

Message from the
Under Secretary of Defense (Comptroller)/Chief Financial Officer

November 15, 2019

It is my privilege to join the Secretary of Defense in presenting the Department of Defense (DoD) financial statements for Fiscal Year (FY) 2019, which are an integral part of the Department of Defense Agency Financial Report for Fiscal Year 2019 (AFR). The objective of the financial statements and accompanying information contained in the Financial Section of the AFR is to provide a comprehensive view of the financial activities undertaken in support of the Department's mission to deter war and protect national security. Further, we believe these statements support our commitment to be transparent with and accountable for the taxpayer resources entrusted to us. To fulfil this commitment, the annual audit regimen and focus on remediating audit findings will endure as we pursue an irreversible positive change to DoD culture.

In FY 2019, the Department continued its journey toward achieving an unmodified opinion by undergoing its second annual full-scope financial statement audit. Though the DoD Office of Inspector General, our independent auditor, issued a Disclaimer of Opinion, the audit continues to provide operational value through the identification and correction of issues hampering our ability to capture, record, and report financial activity. For example, the DoD Components developed more than 2,200 corrective action plans in response to FY 2018 audit findings. Completing corrective actions helps support DoD personnel in carrying out their important missions by addressing issues such as the accuracy and completeness of military equipment records and the security of financial management systems. In this year's audit, auditors confirmed the Department successfully remediated approximately 400 audit findings from the FY 2018 audit. Information about specific issues identified during the audit, planned corrective actions, and anticipated timeframes for resolving these issues are provided in the Other Information section of this report.

I give my thanks to the Congress and the American public for entrusting us with the resources necessary to protect our great nation. Additionally, I thank the civilian employees and military members of our financial and functional communities for their hard work and dedication in addressing audit findings, seeking opportunities for greater efficiency, and improving our business processes. The progress we achieved to date, and will achieve going forward, would not be possible without their efforts. We look forward to working through future audits as we improve the quality and reliability of our financial information, as well as the efficiency and effectiveness of our operations.

Elaine McCusker

Elaine McCusker
Acting

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

November 15, 2019

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

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2019 and FY 2018 Basic Financial Statements (Project No. D2019-D000FE-0067.000, Report No. DODIG-2020-031)

We are providing the subject report to be published in the Department of Defense FY 2019 Agency Financial Report in conjunction with the Department of Defense FY 2019 and FY 2018 Basic Financial Statements provided to us in a "preliminary final" state on November 14, 2019. The Independent Auditor's report includes our disclaimer of opinion on the basic financial statements and our required Reports on Internal Control Over Financial Reporting and Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements. We are issuing our disclaimer of opinion to accompany the Department of Defense FY 2019 and FY 2018 Basic Financial Statements; therefore, this audit report should not be disseminated separately from those statements.

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

Lorin T. Venable

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

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

November 15, 2019

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

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2019 and FY 2018 Basic Financial Statements (Project No. D2019-D000FE-0067.000, Report No. DODIG-2020-031)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990," requires the DoD Inspector General to audit the accompanying DoD Agency-Wide consolidated balance sheet as of September 30, 2019, and September 30, 2018, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic financial statements which are referred to as financial statements or the Agency Financial Report in this report.

Management's Responsibility for the Annual Financial Statements

DoD management is responsible for the annual financial statements. Specifically, management is responsible for: (1) preparing financial statements that conform with accounting principles generally accepted in the United States of America (GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the controls met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the DoD's financial management systems substantially comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

We are responsible for expressing an opinion on the financial statements based on our audit. We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) and the Office of Management and Budget (OMB) Bulletin No. 19-03.[1] However, because of the matters described in the "Basis for Disclaimer of Opinion" section below, we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

OMB Bulletin No. 19-03 identifies DoD Components that are required to undergo financial statement audits. Auditors conducting the audits of these components issued disclaimers of opinion on the Components' financial statements:

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

In addition to the required reporting entities, the auditors also issued disclaimers of opinion on the component financial statements for the Defense Health Program, Defense Logistics Agency, U.S. Transportation Command, and U.S. Special Operations Command.

When combined, these reporting entities are material to the DoD Agency-Wide Basic financial statements. As a result, we were unable to obtain sufficient, appropriate audit evidence to provide a basis for an audit opinion.

We performed limited audit procedures at the agency-wide level and compiled the work from the audits of the DoD Components to identify material weaknesses in internal control over financial reporting that affected the DoD as a whole. We also compiled

[1] OMB Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements," August 2019.

material weaknesses that DoD Components identified within their Statements of Assurance. These material weaknesses limit the DoD's ability to produce reliable financial statements. The underlying material weaknesses in internal control contributed to our disclaimer of opinion on the financial statements.

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

Disclaimer of Opinion

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

Emphasis of Matter

In May 2019, the DoD Office of Inspector General (OIG) issued Report No. DoDIG-2019-085, "Audit of the Defense Security Cooperation Agency—Security Assistance Accounts," which recommended that the DoD report all the Security Assistance Account (SAA) balances that are administered by the DoD in the Agency Financial Report. The SAA balances include Foreign Military Sales, the Special Defense Acquisition Fund, Foreign Military Financing, and International Military Education and Training.

The DoD OIG position is that Statement of Federal Financial Accounting Standards No. 47[2] requires the DoD to present the SAA balances within the DoD Agency Financial Report. DoD management disagreed with this position, and stated that the Defense Security Cooperation Agency (DSCA)-SAA should be a stand-alone entity that is reported in the Government-wide financial statements. During the FY 2019 audit of the DoD Agency-Wide Basic financial statements, DoD OIG management and DoD management met with the Federal Accounting Standards Advisory Board (FASAB) to discuss whether the SAA balances should be consolidated within the DoD Agency Financial Report. Discussions between the FASAB, DoD OIG management, and DoD management are ongoing. As of November 15, 2019, the FASAB has not rendered a

[2] FASAB Handbook, Statement of Federal Financial Accounting Standards (SFFAS) No. 47, "Reporting Entity," December 2014.

decision on the presentation of the SAA balances. As a result, the DoD did not include the SAA balances in the consolidated DoD Agency Financial Report and these amounts were not considered when forming our opinion on the financial statements.

In addition, DoD management provided a "preliminary final" Agency Financial Report on November 14, 2019, which limited our ability to complete a thorough review of the published financial statements. However, during our review of the Agency Financial Report, we noted instances of non-compliances between the financial statements and applicable sections of OMB Circular No. A-136.[3] Specifically, Note 7, Note 19, Note 24, Note 25, and Note 26, did not contain required disclosures to be presented in accordance with OMB Circular No. A-136.[4]

The DoD also restated the FY 2018 financial statements to correct errors in liabilities, Cumulative Results of Operations–Dedicated Collections, and Cumulative Results of Operations–Other Funds, net cost, Earned Revenue, and budgetary resources. These restatements are presented in Note 28 to the financial statements. We considered these restatements during our audit; however, we did not modify our FY 2019 or FY 2018 disclaimers of opinion on the financial statements with respect to this matter.

Finally, in the Agency Financial Report, DoD management referenced information on websites or other forms of interactive data outside the Agency Financial Report. Because this information is not required as part of the financial statements, it was not subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the financial statements as a whole. DoD management presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the financial statements. Therefore, we do not express an opinion or provide any assurance on the information. However, based on our limited review, we did not find any material inconsistencies between the information presented in these sections and applicable portions of OMB Circular No. A-136.

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[3] OMB Circular No. A-136, "Financial Reporting Requirements," June 28, 2019.

[4] Note 7, "Direct Loan and Loan Guarantees, Non-Federal Borrowers," Note 19, "General Disclosures Related to the Statement of Net Cost," Note 24, "Reconciliation of Net Cost to Net Outlays," Note 25, "Public-Private Partnerships," and Note 26, "Disclosure Entities and Related Parties".

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

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

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

See the Attachment for additional details on internal control over financial reporting and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

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

This report will be made publicly available under section 8M, paragraph (b)(1)(A), of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; DoD management; and the DoD Office of Inspector General. This report is neither intended for, nor should it be used by, any other audience.

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

Lorin T. Venable

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

Attachment:
As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

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

Management Responsibilities

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

Auditor's Responsibilities

The purpose of our audit was not to express an opinion on internal control over financial reporting, and we do not express such an opinion. However, we identified 25 material weaknesses and 1 significant deficiency by compiling the results from the audits of the DoD Components, performing limited audit procedures at the agency-wide level, and reviewing the DoD Components' Statements of Assurance. These material weaknesses and significant deficiency could adversely affect the DoD's financial operations.

Identified Material Weaknesses

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

Financial Management Systems and Information Technology. The FMFIA requires financial systems provide reasonable assurance that obligations and costs are in compliance with applicable laws; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial reports. The FFMIA requires Government agencies to incorporate accounting standards and reporting objectives established for the Federal Government into their financial management systems. In addition, it requires that financial management systems have controls to support reliable financial management. However, the DoD had multiple financial management systems that did not comply with federal financial management system requirements. In addition, DoD Components did not implement effective controls over financial management systems to identify deficiencies that could impact the accuracy of the financial reporting. The DoD information systems environment had control weaknesses over security management, access, configuration management, segregation of duties, and business process applications. As a result, the DoD was unable to prepare reliable financial statements and disclosures.

Universe of Transactions. OMB Bulletin No. 19-03 states that internal control over financial reporting includes ensuring that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements. However, the DoD Components were unable to provide transaction-level populations supporting material financial statement line items. Additionally, reconciliations of the information presented within trial balances to underlying transaction-level details did not exist for all DoD Components. Specifically, DoD Components performed reconciliations at a summary level, rather than the transaction level, and did not always perform these reconciliations in a timely manner. Furthermore, the Defense Finance and Accounting Service (DFAS) personnel stated that it was unable to trace amounts presented on the financial statements to transaction-level detail because a universe of transactions did not exist at the DoD-wide level. Without a complete universe of transactions, the DoD and its components could not verify the completeness and accuracy of data reported on the DoD Component and the DoD Agency-Wide Basic Financial Statements.

Fund Balance With Treasury. For FY 2019, the DoD reported a Fund Balance With Treasury balance of $607.6 billion. The Statement of Federal Financial Accounting Standards (SFFAS) No. 1 defines Fund Balance With Treasury as the aggregate amount of funds in the DoD's accounts with Treasury for which the DoD is authorized to make expenditures and pay liabilities.[5] SFFAS No. 1 and the Treasury Financial Manual (TFM) require the DoD to reconcile its Fund Balance With Treasury and explain any discrepancies between balances reported by the DoD and the U.S. Treasury to ensure the integrity and accuracy of the DoD and Government-Wide

[5] FASAB, "Handbook of Federal Accounting Standards and Other Pronouncements" (FASAB Handbook), SFFAS No. 1, "Accounting for Selected Assets and Liabilities," March 30, 1993, as amended.

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financial statements.[6] However, the DoD had ineffective processes and controls for reconciling its Fund Balance With Treasury, and as a result, the DoD was unable to ensure the completeness and accuracy of its Fund Balance With Treasury account. For example, the Cash Management Report, a tool used by the DFAS and Other Defense Organizations to reconcile Fund Balance With Treasury, was not complete, accurate, or supported. Other Defense Organizations account for $101.2 billion, or 17 percent, of the DoD Agency-Wide Fund Balance With Treasury. The lack of effective control over Fund Balance With Treasury increased the risk that the financial statements may be materially misstated.

Suspense Accounts. OMB Circular No. A-11 defines suspense accounts as accounts used to temporarily hold transactions that belong to the Government while waiting for information that will allow the transactions to be matched to a specific receipt or expenditure account.[7] The DoD Financial Management Regulation states that suspense accounts may be used in accordance with Treasury guidance if transactions are reclassified to the correct line of accounting and properly reported in the accounting system within 60 days of the transaction entering suspense.[8] However, DFAS and the DoD Components lacked the controls necessary to sufficiently monitor funds in suspense accounts and to research transactions to clear account variances in accordance with the 60-day requirement. The DoD lacked the proper controls to ensure that transactions were not being intentionally placed into suspense. Additionally, the DoD was unable to properly attribute suspense accounts transactions to the appropriate DoD Component because multiple components share the same suspense accounts. These control deficiencies within the DoD suspense accounts created a high risk that the financial statements were misstated.

Inventory and Related Property. For FY 2019, the DoD reported an Inventory and Related Property balance of $291.5 billion. SFFAS No. 48, which amends SFFAS No. 3, requires the DoD to value inventory at historical cost or to use a method that reasonably approximates historical cost.[9] However, multiple DoD Components did not account for Inventory and Related Property according to SFFAS No. 3, or the alternative valuation methods allowable by SFFAS No. 48. In addition, the DoD Components lacked the policies, procedures, controls, and supporting documentation necessary to

[6] Treasury Financial Manual, volume 1, part 2, chapter 5100, "FBWT," May 2019.

[7] OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," June 2019.

[8] DoD Financial Management Regulation, volume 12, chapter 1, "Funds," section 010403, "Temporary Account Requirement," March 2019.

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

substantiate the existence and completeness of Inventory and Related Property reported on their financial statements. Specifically, the DoD Components did not have internal control and procedures for inventory counts, movement of inventory, or in-transit inventory. In addition, the DoD Components could not produce documentation supporting the valuation of their inventory. As a result, the DoD was unable to support a material portion of its inventory, and there is high risk of material misstatement of Inventory and Related Property on the financial statements.

Operating Materials & Supplies. For FY 2019, the DoD reported an Operating Materials and Supplies (OM&S) balance of $184.9 billion. SFFAS No. 3 requires the DoD to value its OM&S on the basis of historical cost or on a basis that reasonably approximates historical cost.[10] SFFAS No. 48 amends SFFAS No. 3, and allows DoD to use a one-time alternative valuation method for establishing the opening balances of OM&S. However, the DoD must make an unreserved assertion that the balance is in accordance with GAAP, and the DoD must have a sustainable process for implementing SFFAS No. 3 following the initial valuation. Material DoD Components did not account for OM&S according to SFFAS No. 3, or the alternative valuation methods allowable by SFFAS No. 48. The DoD's inability to value OM&S in accordance with SFFAS No. 3, as amended by SFFAS No. 48, creates a high risk that balances presented on the financial statements are materially misstated.

SFFAS No. 3 also requires that OM&S be categorized as (1) OM&S held for use, (2) OM&S held in reserve for future use, or (3) excess, obsolete and unserviceable. We determined that DoD Components were not properly categorizing OM&S. For example, DoD Components categorized OM&S inventory as held for use, or held in reserve for future use, when the OM&S inventory was actually excess, obsolete, or unserviceable. This increases the risk that OM&S balances are overstated on the Component financial statements, resulting in an overstatement at the DoD Agency-Wide level.

General Property, Plant, and Equipment. For FY 2019, the DoD reported a General Property, Plant, and Equipment (PP&E) balance of $768.6 billion. SFFAS No. 6 requires the DoD to report General PP&E at acquisition cost.[11] SFFAS No. 50 allows alternative methods for establishing opening balances to be applied for the reporting period in which the reporting entity makes an unreserved assertion that its

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

[11] FASAB Handbook, SFFAS No. 6, "Accounting for Property, Plant, and Equipment," November 30, 1995, as amended.

financial statements are presented in accordance with GAAP.[12] However, as of September 30, 2019, the DoD had not completed its implementation of SFFAS No. 50 to establish opening balances of its General PP&E. In addition, the DoD did not have sufficient procedures to account for its General PP&E in accordance with SFFAS No. 6. Because the DoD cannot accurately value its General PP&E, the DoD is at risk of materially misstating its financial statements.

Real Property. In FY 2019, DoD management identified real property as a financial statement audit priority, and issued a new financial reporting policy that affects how the DoD Components will report real property in FY 2020. This policy requires DoD Components to transfer all real property to the Military Services or Washington Headquarters Services. However, the DoD was unable to provide a universe of transactions for its real property and the DoD Components did not have processes in place, or did not fully implement corrective actions to generate and reconcile populations of real property to those reported on their financial statements. Unsupported real property balances significantly increase the risk that the General PP&E line item may be materially misstated on the financial statements. Additionally, transfers of real property required by the new policy may be unsupported if not properly monitored by DoD management, resulting in additional risks of material misstatement for FY 2020.

Government Property in Possession of Contractors. SFFAS No. 6 requires that property and equipment in the possession of contractors, or acquired on behalf of the Government for use in accomplishing a contract, be considered Government property. The DoD must account for this property based on the nature of the item, regardless of who has possession. However, the DoD lacked policies, procedures, control, and supporting documentation for the acquisition, disposal, and inventory processes related to Government property in the possession of contractors. This prevented the DoD from substantiating the existence and completeness of Government property in the possession of contractors. Additionally, not all DoD contract terms and conditions incorporated standard inventory management policies, procedures, and metrics. As a result, the financial statements may be incomplete or inaccurate and could be materially misstated.

[12] FASAB Handbook, SFFAS No. 50, "Establishing Opening Balances for General PP&E: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35," August 4, 2016.

Joint Strike Fighter Program. The Joint Strike Fighter is a multiservice, multinational acquisition to develop and field the next-generation strike fighter aircraft for the Navy, Air Force, Marine Corps, and international partners. However, the DoD did not account for and manage Joint Strike Fighter Program property, or record the property in an accountable property system of record. As a result, the DoD did not report the property on its financial statements. Additionally, the DoD is relying on contractor records to value the property associated with the Joint Strike Fighter Program. These contractor records indicate that the program contains over 3.45 million pieces of property valued at $2.1 billion. The omission of the Joint Strike Fighter program property from the financial statements and inability to provide documentation supporting the value of the property indicate material failures in controls for recording joint programs within the DoD and presents a high risk that the financial statements contain material misstatements.

Military Housing Privatization Initiative (MHPI). Accounting Standards Codification 323 requires the DoD to report real property ownership transfers to MHPI private entities as increases to reported Other Investments and annual private entity profits and losses allocated to the DoD as changes to reported Other Investments.[13] For FY 2019, the DoD reported an MHPI-related Other Investments balance of $3.5 billion. However, the DoD did not report, as an increase to Other Investments, an estimated $5.0 billion of real property transferred to the MHPI private entities in exchange for the DoD's ownership interest in the private entities. In addition, the DoD did not reduce Other Investments for an estimated $1.1 billion in net cumulative annual losses allocated to the DoD based on its ownership interest. Furthermore, the DoD did not properly disclose information related to the MHPI as required by SFFAS No. 49[14]and OMB Circular No. A-136.[15] In the aggregate, deficiencies associated with the MHPI program present a high risk of material misstatement in the financial statements.

Accounts Payable. For FY 2019, the DoD reported a non-Federal Accounts Payable balance of $39.7 billion. SFFAS No. 1 states that accounts payable are amounts owed to other Federal entities for receipt of goods and services, progress in contract performance, or rents. The DoD Components did not have sufficient policies, procedures, and control over their methodology for accruing payables. In addition, ineffective control over Accounts Payable increases the risk of unsupported transactions. As a result, the Accounts Payable balance on the financial statements

[13] Accounting Standards Codification, Financial Accounting Standards Board, as updated through November 1, 2019, Code Section 323.

[14] FASAB Handbook, "SFFAS No. 49, Public Private Partnerships: Disclosure Requirements," April 27, 2016.

[15] OMB Circular No. A-136, "Financial Reporting Requirements," June 28, 2019.

may be materially misstated. Additional control failures associated with Federal Accounts Payable were included in the intradepartmental eliminations and intragovernmental transactions material weakness.

Environmental and Disposal Liabilities. For FY 2019, the DoD reported an Environmental and Disposal Liabilities balance of $76.1 billion. Federal Financial Accounting and Auditing Technical Release 2 requires the DoD to recognize liabilities for environmental cleanup costs as a result of past transactions or events when a future outflow or other sacrifice of resources is probable and reasonably estimable.[16] However, the DoD lacked formal policies, procedures, and supporting documentation to substantiate the completeness and accuracy of its Environmental and Disposal Liabilities. As a result, Environmental and Disposal Liabilities reported on the financial statements may be materially misstated.

Legal Contingencies. The TFM requires the DoD General Counsel to prepare a Legal Representation Letter that lists legal actions against the DoD. The Legal Representation Letter must be accompanied by a Management Schedule that summarizes the content of the Legal Representation Letter. This information supports financial statement disclosures. In FY 2019, there were control failures that affected the presentation and calculation of total legal contingencies at the DoD Agency-Wide level. Specifically, as a result of auditor-identified errors, DoD management made material changes to the Management Schedule. Additionally, the DoD Components did not record their legal contingencies using a consistent methodology and, as a result, the DoD Components posted adjustments to reconcile commitments and contingencies balances to the Management Schedule. Lack of controls over the process for preparing the Management Schedule, and the lack of consistent component reporting methodology, created a risk that the financial statements and related notes may be misstated.

[16] FASAB Handbook, Federal Financial Accounting and Auditing Technical Release 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government," March 15, 1998.

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Beginning Balances. SFFAS No. 48 defines beginning balances as account balances that exist at the beginning of that the reporting period and are based upon the closing balances of the prior period. These balances reflect the effects of transactions that occurred and accounting policies applied in prior periods. Material DoD Components did not have historical data to support beginning balances on their financial statements or the ability to reconcile beginning balances to closing balances at the end of the reporting period. Without support to confirm the completeness and accuracy of beginning balances, the financial statements may be materially misstated.

Unsupported Accounting Adjustments. The Federal Managers Financial Integrity Act (FMFIA) of 1982 requires the DoD to properly record and account for revenues and expenditures to permit the preparation of reliable financial reports and to maintain accountability over assets. Effective control is necessary to demonstrate compliance with the FMFIA. However, the DoD did not have effective control to provide reasonable assurance that accounting adjustments were valid, complete, and accurately recorded in its accounting and general ledger systems. Material DoD Components recorded manual and system-generated accounting adjustments that lacked supporting documentation and appropriate approvals. Without effective control, the DoD cannot provide reasonable assurance that material misstatements would be prevented, or detected and corrected, in the DoD Components and DoD Agency-Wide Basic Financial Statements in a timely manner. Additionally, the failure to establish and implement effective controls over accounting adjustments creates a high risk of material misstatement for all financial statement line items.

Intradepartmental Eliminations and Intragovernmental Transactions. The TFM defines trading partners as Federal entities that are party to transactions with other Federal entities.[17] It further defines intradepartmental transactions as those occurring between two trading partners within the same entity. In order to properly present the balances on the financial statements, intradepartmental transactions must be eliminated during the financial statement preparation process. Additionally, the DoD must identify transactions that should be eliminated at the Government-wide level as a result of trading partner activity with other Federal entities. However, the DoD accounting systems were unable to capture intradepartmental and intragovernmental data at the transaction level to facilitate these required eliminations. Inability to reconcile and report intradepartmental and intragovernmental transactions creates a high risk of material misstatement for all financial statement line items.

[17] TFM, volume 1, part 2, chapter 4700, "Federal Entity Reporting Requirements for the Financial Report of the United States Government," May 2019.

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Gross Costs. For FY 2019, the DoD reported a Gross Costs balance of $822.3 billion. Statement of Federal Financial Accounting Concepts (SFFAC) No. 2 requires the DoD to provide gross and net cost information related to the amounts of outputs and outcomes for programs or organizations on the Statement of Net Cost.[18] The statement should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities. However, the DoD Components have material deficiencies related to the Gross Costs line item. These deficiencies included, but were not limited to, compliance with GAAP, inaccurate reporting of transactions, and inadequate procedures and controls for recording Gross Costs. Therefore, DoD management does not have reliable financial information to effectively manage and understand gross costs, and the DoD is at risk of materially misstating Gross Costs on its financial statements.

Earned Revenue. For FY 2019, the DoD reported an Earned Revenue balance of $90.5 billion. SFFAC No. 2 requires the DoD to present the revenues earned by each program and organization on its statement of net costs. However, the DoD Components have material deficiencies related to the reliability of Earned Revenue on the Statement of Net Cost. These deficiencies included, but are not limited to, compliance with GAAP, inability to substantiate revenue-related transactions, and inadequate processes and controls for recording Earned Revenue. As a result, there is an increased risk that Earned Revenue may be materially misstated on the financial statements.

Reconciliation of Net Cost of Operations to Outlays. SFFAS No. 7 requires the DoD to perform a reconciliation of its proprietary and budgetary data.[19] OMB Circular No. A-136 requires the DoD to include this reconciliation in the notes to the financial statements. However, the DoD was unable to adequately explain a $10.3 billion reconciling difference between the budgetary and proprietary accounts in the DoD Agency Financial Report. This occurred because the DoD Components and DFAS have not designed and implemented controls to research and resolve variances between budgetary and proprietary data throughout the reporting period. The DoD's inability to provide details required to resolve this reconciling difference prevented auditors from determining the total impact to the financial statements and put the DoD at risk of materially misstating its financial statements.

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[18] FASAB Handbook, SFFAC No. 2, "Entity and Display," June 6, 1995, as amended.

[19] FASAB Handbook, SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," May 10, 1996, as amended.

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

Service Providers. A service provider is a third party that performs activities for many agencies. OMB Circular No. A-123 states that service providers are responsible for providing assurance to their customers and assisting those customers in understanding the relationship between the service provider's controls and the customer's user controls. Certain DoD Components function as service providers for other DoD Components and Federal agencies. The DoD service providers perform critical activities across the DoD, and for other Federal agencies such as managing inventory and preparing financial statements, and for other DoD Components and Federal agencies. However, many of the service providers have not designed or implemented reliable controls that provide the required assurance to the DoD Component customers. While DoD Component management retains responsibility for the performance of processes assigned to service providers, service provider control deficiencies decrease the reliability and accuracy of the DoD Component-level financial statements. As a result, there is an increased risk of material misstatement on the DoD Agency-Wide Basic Financial Statements.

Entity-Level Controls. The Government Accountability Office Green Book presents the internal control standards for Federal agencies for both program and financial management.[20] The Green Book states that entity-level controls are controls that have a pervasive effect on an entity's internal control system and may pertain to multiple components. Entity-level controls may include controls related to the entity's risk-assessment process, control environment, service organizations, and management's ability to override existing controls. However, multiple DoD Components did not design and implement effective entity-level controls for reliable financial reporting.

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[20] The Government Accountability Office Green Book, "Standards for Internal Control in the Federal Government," September 2014.

Specifically, multiple DoD Components lacked controls or performed insufficient reviews while preparing their financial statements. As a result, the DoD Components were unable to detect and correct misstatements in the financial statements and related disclosures. Furthermore, most DoD Component financial statements were not prepared in accordance with GAAP. Ineffective entity-level controls create a risk of material misstatements on the DoD Component financial statements and, as a result, a corresponding risk of material misstatement on the DoD Agency-Wide Basic Financial Statements.

DoD-Wide Oversight and Monitoring. OMB Circular No. A-123 defines management's responsibility for internal control. Specifically, it requires that the DoD establish and integrate internal control into the entity's operations in a risk-based and cost-beneficial manner, which helps to provide reasonable assurance that the DoD's internal control over operations, reporting, and compliance is operating effectively. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer [OUSD(C)] and DFAS are responsible for consolidating component level information to produce documents such as the DoD Agency Financial Report. However, this component level information is incomplete, inaccurate, and not GAAP compliant. The OUSD(C) does not perform effective oversight and monitoring over this consolidation or have adequate time to perform verification of the component level information prior to publishing agency-wide information. Furthermore, the DoD Components did not always comply with the OUSD(C) issued guidance intended to provide consistency in reporting at the DoD Agency-Wide level. As a result, there is an increased risk that consolidated component level information is not complete or accurate when presented at the DoD Agency-Wide level.

Component-Level Oversight and Monitoring. OMB Circular No. A-123 requires DoD Component management to continuously monitor, assess, and improve the effectiveness of internal control associated with those objectives identified as part of their risk profile. In addition, it requires DoD Component management to evaluate and document internal control deficiencies and determine appropriate corrective actions for those deficiencies on a timely basis. However, DoD Components did not implement oversight and monitoring activities in a timely manner to identify and resolve deficiencies that could impact their financial statement balances and related disclosures. Therefore, the DoD Components could not provide reasonable assurance that internal control over financial reporting are effective and there is a risk that the DoD Agency-Wide Financial Statements may be misstated.

Identified Significant Deficiency

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

Accounts Receivable. For FY 2019, the DoD reported a non-Federal Accounts Receivable balance of $5.9 billion. SFFAS No. 1 requires that the DoD recognize a receivable when it establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, or goods or services provided. The DoD Components have not developed or implemented effective controls to prevent or detect misstatements of non-Federal accounts receivable balances. For example, one DoD Component did not reduce receivables when cash was collected in prior accounting periods in the accounting records. This error created an overstatement to the non-Federal Accounts Receivable line item. Lack of effective controls creates a significant risk that balances presented on the financial statements are misstated. Additional control failures associated with Federal accounts receivable are included in the intradepartmental eliminations and intragovernmental transactions material weakness.

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

Generally accepted government auditing standards and OMB guidance require auditors to report on an entity's compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws, regulations, contracts, and grant agreements related to financial reporting. We compiled the results from the audits of the DoD Components and determined that the DoD was not compliant with all laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements. Specifically, the DoD did not comply with the Antideficiency Act (ADA), FFMIA, FMFIA, the Federal Information Security Modernization Act, and the Debt Collection Improvement Act. However, our objective was not to express, and we do not express, an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Additionally, because of the significance of the matters described in the "Basis for Disclaimer of Opinion," we performed limited procedures that may not have detected all instances of noncompliance. The following instances of noncompliance impacted DoD Components.

Compliance With Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. § 1341 [1990]), limits the DoD and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As required by 31 U.S.C. § 1517 (2004), the DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the ADA, the head of the agency must immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2019, the DoD reported multiple ADA violations within four completed cases.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 3, "Antideficiency Act Violation Process," establishes timeframes for identifying and reporting ADA violations. The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. The DoD did not report any investigations of potential ADA violations that had been open for more than 15 months.

Compliance With Federal Financial Management Improvement Act

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

For FY 2019, the DoD did not substantially comply with the FFMIA. The OUSD(C) represented that the internal controls in place were not effective to provide reasonable assurance that financial reporting was reliable. The OUSD(C) represented that its financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, or the U.S. Standard General Ledger at the transaction level as of September 30, 2019. In addition, the auditors of the DoD Components identified that the DoD Components did not substantially comply with the FFMIA.

Compliance With Federal Managers' Financial Integrity Act

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

For FY 2019, the DoD did not substantially comply with the FMFIA. The OUSD(C) represented that the DoD's internal control over financial reporting was not effective because of the material weaknesses reported in the FY 2019 Agency Financial Report. In addition, the auditors of the DoD Components identified that the DoD Components did not substantially comply with the FMFIA.

Compliance With Federal Information Security Modernization Act

The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The National Institute of Standards and Technology publishes standards and guidelines for Federal entities to implement for non-national security systems. Deviations from these standards and guidelines represent departures from FISMA requirements. Two DoD Components did not comply with FISMA standards and guidelines. As a result, the DoD is not in compliance with FISMA.

Compliance With the Debt Collection Improvement Act

The Debt Collection Improvement Act of 1996, as amended by the Digital Accountability and Transparency Act of 2014, requires that any non-tax debts or claims owed to the U.S. Government that is over 120 days delinquent, are required to be reported to the Treasury for purposes of administrative offset. One DoD Component did not transfer all outstanding eligible debt in accordance with the Debt Collection Improvement Act requirements. As a result, the DoD is not in compliance with the Debt Collection Improvement Act.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations. The DoD OIG and component auditors provided Notices of Findings and Recommendations to DoD management and the DoD Components, respectively, to address reported material weaknesses and significant deficiencies, when appropriate.

PRINCIPAL FINANCIAL STATEMENTS AND NOTES

The principal financial statements are prepared to report the financial position and results of operations of the Department of Defense (DoD or the Department), pursuant to the requirements of title 31, United States Code, section 3515(b) (*31 U.S.C. § 3515(b)*). The statements are prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget (*OMB*) *Circular No. A-136* and, to the extent possible, with U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). The statements, in addition to supporting financial reports, are used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government.

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

Table 1. Principal Financial Statements

Statement	Information Provided
Balance Sheet	Reflects the Department's financial position as of the statement date (September 30, 2018). The assets reflect the amount of future economic benefits owned or managed by the Department. The liabilities reflect amounts owed by the Department. The net position is the difference between the assets and liabilities.
Statement of Net Cost	Shows, by major program, the components of the net cost of the Department's operations for the period. Net cost is equal to the gross cost incurred by the Department less any exchange revenue earned from its activities.
Statement of Changes in Net Position	Presents the sum of the unexpended appropriations provided to the Department that remain unused at the end of the fiscal year and the cumulative results of the Department's operations since inception. The statement focuses on how the Department's net cost of operations is financed. The resulting financial position represents the difference between assets and liabilities as shown on the consolidated balance sheet.
Statement of Budgetary Resources	Provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the Department's budgetary general ledger in accordance with budgetary accounting rules. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined, rather than consolidated, basis. As such, all intra-entity transactions are included in the balances reported on the statement.

Department of Defense Agencywide
Consolidated Balance Sheet
As of September 30, 2019 and 2018
($ in millions)

	2019 (Unaudited)	Restated 2018 (Unaudited)
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 607,555.3	$ 580,213.8
Investments (Note 5)	1,187,609.0	1,091,764.4
Accounts Receivable (Note 6)	2,025.2	1,951.6
Other Assets (Note 10)	1,106.5	961.5
Total Intragovernmental Assets	1,798,296.0	1,674,891.3
Cash and Other Monetary Assets (Note 4)	918.3	968.0
Accounts Receivable, Net (Note 6)	5,894.5	5,694.1
Loans Receivable (Note 7)	1,738.7	1,697.4
Inventory and Related Property, Net (Note 8)	291,489.7	275,678.4
General Property, Plant and Equipment, Net (Note 9)	768,558.4	758,829.1
Investments (Note 5)	3,511.6	3,511.6
Other Assets (Note 10)	19,543.1	28,374.4
Total Assets	$ 2,889,950.3	$ 2,749,644.3
Stewardship Property, Plant and Equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	$ 1,544.3	$ 1,914.1
Debt (Note 12)	1,714.1	1,685.7
Other Liabilities (Note 15 & 17)	7,777.0	7,403.7
Total Intragovernmental Liabilities	11,035.4	11,003.5
Accounts Payable	39,682.5	29,222.8
Military Retirement and Other Federal Employment Benefits (Note 13)	2,596,371.8	2,415,346.8
Environmental and Disposal Liabilities (Note 14)	76,124.9	70,411.4
Loan Guarantee Liability (Note 7)	50.7	58.4
Other Liabilities (Note 15 and Note 17)	36,758.2	38,017.8
Total Liabilities	2,760,023.5	2,564,060.7
Commitments and Contingencies (Note 17)		
Net Position (Consolidated Totals)		
Unexpended Appropriations - Other Funds	545,168.2	529,803.7
Cumulative Results of Operations - Dedicated Collections (Note 18)	30,331.1	27,734.0
Cumulative Results of Operations - Other Funds	(445,572.5)	(371,954.1)
Total Net Position	129,926.8	185,583.6
Total Liabilities and Net Position	$ 2,889,950.3	$ 2,749,644.3

The accompanying notes are an integral part of these statements.

Department of Defense Agencywide
Consolidated Statement of Net Cost
For the Years Ended September 30, 2019 and 2018
($ in millions)

	2019 (Unaudited)	Restated 2018 (Unaudited)
Gross Program Costs:		
Military Retirement Benefits	$ 106,422.7	$ 104,973.1
Civil Works	11,594.9	12,603.8
Military Personnel	150,995.7	145,255.3
Operations, Readiness & Support	297,033.2	259,690.3
Procurement	126,512.6	112,506.4
Research, Development, Test & Evaluation	104,654.5	88,386.3
Family Housing & Military Construction	25,123.1	11,714.5
Total Gross Program Costs	822,336.7	735,129.7
Less: Earned Revenue	(90,502.2)	(90,483.6)
Net Program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	731,834.5	644,646.1
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	138,808.5	16,735.0
Net Cost of Operations	$ 870,643.0	$ 661,381.1

The accompanying notes are an integral part of these statements.

Department of Defense Agencywide
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2019 and 2018
($ in millions)

	2019 (Unaudited)	Restated 2018 (Unaudited)
Unexpended Appropriations		
Beginning Balance (Includes Funds from Dedicated Collections (See Note 18)	$ 529,803.7	$ 457,916.0
Prior Period Adjustments:		
Changes in Accounting Principles	-	-
Corrections of Errors	-	-
Beginning balances, as adjusted (Includes Funds from Dedicated Collections of $0.0 in FY 2019 and $0.0 in FY 2018) - (Note 18)	$ 529,803.7	$ 457,916.0
Budgetary Financing Sources:		
Appropriations Received	802,827.9	794,788.0
Appropriations Transferred In/Out	59.2	221.8
Other Adjustments	(22,533.9)	(20,876.0)
Appropriations Used	(764,988.7)	(702,246.1)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections of $0.0 in FY 2019 and $0.0 in FY 2018) - (Note 18)	15,364.5	71,887.7
Total Unexpended Appropriations (Includes Funds from Dedicated Collections of $0.0 in FY 2019 and $0.0 in FY 2018) - (Note 18)	545,168.2	529,803.7
Cumulative Results of Operations		
Beginning Balance	(344,220.1)	(390,109.0)
Prior Period Adjustments:		
Changes in Accounting Principles	4,277.8	(2,461.7)
Corrections of Errors	7,250.4	-
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $27,734.0 in FY 2019 and $25,574.5 in FY 2018 Restated) - (Note 18)	(332,691.9)	(392,570.7)
Budgetary Financing Sources:		
Other Adjustments	(210.8)	(734.2)
Appropriations Used	764,988.7	702,246.1
Nonexchange Revenue	3,997.6	3,736.7
Donations and Forfeitures of Cash and Cash Equivalents	137.5	480.3
Transfers In/Out Without Reimbursement	137.5	(188.2)
Other budgetary financing sources	(2,521.5)	(3,490.4)
Other Financing Sources		
Donations and Forfeitures of Property	-	19.8
Transfers In/Out Without Reimbursement	46.4	23.8
Imputed Financing from Costs Absorbed by Others	5,609.8	5,309.1
Other	15,908.3	2,328.7
Total Financing Sources (Includes Funds from Dedicated Collections of $3,649.9 in FY 2019 and $3,540.8 FY 2018, Restated)-(Note 18)	788,093.5	709,731.7
Net Cost of Operations (Includes Funds from Dedicated Collections of ($1,052.8 in FY 2019 and $1,381.3 in FY 2018)-(Note 18)	870,643.0	661,381.1
Net Change	(82,549.5)	48,350.6
Cumulative Results of Operations (Includes Funds from Dedicated Collections of $30,331.1 in FY 2019 and $27,734.0 in FY 2018 (Restated))	(415,241.4)	(344,220.1)
Net Position	$ 129,926.8	$ 185,583.6

The accompanying notes are an integral part of these statements.

Department of Defense Agencywide
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2019 and 2018
($ in millions)

	2019 (Unaudited)		Restated 2018 (Unaudited)	
	Budgetary	Non-Budgetary Credit Reform Financing Account	Budgetary	Non-Budgetary Credit Reform Financing Account
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 226,768.1	$ 69.0	$ 181,008.2	$ 85.1
Appropriations (Discretionary and Mandatory)	874,378.1	-	863,583.0	-
Borrowing Authority (Discretionary and Mandatory)	-	63.3	-	55.4
Contract Authority (Discretionary and Mandatory)	86,854.4	-	88,428.1	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	112,965.6	56.8	119,413.9	61.6
Total Budgetary Resources	$ 1,300,966.2	$ 189.1	$ 1,252,433.2	$ 202.1
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	$ 1,115,940.2	$ 129.2	$ 1,054,209.3	$ 133.1
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	157,154.3	-	165,702.9	-
Exempt from Apportionment, Unexpired Accounts	4,040.4	-	3,797.2	-
Unapportioned, Unexpired Accounts	1,128.2	59.9	1,011.6	69.0
Unexpired Unobligated Balance, End of Year	162,322.9	59.9	170,511.7	69.0
Expired Unobligated Balance, End of Year	22,703.1	-	27,712.2	-
Unobligated Balance, End of Year (Total)	185,026.0	59.9	198,223.9	69.0
Total Budgetary Resources	$ 1,300,966.2	$ 189.1	$ 1,252,433.2	$ 202.1
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	$ 828,633.3	$ 37.6	$ 763,216.0	$ 71.2
Distributed Offsetting Receipts (-)	(107,410.1)	-	(101,973.1)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 721,223.2	$ 37.6	$ 661,242.9	$ 71.2

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements (Unaudited)

Note 1. Significant Accounting Policies

A. Reporting Entity

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

B. Mission of the Reporting Entity

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

C. Basis of Presentation

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

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

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

D. Basis of Accounting

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

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

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

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

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

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

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

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

4. *SFFAS 54*, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*: Issued April 17, 2018; Effective for periods beginning after September 30, 2020. Early adoption is not permitted.

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

6. *Technical Bulletin 2017-1*, *Intragovernmental Exchange Transactions*: Issued November 1, 2017; Effective upon issuance.

7. *Technical Bulletin 2017-2*, *Assigning Assets to Component Reporting Entities*: Issued November 1, 2017; Effective upon issuance.

8. *Technical Release 18*, *Implementation Guidance for Establishing Opening Balances*: Issued October 2, 2017; Effective upon issuance.

9. *Staff Implementation Guidance 6.1*: *Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, As Amended*: Issued July 17, 2018; Effective upon issuance.

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

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

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

E. Accounting for Intragovernmental and Intergovernmental Activities

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

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

Employees' Compensation Act (*FECA*); and (3) losses in litigation proceedings that are paid from the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in the Department's financial statements.

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

F. Non-Entity Assets

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

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

G. Fund Balance with Treasury

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

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

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

H. Cash and Other Monetary Assets

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

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

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

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

I. Investments and Related Interest

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

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

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

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

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

J. Accounts Receivable

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

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

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

K. Direct Loans and Loan Guarantees

The Department operates a direct loan and loan guarantee program authorized by the *NDAA for FY 1996*, which provides the Department with the authorities to work with the private sector to obtain private lending, expertise, innovation, and provide housing more efficiently. The Department uses these authorities to operate guarantees (both loan and rental), conveyance/leasing of existing property and facilities, differential lease payments, investments (both limited partnerships and stock/bond ownership), and direct loans to the extent of the sanctions which are defined in the Federal Credit Reform Act of 1990 (*FCRA*). FCRA governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

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

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

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

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

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

L. Inventories and Related Property

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

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

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

OM&S are recognized at net realizable value through the use of an allowance account. For excess, obsolete, and unserviceable (EOU) inventory transferred to the Defense Logistics Agency (DLA)

Disposition Services, the net realizable value will generally be zero. The net realizable value of EOU disposed of through a *Qualified Recycling Program* or by other means other than a transfer to DLA is estimated based on prior disposal proceeds for comparable EOU, buyer quotes, or other reasonable means.

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

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

M. General Property, Plant and Equipment

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

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

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

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

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

Contactor-Acquired Property (CAP) is General PP&E acquired by a contractor on behalf of the Department for performing a contract, where the government will ultimately hold the title to the General PP&E. If the CAP has a useful life of at least two years and the value of the CAP meets or exceeds the relevant capitalization threshold, federal accounting standards require the CAP to be reported on the Department's Balance Sheet when title passes to the Department or when the General PP&E is delivered to the Department. For additional information, see Note 9, *General Property, Plant and Equipment*.

N. Other Assets

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

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

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

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

O. Leases

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

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

For additional information, see Note 16 *Leases*.

P. Liabilities

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

Q. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with *SFFAS 5*, non-environmental disposal liabilities are recognized when management decides to dispose of an asset. In addition, the Department recognizes non-environmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

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

R. Other Liabilities

Other Liabilities includes:

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

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

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

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

Accrued Payroll consists of salaries, wages, and other compensation earned by employees but not disbursed as of September 30. The liability is estimated for reporting purposes based on historical pay information.

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

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

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

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

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

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

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

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

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

Other Liabilities primarily consists of unemployment compensation liabilities.

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

S. Commitments and Contingencies

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

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

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

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

T. Military and Civilian Retirement Benefits

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

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

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

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The Department reports both the full annual cost of providing these Other Retirement Benefits (ORB) for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for Other Post-employment Benefits (OPEB), including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

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

U. Revenues and Other Financing Sources

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

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

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

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

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

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

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

The Department does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost. The U.S. has cost sharing agreements with countries, through mutual or reciprocal defense agreements, where U.S. troops are stationed or where the U.S. Fleet is in a port.

V. Recognition of Expenses

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

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

W. Treaties for Use of Foreign Bases

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

X. Use of Estimates

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

Y. Parent-Child Reporting

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

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

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

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

Z. Transactions with Foreign Governments and International Organizations

The Department is implementing the administration's foreign policy objectives under the provisions of the *Arms Export Control Act of 1976* by facilitating the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

AA. Fiduciary Activities

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

BB. Tax Exempt Status

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

CC. Subsequent Events

Subsequent events have been evaluated from the balance sheet date through November 15, 2019, which is the date the financial statements were available to be issued.

Note 2. Non-Entity Assets

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

Table 2. Non-Entity Assets

As of September 30 ($ in millions)	2019	2018
Intragovernmental Assets		
Fund Balance with Treasury	$ 3,135.3	$ 2,849.2
Accounts Receivable	4.5	0.5
Total Intragovernmental Assets	3,139.8	2,849.7
Non-Federal Assets		
Cash and Other Monetary Assets	827.1	856.3
Accounts Receivable	2,194.6	2,205.7
Total Non-Federal Assets	3,021.7	3,062.0
Total Non-Entity Assets	6,161.5	5,911.7
Total Entity Assets	2,883,788.8	2,743,732.6
Total Assets	$ 2,889,950.3	$ 2,749,644.3

Intragovernmental Assets

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

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

Non-Federal Assets

Cash and Other Monetary Assets consist primarily of cash held by disbursing officers to carry out payment, collection, and foreign currency exchanges.

Accounts Receivable consists of amounts associated with canceled year appropriations, and interest, fines, and penalties due on debt. Generally, the Department cannot use the proceeds and must remit them to the Treasury unless permitted by law.

Note 3. Fund Balance with Treasury

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

Restatement

The Department corrected a $921.6 million understatement in Unobligated Balance, Available and an offsetting overstatement in Unobligated Balance, Unavailable. The Total FBWT balance did not change. See Note 28, *Restatements*, for further information.

Table 3. Status of Fund Balance with Treasury

As of September 30 ($ in millions)	2019	Restated 2018
Unobligated Balance		
Available	$ 161,194.7	$ 169,500.0
Unavailable	1,099,882.1	1,008,337.0
Total Unobligated Balance	1,261,076.8	1,177,837.0
Obligated Balance Not Yet Disbursed	544,726.4	500,397.7
Non-Budgetary FBWT		
Clearing Accounts	16.5	(260.9)
Deposit funds	3,183.4	2,910.2
Non-entity and other	281.2	676.6
Total Non-Budgetary FBWT	3,481.1	3,325.9
Non-FBWT Budgetary Accounts		
Investments-Treasury-Securities	(1,082,792.7)	(985,638.6)
Unfilled Customer Orders without Advance	(73,853.7)	(74,792.5)
Contract Authority	(30,956.3)	(25,119.4)
Borrowing Authority	(79.9)	(111.1)
Receivables and Other	(14,046.4)	(15,685.2)
Total Non-FBWT Budgetary Accounts	(1,201,729.0)	(1,101,346.8)
Total FBWT	$ 607,555.3	$ 580,213.8

The Status of FBWT, as presented in Table 3, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

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

Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

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

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

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

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

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

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies and fiduciary activities. The Department received allocation transfers from other federal agencies for execution on their behalf in the amount of $357.3 million in FY 2019 and $399.2 million in FY 2018. In addition, the Department held cash and cash equivalents for fiduciary activities in the amount of $67.0 million in FY 2019 and $77.9 million in FY 2018; these amounts are not reported in FBWT in accordance with *SFFAS 31*.

The FBWT reported in the financial statements has been adjusted to reflect the Department's balance as reported by Treasury. The difference between FBWT in the Department's general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DoD Components' general ledgers as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the DoD Components' general ledger accounts.

Note 4. Cash and Other Monetary Assets

Table 4. Cash and Other Monetary Assets

As of September 30 ($ in millions)	2019	2018
Cash	$ 428.2	$ 444.2
Foreign Currency	490.1	523.8
Total Cash and Other Monetary Assets	$ 918.3	$ 968.0

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

In FY 2019 and FY 2018, cash includes unrestricted entity assets of $90.1 million and $108.9 million, respectively, comprised of undeposited collections and other cash.

Note 5. Investments and Related Interest

Table 5. Investments and Related Interest

As of September 30 ($ in millions)	2019 Cost	Amortization Method	Amortized (Premium) / Discount	**Investments, Net**	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$ 928,306.9	Eff. Int.	$ (37,141.7)	$ 891,165.2	$ 997,841.3
Medicare Eligible Retiree Health Care Fund	292,451.8	Eff. Int.	(16,436.8)	276,015.0	318,751.7
U.S. Army Corps of Engineers	9,375.6	Eff. Int.	41.9	9,417.5	9,444.7
Other Funds	2,973.8	Eff. Int.	(43.1)	2,930.7	2,971.4
Total Non-Marketable, Market-Based	1,233,108.1		(53,579.7)	1,179,528.4	1,329,009.1
Accrued Interest	8,080.6	Eff. Int.	N/A	8,080.6	8,080.6
Total Intragovernmental Securities	1,241,188.7		(53,579.7)	1,187,609.0	1,337,089.7
Other Investments	$ 3,511.6		$ -	$ 3,511.6	N/A

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

As of September 30 ($ in millions)	2018 Cost	Amortization Method	Amortized (Premium) / Discount	**Investments, Net**	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$ 842,584.2	Eff. Int.	$ (34,499.7)	$ 808,084.5	$ 831,172.6
Medicare Eligible Retiree Health Care Fund	278,981.1	Eff. Int.	(15,090.3)	263,890.8	284,354.3
U.S. Army Corps of Engineers	9,364.2	Eff. Int.	(37.5)	9,326.7	9,294.2
Other Funds	2,663.4	Eff. Int.	(78.2)	2,585.2	2,564.7
Total Non-Marketable, Market-Based	1,133,592.9		(49,705.7)	1,083,887.2	1,127,385.8
Accrued Interest	7,877.2	Eff. Int.	N/A	7,877.2	7,877.2
Total Intragovernmental Securities	1,141,470.1		(49,705.7)	1,091,764.4	1,135,263.0
Other Investments	$ 3,511.6		$ -	$ 3,511.6	N/A

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

The Department invests primarily in non-marketable, market-based Treasury securities. The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value.

The Treasury securities are issued to authorized funds and are an asset to the Department and a liability to the Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated (e.g., from bond dividends, proceeds from bond sales, and proceeds from sureties reaching maturity) is deposited in the Treasury and used for general Government purposes. Since the Department and the Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

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

The U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of $9.3 billion and $9.1 billion in Harbor Maintenance and Related Funds for FY 2019 and FY 2018, respectively.

In FY 2019, Other Funds consists primarily of $1.6 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.1 billion in investments of the DoD Education Benefits Trust Fund. In FY 2018, Other Funds consists primarily of $1.3 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.1 billion in investments of the DoD Education Benefits Trust Fund.

Other Investments consists of Military Housing Privatization Initiative (MHPI) limited partnerships. A limited partnership arrangement operates purely as a private business and does not require Market Value Disclosure. The Department invests in non-governmental entities involved in the acquisition or construction of family housing and supporting facilities at Army, Air Force, Navy, and Marine Corps installations. The Department provides cash, land, or facilities as equity, but has no role in the day-to-day operations and management of the limited partnership. Total Other Investments is currently reporting cash investments only. See Note 25, *Public-Private Partnerships* for additional information on cash and non-cash contributions to the MHPI limited partnerships.

Note 6. Accounts Receivable, Net

Table 6. Accounts Receivable

As of September 30 ($ in millions)	2019 Gross Amount Due	2019 Allowance for Estimated Uncollectibles	2019 Accounts Receivable, Net
Intragovernmental Receivables	$ 2,025.2	N/A	$ 2,025.2
Non-Federal Receivables (From the Public)	6,677.8	(783.3)	5,894.5
Total Accounts Receivable	$ 8,703.0	$ (783.3)	$ 7,919.7

As of September 30 ($ in millions)	2018 Gross Amount Due	2018 Allowance for Estimated Uncollectibles	2018 Accounts Receivable, Net
Intragovernmental Receivables	$ 1,951.6	N/A	$ 1,951.6
Non-Federal Receivables (From the Public)	6,474.0	(779.9)	5,694.1
Total Accounts Receivable	$ 8,425.6	$ (779.9)	$ 7,645.7

Accounts receivable represent the Department's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, *Chapter 4700*. The Department only recognizes an allowance for uncollectible amounts from the public. Allowances for uncollectible accounts are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances. Additionally, the Department has fuel exchange agreements with foreign countries. These agreements allow the Department to periodically offset the accounts receivable by the amount the Department owes to the same foreign country.

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

Note 7. Direct Loan and Loan Guarantees, Non-Federal Borrowers

Military Housing Privatization Initiative

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

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

Table 7A. Summary of Direct Loans and Loan Guarantees

As of September 30 ($ in millions)	2019	2018
Direct Loans:		
Military Housing Privatization Initiative	$ 1,738.7	$ 1,697.4
Total Direct Loans	$ 1,738.7	$ 1,697.4
Total Default Loan Guarantees	$ -	$ -
Total Loans Receivable	$ 1,738.7	$ 1,697.4

As of September 30 ($ in millions)	2019	2018
Loan Guarantee Liability:		
Military Housing Privatization Initiative	$ 50.7	$ 58.4
Total Loan Guarantee Liability	$ 50.7	$ 58.4

Loans Receivable

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

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

Table 7B. Direct Loans Obligated After FY 1991

As of September 30 ($ in millions)	2019	2018
Military Housing Privatization Initiative		
Loans Receivable Gross	$ 1,780.9	$ 1,759.6
Allowance for Subsidy Cost (Present Value)	(42.2)	(62.2)
Value of Assets Related to Direct Loans, Net	$ 1,738.7	$ 1,697.4
Total Loans Receivable	$ 1,738.7	$ 1,697.4

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

Table 7C. Total Amount of Direct Loans Disbursed

As of September 30 ($ in millions)	2019	2018
Military Housing Privatization Initiative	$ 46.4	$ 75.8

Table 7D. Subsidy Expense for Direct Loan by Program

Table 7D.1. Subsidy Expense for New Direct Loans Disbursed

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

As of September 30 ($ in millions)	2018				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ 8.8	$ 9.0	$ -	$ -	$ 17.8

Table 7D.2. Direct Loan Modifications and Reestimates

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

As of September 30 ($ in millions)	2018			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (5.0)	$ (7.4)	$ (12.4)

Table 7D.3. Total Direct Loan Subsidy Expense

As of September 30 ($ in millions)	2019	2018
Military Housing Privatization Initiative	$ (15.6)	$ 5.4

Table 7E. Budget Subsidy Rates for Direct Loans for the Current Year

As of September 30	2019				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2019 and FY 2018; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

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

Table 7F. Schedule for Reconciling Subsidy Cost Allowance Balances for Post FY 1991 Direct Loans

For the years ended September 30 ($ in millions)	2019	2018
Beginning Balance of the Subsidy Cost Allowance	$ 62.2	$ 60.4
Add: Subsidy Expense for Direct Loans Disbursed During the Reporting Years by Component:		
Interest Rate Differential Costs	3.7	8.8
Default Costs (Net of Recoveries)	5.6	9.0
Total of the Above Subsidy Expense Components	9.3	17.8
Adjustments:		
Subsidy Allowance Amortization	(4.1)	(3.6)
Other	(0.3)	-
Ending Balance of the Subsidy Cost Allowance Before Reestimates	67.1	74.6
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	(5.6)	(5.0)
Technical/Default Reestimates	(19.3)	(7.4)
Total of the Above Reestimates Components	(24.9)	(12.4)
Ending Balance of the Subsidy Cost Allowance	$ 42.2	$ 62.2

Loan Guarantee Liability

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

Table 7G. Defaulted Guaranteed Loans

There were no defaulted loan guarantees in FY 2019 or FY 2018.

Table 7H. Guaranteed Loans Outstanding

Table 7H.1. Guaranteed Loans Outstanding

As of September 30 ($ in millions)	2019		2018	
	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	$ 960.4	$ 960.4	$ 1,008.8	$ 1,008.8

Table 7H.2. New Guaranteed Loans Disbursed

As of September 30 ($ in millions)	2019		2018	
	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	$ -	$ -	$ 52.9	$ 52.9

Table 7I. Liability for Loan Guarantees

As of September 30 ($ in millions)	2019	2018
Military Housing Privatization Initiative	$ 50.7	$ 58.4
Total Loan Guarantee Liability	$ 50.7	$ 58.4

Table 7J. Subsidy Expense Loan Guarantees by Program

Table 7J.1. Subsidy Expense for New Loan Guarantees

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

As of September 30 ($ in millions)	2018 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ -	$ 2.0	$ -	$ -	$ 2.0

Table 7J.2. Modifications and Reestimates

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

As of September 30 ($ in millions)	2018 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (2.1)	$ (8.5)	$ (10.6)

Table 7J.3. Total Loan Guarantee:

As of September 30 ($ in millions)	2019	2018
Military Housing Privatization Initiative	$ (9.2)	$ (8.6)

Table 7K. Budget Subsidy Rates for Loan Guarantees for the Current Year

As of September 30	2019 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2019 and FY 2018; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

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

Table 7L. Schedule for Reconciling Loan Guarantee Liability Balances

For the years ended September 30 ($ in millions)	2019	2018
Beginning Balance of the Loan Guarantee Liability	$ 58.4	$ 65.2
Add: Subsidy Expense for Guaranteed Loans Disbursed		
During the Reporting Years by Component:		
Default Costs (Net of Recoveries)	-	2.0
Adjustments:		
Interest Accumulation on the Liability Balance	1.5	1.8
Ending Balance of the Loan Guarantee Liability		
Before Reestimates	59.9	69.0
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	(1.9)	(2.1)
Technical/Default Reestimates	(7.3)	(8.5)
Total of the Above Reestimate Components	(9.2)	(10.6)
Ending Balance of the Loan Guarantee Liability	$ 50.7	$ 58.4

Administrative Expenses

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

Note 8. Inventory and Related Property

Table 8A. Inventory and Related Property

As of September 30 ($ in millions)	2019	2018
Inventory, Net	$ 105,832.5	$ 103,772.5
Operating Materials & Supplies, Net	184,878.0	171,087.6
Stockpile Materiel, Net	779.2	818.3
Total Inventory and Related Property, Net	$ 291,489.7	$ 275,678.4

Inventory

Table 8B. Inventory Categories

As of September 30 ($ in millions)	2019			
	Inventory, Gross Value	Revaluation Allowance	**Inventory, Net**	Valuation Method
Held for Sale	$ 67,274.1	$ (1.0)	$ 67,273.1	LAC, MAC
Held in Reserve for Future Sale	1,169.2	-	1,169.2	LAC, MAC
Held for Repair	40,518.8	(5,660.5)	34,858.3	LAC, MAC
Raw Material	1,234.1	-	1,234.1	MAC,LAC
Work-in-Process	995.2	-	995.2	MAC
Excess, Obsolete and Unserviceable	804.3	(501.7)	302.6	NRV
Total	$ 111,995.7	$ (6,163.2)	$ 105,832.5	

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

As of September 30 ($ in millions)	2018			
	Inventory, Gross Value	Revaluation Allowance	**Inventory, Net**	Valuation Method
Held for Sale	$ 66,309.9	$ 62.2	$ 66,372.1	LAC, MAC
Held in Reserve for Future Sale	1,156.1	-	1,156.1	LAC, MAC
Held for Repair	37,668.8	(5,068.9)	32,599.9	LAC, MAC
Raw Material	1,171.8	-	1,171.8	MAC,LAC
Work-in-Process	2,106.4	-	2,106.4	MAC
Excess, Obsolete and Unserviceable	809.2	(443.0)	366.2	NRV
Total	$ 109,222.2	$ (5,449.7)	$ 103,772.5	

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

General Composition of Inventory

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

Inventory Restrictions

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

- Inventories maintained as war reserve materiel in accordance with *DoD Instruction 3110.06* with a recorded value of $2.6 billion in FY 2019 ($2.5 billion in FY 2018), consisting of stocks such as bulk petroleum, subsistence items, and other goods managed and positioned to reduce reaction time in response to contingencies and to sustain military forces;
- Defense Commissary Agency inventory with a recorded value of $384.7 million in FY 2019 ($386.4 million in FY 2018), consisting of grocery, meat, and produce items, limited for resale to authorized commissary patrons; and
- Dispositions pending litigation or negotiation (related to issues including inventory condition, pricing disputes, and product specifications) with a recorded value of $115.5 million in FY 2019 ($129.6 million in FY 2018).

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

Operating Materials & Supplies

Table 8C. OM&S Categories

As of September 30 ($ in millions)	2019 OM&S, Gross Value	2019 Revaluation Allowance	2019 **OM&S, Net**	Valuation Method
Held for Use	$ 127,108.6	$ -	$ 127,108.6	DM, HC, MAC, RP, SP
Held in Reserve for Future Use	23,486.3	-	23,486.3	DM, HC, MAC, RP, SP
Held for Repair	31,237.3	-	31,237.3	DM, HC, MAC, RP, SP
In Development	3,045.8	-	3,045.8	DM, HC, MAC, RP, SP
Excess, Obsolete and Unserviceable	3,050.0	(3,050.0)	-	NRV
Total	$ 187,928.0	$ (3,050.0)	$ 184,878.0	

Legend for Valuation Methods:
DM = Direct Method *HC = Historical Cost* *MAC = Moving Average Cost*
NRV = Net Realizable Value *RP = Replacement Price* *SP = Standard Price*

As of September 30 ($ in millions)	2018 OM&S, Gross Value	2018 Revaluation Allowance	2018 **OM&S, Net**	Valuation Method
Held for Use	$ 121,061.8	$ -	$ 121,061.8	DM, HC, MAC, RP, SP
Held in Reserve for Future Use	13,562.7	-	13,562.7	DM, HC, MAC, RP, SP
Held for Repair	31,996.8	-	31,996.8	DM, HC, MAC, RP, SP
In Development	4,466.3	-	4,466.3	DM, HC, MAC, RP, SP
Excess, Obsolete and Unserviceable	2,933.4	(2,933.4)	-	NRV
Total	$ 174,021.0	$ (2,933.4)	$ 171,087.6	

Legend for Valuation Methods:
DM = Direct Method *HC = Historical Cost* *MAC = Moving Average Cost*
NRV = Net Realizable Value *RP = Replacement Price* *SP = Standard Price*

General Composition of OM&S

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

During FY 2019, the Department determined the proper classification of Trident missile operations should be OM&S under *SFFAS 3*. This decision resulted in an increase of $12.8 billion in Operating Materials and Supplies Held in Reserve for Future Use.

OM&S Restrictions

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

Other Disclosures

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

Effective FY 2018, certain assets previously reported under General Equipment Construction-in-Progress are now reported as OM&S In Development.

Stockpile Materiel

Table 8D. Stockpile Materiel Categories

As of September 30 ($ in millions)	2019 Stockpile Materiel Gross Value	2019 Allowance for Gains (Losses)	2019 **Stockpile Materiel, Net**	Valuation Method
Held for Sale	$ 28.5	$ -	$ 28.5	AC, LCM
Held in Reserve for Future Sale	750.7	-	750.7	AC, LCM
Total	$ 779.2	$ -	$ 779.2	

Legend for Valuation Methods:
AC = Actual Cost *LCM = Lower of Cost or Market*

As of September 30 ($ in millions)	2018 Stockpile Materiel Gross Value	2018 Allowance for Gains (Losses)	2018 **Stockpile Materiel, Net**	Valuation Method
Held for Sale	$ 32.1	$ -	$ 32.1	AC, LCM
Held in Reserve for Future Sale	786.2	-	786.2	AC, LCM
Total	$ 818.3	$ -	$ 818.3	

Legend for Valuation Methods:
AC = Actual Cost *LCM = Lower of Cost or Market*

General Composition of Stockpile Materiel

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies. The estimated market price of stockpile materiel as of September 30, 2019, is $1.0 billion ($1.3 billion in FY 2018).

Stockpile Materiel Restrictions

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

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, the National Defense Stockpile reclassifies the materiel from Held in Reserve to Held for Sale.

Note 9. General PP&E, Net

Table 9A. Major General PP&E Asset Classes

As of September 30 ($ in millions)	2019 Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	**Net Book Value**
Land	N/A	N/A	$ 9,094.2	N/A	$ 9,094.2
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	465,456.4	(292,894.7)	172,561.7
Leasehold Improvements	S/L	Lease Term	546.3	(318.0)	228.3
Software	S/L	2 - 5 or 10	9,909.1	(4,868.3)	5,040.8
General Equipment	S/L	Various	1,154,130.0	(681,256.4)	472,873.6
Assets Under Capital Lease	S/L	Lease Term	366.2	(283.8)	82.4
Construction in Progress	N/A	N/A	108,179.7	N/A	108,179.7
Other	N/A	N/A	10,541.5	(10,043.8)	497.7
Total General PP&E			$ 1,758,223.4	$ (989,665.0)	$ 768,558.4

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

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

As of September 30 ($ in millions)	2018 Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	**Net Book Value**
Land	N/A	N/A	$ 9,076.7	N/A	$ 9,076.7
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	432,389.3	(265,377.3)	167,012.0
Leasehold Improvements	S/L	Lease Term	551.2	(292.6)	258.6
Software	S/L	2 - 5 or 10	9,940.2	(5,053.2)	4,887.0
General Equipment	S/L	Various	1,134,083.5	(660,634.5)	473,449.0
Assets Under Capital Lease	S/L	Lease Term	353.7	(257.5)	96.2
Construction in Progress	N/A	N/A	103,695.4	N/A	103,695.4
Other	N/A	N/A	12,477.3	(12,123.1)	354.2
Total General PP&E			$ 1,702,567.3	$ (943,738.2)	$ 758,829.1

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

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

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

Other Disclosures

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

The Department uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. The FASAB issued *SFFAS 50*, permitting alternative methods in establishing opening balances for General PP&E, effective for periods beginning after September 30, 2016. Some DoD Components used the alternative valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. Land and land rights recognized in the prior year for certain DoD Components are excluded from General PP&E opening balances in FY 2018, as permitted under SFFAS 50. The total acreage of land and land rights excluded in this manner was 20,926,485 in FY 2018. There are no new land or land rights excluded for FY 2019.

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

Heritage Assets and Stewardship Land

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

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

The Department, with minor exceptions, uses the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets.

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

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

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

The Department continues to progress towards identifying heritage assets and stewardship land added through donation or devise (e.g., a clause in a will leaving real estate to the Department). Differences in heritage asset quantities between the FY 2018 ending unit counts and the FY 2019 beginning unit counts resulted from periodic reviews.

Table 9B. Heritage Assets

For the year ended September 30, 2019 (physical unit count)	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	43,737	1,196	(2,785)	42,148
Archeological Sites	13,283	1,917	(4,532)	10,668
Museum Collection Items (Objects, Not Including Fine Art)	1,301,801	7,114	(8,023)	1,300,892
Museum Collection Items (Objects, Fine Art)	59,598	488	(8)	60,078

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

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

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

Table 9C. Stewardship Land

For the year ended September 30, 2019
(acres in thousands)

Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	1,572	75	-	1,647
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	8,263	2	(73)	8,192
9130	Licensed and Permitted Land	750	-	(4)	746
9140	Public Land	1	4	-	5
9210	Land Easement	157	-	-	157
9220	In-Leased Land	101	-	-	101
9230	Foreign Land	297	-	-	297
Grand Total		11,141	81	(77)	11,145
Total All Other Lands					1,301
Total Stewardship Lands					9,844

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

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

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

Note 10. Other Assets

Table 10. Other Assets

As of September 30 ($ in millions)	2019	2018
Intragovernmental Other Assets		
Advances and Prepayments	$ 983.1	$ 838.1
Other Assets	123.4	123.4
Total Intragovernmental Other Assets	1,106.5	961.5
Non-Federal Other Assets		
Outstanding Contract Financing Payments	18,241.1	26,016.6
Advances and Prepayments	1,107.6	2,316.3
Other Assets (With the Public)	194.4	41.5
Total Non-Federal Other Assets	19,543.1	28,374.4
Total Other Assets	$ 20,649.6	$ 29,335.9

Intragovernmental Other Assets

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

Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil (net book value of $123.3 million in FY 2019 and FY 2018), held by the Department of Energy. In accordance with the *Department of Defense Appropriations Act of 1993*, these assets are maintained as a *Strategic Petroleum Reserve* for national defense purposes.

Non-Federal Other Assets

Outstanding Contract Financing Payments, a separate classification of advances and prepayments, includes $18.2 billion in FY 2019 in contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets. During FY 2019, the Department began reporting $6.0 billion as expenses or property, plant and equipment for the estimated costs incurred by a contractor per *FAR 52.232-16*, related to the FY 2019 contract holdbacks. In comparison, FY 2018 Outstanding Contract Financing Payments included $21.7 billion in contract financing payments and an additional $4.3 billion in payments of estimated future amounts due to contractors upon delivery and government acceptance. This additional Contract Financing Payment asset is related to the FY 2018 Contingent Liabilities reported in Note 15, *Other Liabilities*.

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

In FY 2019, Other Assets (With the Public) consisted primarily of inventory returns pending credit from vendors. In FY 2018, Other Assets (With the Public) consisted of General PP&E permanently removed but awaiting disposal.

Note 11. Liabilities Not Covered by Budgetary Resources

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30 ($ in millions)	2019	Restated 2018
Intragovernmental Liabilities		
Accounts Payable	$ 40.1	$ -
Debt	0.3	0.6
Other	1,913.3	1,762.8
Total Intragovernmental Liabilities	1,953.7	1,763.4
Non-Federal Liabilities		
Accounts Payable	2,318.2	1,467.7
Military Retirement and Other Federal Employee Benefits	1,525,256.1	1,440,808.5
Environmental and Disposal Liabilities	73,097.0	67,100.1
Other Liabilities	14,227.1	13,454.8
Total Non-Federal Liabilities	1,614,898.4	1,522,831.1
Total Liabilities Not Covered by Budgetary Resources	1,616,852.1	1,524,594.5
Total Liabilities Covered by Budgetary Resources	1,143,171.4	1,039,466.2
Total Liabilities Not Requiring Budgetary Resources	-	-
Total Liabilities	$ 2,760,023.5	$ 2,564,060.7

Restatement

The Department corrected a $57.1 million overstatement of Total Liabilities Covered by Budgetary Resources. See Note 28, *Restatements*, for further information.

Intragovernmental Liabilities

Debt consists primarily of borrowing from the Treasury for capital improvements to the Washington Aqueduct Project expected to be completed by 2023. The related reimbursement to the Department from Arlington County, Virginia and Falls Church, Virginia, is recorded as Non-Federal Accounts Receivable.

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

Non-Federal Liabilities

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

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. In FY 2019, these liabilities primarily consist of $940.8 billion in pension liabilities and $576.9 billion in health benefit liabilities. In FY 2018, these liabilities primarily consist of $886.0 billion in pension liabilities and $547.4 billion in health benefit liabilities. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details.

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

Other Liabilities consists primarily of unfunded annual leave, contingent liabilities, and expected expenditures for disposal of conventional munitions.

Total Liabilities

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

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

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

Note 12. Debt

Table 12. Debt

($ in millions)	2018 Beginning Balance	2018 Net Borrowing	2018 Ending Balance	2019 Net Borrowing	2019 Ending Balance
Agency Debt (Intragovernmental)					
Debt to Treasury	$ 1,630.8	$ 54.9	$ 1,685.7	$ 28.4	$ 1,714.1
Total Debt	$ 1,630.8	$ 54.9	$ 1,685.7	$ 28.4	$ 1,714.1

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

Note 13. Military Retirement and Other Federal Employment Benefits

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

Table 13A. Military Retirement and Other Federal Employment Benefits Liability

As of September 30	2019		
($ in millions)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	$ 1,754,187.0	$ (813,431.8)	$ 940,755.2
Military Pre Medicare-Eligible Retiree Health Benefits	254,832.8	-	254,832.8
Military Medicare-Eligible Retiree Health Benefits	573,219.1	(251,137.6)	322,081.5
Total Pension and Health Benefits	2,582,238.9	(1,064,569.4)	1,517,669.5
Other Benefits			
FECA	5,786.9	-	5,786.9
Voluntary Separation Incentive Programs	219.5	(93.5)	126.0
DoD Education Benefits Fund	786.7	(786.7)	-
Other	7,339.8	(5,666.1)	1,673.7
Total Other Benefits	14,132.9	(6,546.3)	7,586.6
Total Military Retirement and Other Federal Employment Benefits	$ 2,596,371.8	$(1,071,115.7)	$ 1,525,256.1

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.3 trillion

Table 13A. Military Retirement and Other Federal Employment Benefits Liability

As of September 30 ($ in millions)	2018 Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	$ 1,616,398.1	$ (730,405.6)	$ 885,992.5
Military Pre Medicare-Eligible Retiree Health Benefits	249,694.0	-	249,694.0
Military Medicare-Eligible Retiree Health Benefits	535,318.1	(237,646.7)	297,671.4
Total Pension and Health Benefits	2,401,410.2	(968,052.3)	1,433,357.9
Other Benefits			
FECA	5,858.0	-	5,858.0
Voluntary Separation Incentive Programs	270.9	(108.6)	162.3
DoD Education Benefits Fund	921.7	(921.7)	-
Other	6,886.0	(5,455.7)	1,430.3
Total Other Benefits	13,936.6	(6,486.0)	7,450.6
Total Military Retirement and Other Federal Employment Benefits	**$ 2,415,346.8**	**$ (974,538.3)**	**$ 1,440,808.5**

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.1 trillion

Table 13B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employment Benefits

For the year ended September 30 ($ in millions)	2019 Military Retirement Pensions	Military Pre Medicare Eligible Retiree Health Benefits	Military Medicare Eligible Retiree Health Benefits	Voluntary Separation Incentive Programs	DoD Education Benefits Fund
Beginning Actuarial Liability	$ 1,616,398.1	$ 249,694.0	$ 535,318.1	$ 270.9	$ 921.7
Expense:					
Normal Cost	32,110.3	10,357.8	10,936.5	-	131.4
Interest on the Liability Balance	56,083.8	9,166.8	19,473.2	4.6	29.1
Plan Amendments	-	-	-	-	-
Experience Losses (Gains)	1,091.7	(6,049.4)	(9,261.9)	(2.2)	85.2
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	89,285.8	13,475.2	21,147.8	2.4	245.7
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	(232.0)	14,926.6	-	-
Changes in Assumptions Other Than Trend	108,863.6	2,826.7	12,587.3	0.5	(164.2)
Losses (Gains) from Actuarial Assumption Changes	108,863.6	2,594.7	27,513.9	0.5	(164.2)
Total Expenses	198,149.4	16,069.9	48,661.7	2.9	81.5
Less: Benefit Outlays	60,360.5	10,931.1	10,760.7	54.3	216.5
Total Changes in Actuarial Liability	137,788.9	5,138.8	37,901.0	(51.4)	(135.0)
Ending Actuarial Liability	$ 1,754,187.0	$ 254,832.8	$ 573,219.1	$ 219.5	$ 786.7

Table 13B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employment Benefits

For the year ended September 30 ($ in millions)	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
Beginning Actuarial Liability	$ 1,567,689.2	$ 252,512.9	$ 526,986.1	$ 321.5	$ 998.7
Plus Expenses:					
Normal Cost	29,673.5	10,135.7	10,498.3	-	138.8
Interest Cost	57,466.1	9,772.8	20,223.9	6.1	33.6
Plan Amendments	8,932.0	(2,678.3)	(18,195.0)	-	-
Experience Losses (Gains)	9,610.0	(8,729.9)	(8,492.0)	3.0	6.9
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	105,681.6	8,500.3	4,035.2	9.1	179.3
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	(3,805.0)	(6,598.1)	-	-
Changes in Assumptions Other Than Trend	2,069.7	3,525.9	21,547.6	1.9	(7.0)
Losses (Gains) from Actuarial Assumption Changes	2,069.7	(279.1)	14,949.5	1.9	(7.0)
Total Expenses	107,751.3	8,221.2	18,984.7	11.0	172.3
Less: Benefit Outlays	59,042.4	11,040.1	10,652.7	61.6	249.3
Total Changes in Actuarial Liability	48,708.9	(2,818.9)	8,332.0	(50.6)	(77.0)
Ending Actuarial Liability	$ 1,616,398.1	$ 249,694.0	$ 535,318.1	$ 270.9	$ 921.7

Pension and Health Benefits

Military Retirement Pensions

The Military Retirement Fund is a defined benefit plan authorized by the NDAA for FY 1984 to provide funds used to pay annuities and pensions to retired military personnel and their survivors. The DoD Board of Actuaries approves the methods and non-economic assumptions for use in the valuation of benefits. Long-term economic assumptions for inflation, salary, and interest are set per SFFAS 33 guidance. The DoD Office of the Actuary (OACT) calculates the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended Retirement System (*BRS*) is a new retirement benefit merging aspects of both a defined benefit annuity with a defined contribution account, through the Thrift Savings Plan (*TSP*). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria were able to opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution.

OACT used the assumptions listed in Table 13C to calculate the FY 2019 actuarial liability.

Table 13C. Actuarial Assumptions for Military Retirement Pension Liability

Projection Year	Inflation (COLA)		Salary		Interest
FY 2019	2.8%	(actual)	2.6%	(actual)	3.4%
FY 2020	1.8%	(estimated)	3.1%	(estimated)	3.4%
Long Term	1.8%		1.8%		3.4%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market Value of Investments in Market-Based and Marketable Securities: $997.8 billion
Assumed Interest Rate: 3.4%

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

Military Retirement Health Benefits (MRHB)

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

For the FY 2019 actuarial liability calculation, OACT used the assumptions listed in Table 13D.

Table 13D. Actuarial Assumptions for MRHB Liability

MRHB Medical Trend	FY 2018 - FY 2019	Ultimate Rate FY 2043
Non-Medicare Inpatient (Direct Care)	4.00%	4.05%
Non-Medicare Outpatient (Direct Care)	5.50%	4.05%
Non-Medicare Prescriptions (Direct Care)	6.00%	4.05%
Non-Medicare Inpatient (Purchased Care)	2.50%	4.05%
Non-Medicare Outpatient (Purchased Care)	3.25%	4.05%
Non-Medicare Prescriptions (Purchased Care)	5.69%	4.05%
U.S. Family Health Plan (USFHP) (Purchased Care)	3.97%	4.05%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Assumed Interest Rate: 3.5%

For the FY 2019 financial statement valuation, a single equivalent medical cost trend rate of 4.25% can be used to reproduce the total retiree health benefits liability which includes MRHB and Medicare-Eligible Retiree Health Care Fund liabilities.

Medicare-Eligible Retiree Health Care Fund (MERHCF) Benefits

In accordance with *NDAA for FY 2001*, MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD Medicare-Eligible Retiree Health Care Board of Actuaries approves assumptions and methods used in actuarial valuations of the MERHCF to calculate normal cost contributions. OACT calculates the actuarial liabilities annually using assumptions and actual experience per SFFAS 33 guidance.

OACT used the assumptions listed in Table 13E to calculate the FY 2019 actuarial liability.

Table 13E. Actuarial Assumptions for MERHCF Liability

MERHCF Benefits Medical Trend	FY 2018 - FY 2019	Ultimate Rate FY 2043
Medicare Inpatient (Direct Care)	2.50%	4.05%
Medicare Outpatient (Direct Care)	4.00%	4.05%
Medicare Prescriptions (Direct Care)	5.68%	4.05%
Medicare Inpatient (Purchased Care)	1.00%	4.05%
Medicare Outpatient (Purchased Care)	4.00%	4.05%
Medicare Prescriptions (Purchased Care)	5.67%	4.05%
U.S. Family Health Plan (USFHP) (Purchased Care)	3.05%	4.05%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market Value of Investments in Market Based and Marketable Securities $318.8 billion
Assumed Interest Rate: 3.5%

The FY 2019 MERHCF liability includes Medicare liabilities for all Uniformed Services. The $573.2 billion liability includes $559.4 billion for the Department, $12.3 billion for the Coast Guard, $1.4 billion for the Public Health Service, and $0.1 billion for the National Oceanic and Atmospheric Administration (NOAA). The FY 2018 $535.3 billion liability included $522.5 billion for the Department, $11.4 billion for the Coast Guard, $1.3 billion for the Public Health Service, and $0.1 billion for NOAA.

The FY 2019 normal cost contributions from each of the Uniformed Services were $7.5 billion from the Department, $199.4 million from the Coast Guard, $28.9 million from the Public Health Service, and $1.4 million from NOAA. The FY 2018 contributions from each of the Uniformed Services were $8.1 billion from the Department, $204.1 million from the Coast Guard, $32.0 million from the Public Health Service, and $1.6 million from NOAA.

For the FY 2019 financial statement valuation, a single equivalent medical cost trend rate of 4.25% was used to reproduce the total retiree health benefits liability which includes MRHB and MERHCF liabilities.

Federal Employees' Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues (*TNC Yield Curve*) to reflect the average duration of income payments and medical payments. An interest rate for wage benefits of 2.72% was assumed for year one and years thereafter. An interest rate for medical benefits of 2.38% was assumed for year one and years thereafter.

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors for charge back year (CBY) 2019 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years are provided in Table 13F.

Table 13F. Actuarial Assumptions for FECA Liability

CBY	COLA	CPIM
2020	1.47%	2.86%
2021	1.85%	3.05%
2022	2.12%	3.09%
2023	2.17%	3.47%
2024+	2.21%	3.88%

To test the reliability of the model discussed, DOL made comparisons between projected payments in the last year to actual amounts, by agency. Changes in the liability from last year's analysis to this year's analysis were also examined by agency, with any significant differences by agency inspected in greater detail. DOL concluded that the model has been stable and has accurately projected the actual payments by agency.

Voluntary Separation Incentive (VSI) Program

The VSI Program was established by NDAA for FYs 1992 and 1993 to reduce the number of military personnel on active duty. The DoD Board of Actuaries approved the methods and non-economic assumptions for use in valuing the benefits. The assumed annual interest rate of 1.8% used to calculate the actuarial liability was determined in accordance with SFFAS 33 guidance. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest cost.

The Market Value of Investments in Market-based and Marketable Securities is $95.7 million for FY 2019 and $137.8 million for FY 2018.

DoD Education Benefits Fund (EBF)

The EBF was established by NDAA for FY 1985 to recruit and retain military members and aid in the readjustment of military members to civilian life. The OACT calculates the actuarial liability annually based on the assumed interest rate of 3.25% as approved by the DoD Board of Actuaries.

The Market Value of Investments in Market-based and Marketable Securities is $1.1 billion for both FY 2019 and FY 2018.

Other Federal Employment Benefits

Other Federal Employment Benefits primarily consists of an estimated liability for incurred-but-not-reported medical claims not processed prior to fiscal year-end and accrued pensions and annuities related to certain life insurance and pension plans.

Note 14. Environmental and Disposal Liabilities

Table 14. Environmental and Disposal Liabilities

As of September 30 ($ in millions)	2019	2018
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 13,915.9	$ 13,621.0
Active Installations - Military Munitions Response Program (MMRP)	3,498.3	3,476.6
Formerly Used Defense Sites - IRP and BD/DR	2,736.6	2,942.1
Formerly Used Defense Sites - MMRP	7,735.4	7,683.0
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	2,197.7	1,902.3
Environmental Closure Requirements	8,619.8	4,089.8
Environmental Response at Operational Ranges	-	92.4
Asbestos	3,763.2	3,972.2
Non-Military Equipment	27.1	24.4
Other	2,064.0	2,078.9
Base Realignment and Closure Installations		
IRP	4,880.9	4,381.7
MMRP	778.9	766.0
Environmental Corrective Action/Closure Requirements	334.1	240.7
Asbestos	9.4	10.1
Non-Military Equipment	-	-
Other	-	-
Environmental Disposal for Military Equipment/Weapons Program		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	17,046.1	16,439.6
Non-Nuclear Powered Military Equipment	767.4	126.1
Other Weapon Systems	377.9	383.7
Chemical Weapons Disposal Program		
Chemical Demilitarization - Chemical Materials Agency	2,442.1	2,576.8
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	4,930.1	5,604.0
Other	-	-
Total Environmental and Disposal Liabilities	$ 76,124.9	$ 70,411.4

The Department has cleanup requirements for the Defense Environmental Restoration Program (*DERP*) for active installations, BRAC installations, and Formerly Used Defense Sites. The Department has additional cleanup requirements for active installations not covered by DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable.

Other Accrued Environmental Liabilities, Non-BRAC, Other consists primarily of Formerly Utilized Sites Remedial Action Program (*FUSRAP*) remediation of radiological contamination. The FUSRAP is a shared program between the Department and the Department of Energy's U.S. Atomic Energy and Weapons Program.

Sources for Cleanup Requirements

The Department is required to clean up contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. Each of the Department's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapon systems, and environmental costs related to BRAC actions.

The Department follows the Comprehensive Environmental Response, Compensation, and Liability Act (*CERCLA*), Superfund Amendments and Reauthorization Act of 1986 (*SARA*), Resource Conservation and Recovery Act (*RCRA*) or other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.

Laws concerning cleanup requirements for nuclear-powered naval vessels govern the Department's environmental policy and regulations for these vessels. The *Atomic Energy Act of 1954*, as amended, assures the proper management of source, special nuclear, and byproduct materiel. The Department coordinates nuclear power actions with the Department of Energy. The *Nuclear Waste Policy Act of 1982*, as amended, requires owners and generators of high-level nuclear waste and spent nuclear fuel to pay their share of the cost of the program. The *Low-Level Radioactive Waste Policy Amendments Act of 1985*, as amended, provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on the *NDAA for FY 1986*, directing the Department to destroy the unitary chemical stockpile in accordance with the Chemical Weapons Convention Treaty.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

The Department uses engineering estimates and independently validated models to project environmental costs. The models include the Remedial Action Cost Engineering Requirements (*RACER*) application and the Normalization of Data System. The Department validates the models in accordance with *DoD Instruction 5000.61* and estimates liabilities based on data received during preliminary assessment and site investigation. The Department primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, the Department complies with accounting standards to charge costs to current and/or future operating periods. The Department expensed cleanup costs for General PP&E placed into service prior to October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, the Department expenses cleanup costs associated with the asset life that has passed since the General PP&E was placed into service. The Department systematically recognizes the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Department expenses associated environmental costs using two methods – (1) physical capacity for operating landfills and (2) life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination for Heritage Assets and Stewardship Land and certain other General PP&E when the asset is placed into service.

The unrecognized portion of the estimated total cleanup costs associated with disposal of General PP&E as of September 30, 2019 was $4.3 billion, and was $4.8 billion as of September 30, 2018.

Nature and Possible Changes in Estimated Cleanup Costs

Environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology. The Department is unaware of pending changes affecting its estimated cleanup costs.

The Department revised estimates resulting from previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

Uncertainty Regarding Accounting Estimates

The accounting estimates used to calculate the reported environmental liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

The Department is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, a reasonable estimate is indeterminable because the extent of the buried chemical munitions and agents is unknown.

The Department has ongoing studies for FUSRAP and will update its estimate as additional information is identified.

The Department may incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department continues its efforts to reasonably estimate required restoration costs.

Asbestos-Related Cleanup Costs:

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. At this time, the Department is working towards assessing a reasonable estimate for the total cleanup costs related to friable and non-friable asbestos.

Note 15. Other Liabilities

Table 15. Other Liabilities

As of September 30 ($ in millions)	2019 Current Liability	 Non-Current Liability	 Total
Intragovernmental			
Advances from Others	$ 2,032.3	$ -	$ 2,032.3
Deposit Funds and Suspense Account Liabilities	115.5	-	115.5
Disbursing Officer Cash	828.5	-	828.5
Judgment Fund Liabilities	800.2	-	800.2
FECA Reimbursement to the Department of Labor	471.8	578.3	1,050.1
Custodial Liabilities	216.1	2,052.4	2,268.5
Employer Contributions and Payroll Taxes Payable	608.4	-	608.4
Other Liabilities	72.8	0.7	73.5
Total Intragovernmental Other Liabilities	5,145.6	2,631.4	7,777.0
Non-Federal			
Accrued Funded Payroll and Benefits	10,297.9	-	10,297.9
Advances from Others	5,303.0	(8.2)	5,294.8
Deposit Funds and Suspense Accounts	3,298.2	-	3,298.2
Non-Environmental Disposal Liabilities			
Military Equipment (Non-Nuclear)	1,179.2	65.9	1,245.1
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	10,721.3	-	10,721.3
Capital Lease Liability	-	-	-
Contract Holdbacks	2,752.4	15.6	2,768.0
Employer Contribution and Payroll Taxes Payable	732.3	-	732.3
Contingent Liabilities	493.6	1,055.8	1,549.4
Other Liabilities	226.8	618.4	845.2
Total Non-Federal Other Liabilities	35,004.7	1,753.5	36,758.2
Total Other Liabilities	$ 40,150.3	$ 4,384.9	$ 44,535.2

Table 15. Other Liabilities

As of September 30 ($ in millions)	Restated 2018 Current Liability	 Non-Current Liability	 Total
Intragovernmental			
Advances from Others	$ 1,739.8	$ -	$ 1,739.8
Deposit Funds and Suspense Account Liabilities	242.0	-	242.0
Disbursing Officer Cash	867.6	-	867.6
Judgment Fund Liabilities	573.8	-	573.8
FECA Reimbursement to the Department of Labor	485.5	604.0	1,089.5
Custodial Liabilities	183.6	2,065.3	2,248.9
Employer Contributions and Payroll Taxes Payable	536.2	-	536.2
Other Liabilities	105.9	-	105.9
Total Intragovernmental Other Liabilities	4,734.4	2,669.3	7,403.7
Non-Federal			
Accrued Funded Payroll and Benefits	10,146.3	-	10,146.3
Advances from Others	5,639.4	(2.0)	5,637.4
Deposit Funds and Suspense Accounts	2,986.8	-	2,986.8
Non-Environmental Disposal Liabilities			
Military Equipment (Non-Nuclear)	1,166.6	60.5	1,227.1
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	10,589.6	-	10,589.6
Capital Lease Liability	-	-	-
Contract Holdbacks	534.9	27.4	562.3
Employer Contribution and Payroll Taxes Payable	586.8	-	586.8
Contingent Liabilities	695.6	5,347.6	6,043.2
Other Liabilities	232.3	-	232.3
Total Non-Federal Other Liabilities	32,578.3	5,439.5	38,017.8
Total Other Liabilities	$ 37,312.7	$ 8,108.8	$ 45,421.5

Restatement

The Department corrected a $57.1 million overstatement of Non-Federal Advances from Others. See Note 28, Restatements, for further information.

Intragovernmental Other Liabilities

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

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

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

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

Federal Employees' Compensation Act (*FECA*) Reimbursement to the Department of Labor represents liabilities for billed amounts payable in FY 2019 and FY 2020 and unbilled amounts, including both incurred and an estimated accrual. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where the Department 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.

Other Liabilities primarily consists of unemployment compensation liabilities.

Non-Federal Other Liabilities

Advances from Others includes an abnormal balance for the non-current portion of the liability. The Department is currently researching and working to resolve this.

Military Equipment (Non-Nuclear) is a part of the Non-Environmental Disposal liability related to the final disposition of equipment, munitions, and other national defense weapon systems that are considered non-nuclear. Disposal measurements involve the use of cost estimates that consider the anticipated level of effort required to dispose of the item.

Contract Holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractor/supplier to ensure future performance. Beginning in FY 2019, the liabilities for progress payments are included in contract holdbacks for the non-current portion and accounts payable for the current portion. In FY 2018, Contingent Liabilities included $4.3 billion, related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (*FAR*).

Contingent Liabilities for FY 2019 and 2018 include legal contingent liabilities.

Other Liabilities consist primarily of estimated costs for services provided; accrued liabilities which offset inventory owned and managed on behalf of foreign governments; and undistributed international tariff receipts.

Life Insurance Liabilities and Other Insurance Programs

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

Note 16. Leases

Capital Leases:

The Department is reporting capital lease equipment and related amortization related to an arrangement for Indefeasible Right of Use agreements, allowing the Department access to portions of fiber optic, undersea cables. In addition, the Department has fully depreciated leased equipment for which no future lease payments are due.

Table 16A. Entity as Lessee – Assets Under Capital Lease

As of September 30
($ in millions)

	2019	2018
Land and Buildings	$ -	$ 0.7
Equipment	$ 366.2	$ 353.0
Other	$ -	$ -
Accumulated Amortization	$ (283.8)	$ (257.5)
Total Assets Under Capital Leases	$ 82.4	$ 96.2

Description of Lease Arrangements:

Lease arrangements provide information that describes the nature of the leases, such as major asset categories and/or the number of locations where building space is leased, the range of dates when lease terms expire, and, if applicable, the accounting treatment of rent holidays and leasehold improvements.

Future Payments Due for Federal and Non-Federal Capital Leases

The Department currently has no significant future capital lease payments with terms longer than one year.

Operating Leases:

The future lease payments due presented in Table 16B are for non-cancelable operating leases only. Unlike capital leases, operating leases do not transfer the benefits and risks of ownership; rather, payments for operating leases are expensed over the life of the lease. Future year cost projections use the Consumer Price Index. Office space is the largest component of land and building leases. Other leases are primarily commercial leases with the general public and include automobile leases.

Table 16B. Future Payments Due for Non-Cancelable Operating Leases

As of September 30 ($ in millions)	2019 Asset Category			
	Land and Buildings	Equipment	Other	Total
Federal				
Fiscal Year				
2020	647.0	3.8	96.1	746.9
2021	440.9	3.5	93.2	537.6
2022	438.5	3.3	94.9	536.7
2023	433.0	3.4	96.8	533.2
2024	434.2	2.7	98.7	535.6
After 5 Years	923.7	6.5	31.0	961.2
Total Federal Future Lease Payments	3,317.3	23.2	510.7	3,851.2
Non-Federal				
Fiscal Year				
2020	37.0	0.9	23.4	61.3
2021	53.3	0.8	23.9	78.0
2022	35.1	0.3	24.4	59.8
2023	30.9	0.3	24.9	56.1
2024	27.5	-	25.4	52.9
After 5 Years	27.9	-	30.5	58.4
Total Non-Federal Future Lease Payments	211.7	2.3	152.5	366.5
Total Future Lease Payments	$ 3,529.0	$ 25.5	$ 663.2	$ 4,217.7

Note 17. Commitments and Contingencies

Legal Contingencies

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

In accordance with *SFFAS 5*, *Accounting for Liabilities of the Federal Government,* as amended by *SFFAS 12*, *Recognition of Contingent Liabilities Arising from Litigation,* an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. The Department has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

Table 17. Summary of Legal Contingent Liabilities*

As of September 30 ($ in millions)	2019 Accrued Liabilities	Estimated Range of Loss Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 1,363.2	$ 606.5	$ 1,115.8
Reasonably Possible		$ 1,335.2	$ 15,910.6

** OMB Circular No. A-136, issued June 28, 2019, revised the presentation of commitments and contingencies. The revised format substantially differs from the format published in FY 2018. Comparative FY 2018 numbers are not available in this format and, therefore, are not presented.*

As of September 30, 2019, legal claims exists for which the estimated loss amount or the range of loss cannot be reasonable measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect the Department's financial position or results of operation.

Environmental Contingencies

The Department does not have any known environmental contingent liabilities to include friable and non-friable asbestos cleanup costs deemed probable but not reasonably estimable.

Other Commitments and Contingencies

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, which may potentially result in a future outflow of budgetary resources. Contingencies considered both measurable and probable in the amount of $186.2 million have been accrued. These liabilities are included within the contingent liabilities amount reported in Note 15, *Other Liabilities*.

It is the Department's practice to enter into treaties and other international agreements that do not create contingent liabilities, as defined in *SFFAS 5*. The Department executes project agreements pursuant to the framework cooperative activity agreements with foreign governments. All of these agreements give rise to obligations that are appropriately reported in Department's financial statements, pursuant to legal authority and appropriated funds; none are contingent.

Commitments

In FY 2019, the Department has $2.3 billion in obligations related to canceled appropriations for which it has a contractual commitment for payment, $909.7 million for contractual arrangements related to loan guarantees, and $4.2 billion related to non-cancelable operating leases which may require future financial obligations. In FY 2018, the Department had $1.5 billion in obligations related to canceled appropriations for which it has a contractual commitment for payment, $950.4 million for contractual arrangements related to loan guarantees, and $5.2 billion related to non-cancelable operating leases which may require future financial obligations. See Note 7, *Direct Loan and Loan Guarantees*, and Note 16, *Leases*, for additional information.

Note 18. Funds from Dedicated Collections

The Department's Funds from Dedicated Collections are financed by specifically identified revenues and other financing sources provided by non-federal sources. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Department's general revenues. There has been no legislation in FY 2019 or FY 2018 which has significantly altered the purposes of the Department's Funds from Dedicated Collections.

The disclosures in this note are made in accordance with *SFFAS 27*, as amended by *SFFAS 43*.

Table 18A. Combined Balance Sheet – Funds from Dedicated Collections

As of September 30 ($ in millions)	2019 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Assets				
Fund Balance with Treasury	$ 127.4	$ 1,859.8	$ 2,296.1	$ 4,283.3
Investments	9,319.2	-	1,747.5	11,066.7
Accounts and Interest Receivable	543.7	2.2	5.6	551.5
Other Assets	130.9	283.9	713.9	1,128.7
Total Assets	$ 10,121.2	$ 2,145.9	$ 4,763.1	$ 17,030.2
Liabilities and Net Position				
Accounts Payable and Other Liabilities	$ 6.2	$ 1,900.0	$ 103.0	$ 2,009.2
Total Liabilities	6.2	1,900.0	103.0	2,009.2
Unexpended Appropriations	-	-	-	-
Cumulative Results of Operations	10,115.0	245.9	4,660.1	15,021.0
Total Liabilities and Net Position	$ 10,121.2	$ 2,145.9	$ 4,763.1	$ 17,030.2

As of September 30 ($ in millions)	2018 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Assets				
Fund Balance with Treasury	$ 297.4	$ 1,598.2	$ 2,172.6	$ 4,068.2
Investments	9,231.6	-	1,391.8	10,623.4
Accounts and Interest Receivable	504.1	6.5	6.9	517.5
Other Assets	133.5	296.3	719.0	1,148.8
Total Assets	$ 10,166.6	$ 1,901.0	$ 4,290.3	$ 16,357.9
Liabilities and Net Position				
Accounts Payable and Other Liabilities	$ 26.2	$ 1,645.0	$ 72.1	$ 1,743.3
Total Liabilities	26.2	1,645.0	72.1	1,743.3
Unexpended Appropriations	-	-	-	-
Cumulative Results of Operations	10,140.4	256.0	4,218.2	14,614.6
Total Liabilities and Net Position	$ 10,166.6	$ 1,901.0	$ 4,290.3	$ 16,357.9

Table 18B. Combined Statement of Net Cost – Funds from Dedicated Collections

For the year ended September 30 ($ in millions)	2019 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	$ 49.9	$ 291.2	$ 1,583.3	$ 1,924.4
Less: Earned Revenues	-	(386.7)	(324.2)	(710.9)
Net Cost of Operations	$ 49.9	$ (95.5)	$ 1,259.1	$ 1,213.5

For the year ended September 30 ($ in millions)	2018 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	$ 85.6	$ 316.5	$ 1,811.3	$ 2,213.4
Less: Earned Revenues	-	(400.5)	(308.8)	(709.3)
Net Cost of Operations	$ 85.6	$ (84.0)	$ 1,502.5	$ 1,504.1

Table 18C. Combined Statement of Changes in Net Position – Funds from Dedicated Collections

For the year ended September 30 ($ in millions)	2019 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	$ 10,140.4	$ 256.0	$ 4,218.2	$ 14,614.6
Budgetary Financing Sources	25.3	-	1,650.1	1,675.4
Other Financing Sources	(0.8)	(105.6)	50.9	(55.5)
Less: Net Cost of Operations	49.9	(95.5)	1,259.1	1,213.5
Change in Net Position	(25.4)	(10.1)	441.9	406.4
Net Position, End of Period	$ 10,115.0	$ 245.9	$ 4,660.1	$ 15,021.0

For the year ended September 30 ($ in millions)	2018 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	$ 10,314.5	$ 249.9	$ 4,054.5	$ 14,618.9
Budgetary Financing Sources	373.4	-	1,584.5	1,957.9
Other Financing Sources	(461.9)	(77.9)	81.7	(458.1)
Less: Net Cost of Operations	85.6	(84.0)	1,502.5	1,504.1
Change in Net Position	(174.1)	6.1	163.7	(4.3)
Net Position, End of Period	$ 10,140.4	$ 256.0	$ 4,218.2	$ 14,614.6

Tables 18A, 18B, and 18C are presented on a combined basis and relate solely to Funds from Dedicated Collections. The Net Position amounts related to Funds from Dedicated Collections reflected on Tables 18A and 18C will not equal those reflected on the DoD Agencywide Balance Sheet and Statement of Changes in Net Position, as those statements are presented on a consolidated basis. Refer to Note 20, *Disclosures Related to the Statement of Changes in Net Position*, for additional information on reconciling the combined Funds from Dedicated Collections Net Position amounts to the consolidated Funds from Dedicated Collections Net Position amounts.

Purpose, Source of Revenue, and Authority for Funds from Dedicated Collections

Harbor Maintenance and Related Funds

Harbor Maintenance Trust Fund (*26 U.S.C. §9505*) – The United States Army Corps of Engineers *(USACE) Civil Works* mission is funded by the Energy and Water Development Appropriations Acts. The *Water Resources Development Act of 1986* covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of all administrative expenses incurred by the Treasury, USACE, and the Department of Commerce. Taxes collected from imports, domestics, passengers, and foreign trade are deposited into the Trust Fund. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Coastal Wetlands Restoration Trust Fund and Coastal Wetlands Planning, Protection, and Restoration Act (*16 U.S.C. §§3951-3956*) – USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating funds. Federal contributions are 75 percent of project costs, or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This Trust Fund receives funding from the Sport Fish Restoration and Boating Trust Fund.

Inland Waterways Trust Fund (*26 U.S.C. §9506*) – Excise taxes from the public are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Rivers and Harbors Contributed and Advance Funds

Rivers and Harbors Contributed and Advance Funds (*33 U.S.C. §§701h*, *702f*, and *703*) – Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army (executed by USACE) may accept such funds and expend them in the immediate performance of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification, enlargement of river channels, and similar work, in the course of flood control and river and harbor maintenance.

Other Funds from Dedicated Collections

Other funds from dedicated collection have been aggregated in accordance with *SFFAS 43*.

Special Recreation Use Fees (*16 U.S.C. §§460l-6a* and *6812(e)(1)*) – The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes and reservoirs under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. Receipts cover operation and maintenance of recreational sites.

Hydraulic Mining in California, Debris (*33 U.S.C. §683*) – Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Commission. USACE collects taxes and expends funds under the direction of the Department of the Army. Funds repay advances by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954 (*33 U.S.C. §701c-3*) – USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated and made available for use in the following fiscal year with 75 percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the counties where the property is located, or for defraying county government expenses.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (*16 U.S.C. §§803(f)* and *810*) – The Federal Energy Regulatory Commission (*FERC*) assesses charges against licensees when a reservoir or other improvement is constructed by the U.S. All proceeds from Indian reservations are credited to the Indians of the reservations. All other proceeds arising from licenses, except those established by the FERC for administrative reimbursement, are paid to the Treasury and allocated for specific uses. The Department of the Army is allocated 50 percent of charges from all licenses, except licenses for the occupancy and use of public lands and national forests. These funds are deposited in a special fund and used for maintenance, operation, and improvement of dams, and other navigation structures owned by the U.S., or in construction, maintenance, or operation of headwater, or other improvements to navigable waters of the U.S.

Fund for Non-Federal Use of Disposal Facilities (for dredged material) (*33 U.S.C. §2326*) – Non-federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Defense Commissary Agency Surcharge Trust Fund (*10 U.S.C. §2685*) – Surcharge on sales of commissary goods finance the Commissary System operating expenses and capital purchases, precluded by law from being paid with appropriated funds. Revenue is generated through a five percent surcharge applied to each sale. These funds finance commissary-related information technology investments, equipment, advance design modifications to prior year construction projects, and maintenance and repair of facilities and equipment.

Note 19. General Disclosures Related to the Statement of Net Cost

Table 19. Costs and Exchange Revenue by Major Program

For the years ended September 30 ($ in millions)	2019	Restated 2018
Military Retirement Benefits		
Gross Cost	$ 106,422.7	$ 104,973.1
Less: Earned Revenues	(36,784.1)	(41,456.8)
Losses (Gains) from Actuarial Assumption Changes for Military Retirement Benefits	136,377.5	17,019.2
Net Program Costs	206,016.1	80,535.5
Civil Works		
Gross Cost	11,594.9	12,603.8
Less: Earned Revenues	(3,201.8)	(4,806.7)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	8,393.1	7,797.1
Military Personnel		
Gross Cost	150,995.7	145,255.3
Less: Earned Revenues	(1,030.1)	(1,349.3)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	149,965.6	143,906.0
Operations, Readiness & Support		
Gross Cost	297,033.2	259,690.3
Less: Earned Revenues	(25,104.4)	(24,433.0)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	2,431.0	(284.2)
Net Program Costs	274,359.8	234,973.1
Procurement		
Gross Cost	126,512.6	112,506.4
Less: Earned Revenues	(11,209.0)	(7,297.4)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	115,303.6	105,209.0
Research, Development, Test & Evaluation		
Gross Cost	104,654.5	88,386.3
Less: Earned Revenues	(12,114.1)	(9,905.5)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	92,540.4	78,480.8
Family Housing & Military Construction		
Gross Cost	25,123.1	11,714.5
Less: Earned Revenues	(1,058.7)	(1,234.9)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	24,064.4	10,479.6
Total Net Cost	$ 870,643.0	$ 661,381.1

Restatement

The Department corrected a $36.8 million understatement in Gross Costs – Operations, Readiness & Support and a net $27.3 million understatement in Earned Revenue, resulting in the correction of a $9.5 million understatement in Total Net Cost. See Note 28, *Restatements*, for further information.

Other Disclosures

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Department supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act of 1993 *(GPRA)*. The Department is in the process of reviewing available data and developing a cost reporting methodology required by *SFFAS No. 4*, *"Managerial Cost Accounting Concepts and Standards for the Federal* Government as amended by *SFFAS No. 55*, *"Amending Inter-Entity Cost Provisions."*

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

The Department's military retirement and postemployment costs are reported in accordance with *SFFAS No. 33*, "*Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*." The standard requires the separate presentation of gains and losses from changes in long term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the SNC.

Note 20. Disclosures Related to the Statement of Changes in Net Position

Cumulative Results of Operations – Prior Period Adjustments

The Department recorded prior period adjustments under *SFFAS 21*, *SFFAS 48*, and *SFFAS 50*, that increased the FY 2019 beginning balance $11.5 billion from ($344.2) billion to ($332.7) billion. In FY 2018, the Department recorded prior period adjustments that decreased the 2018 beginning balance $2.5 billion from ($390.1) billion to ($392.6) billion These prior period adjustments are attributable to the Correction of Error and/or Change in Accounting Principle.

The Department corrected an error in its financial statements for assets and net position corrected under SFFAS 21. SFFAS 21 requires that reporting entities restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period. During FY 2019, the Department increased the beginning Cumulative Results of Operations and Assets by $7.2 billion due to the correction of an error.

Various components with the Department elected to implement new accounting principles in FY 2019 and FY 2018. FASAB issued SFFAS 48 and SFFAS 50 which permitted alternative methods in establishing opening balances and are effective for periods beginning after September 30, 2016 with early implementation allowed. In FY 2019, these changes in accounting principles increased the beginning Cumulative Results of Operations by $4.3 billion as the components established opening balances for General PP&E (specifically, equipment and software). In FY 2018, these changes in accounting principles decreased the beginning Cumulative Results of Operations by ($2.5) billion as the components established opening balances for General PP&E (specifically, land and buildings).

Restatements

For FY 2018, the Department corrected a $66.6 million understatement in the Beginning Balances for Unexpended Appropriations, offset by a $9.5 million understatement in Appropriations Used, resulting in the correction of a $57.1 million understatement in Total Unexpended Appropriations. In addition, a $1.5 billion understatement and offsetting overstatement was corrected for Nonexchange Revenue and for Transfers-In/Out Without Reimbursement, respectively. This resulted in corrections of understatements of $9.5 million for Total Financing Sources and $57.1 million for Net Position. See Note 28, *Restatements*, for further information.

The Department restated FY 2018 Cumulative Results of Operations attributable to Dedicated Collections and Other Funds. The adjustments for the periods ended September 30, 2018 and 2019 increases the Dedicated Collections $11.0 billion and decreases Other Funds $11.0 billion to accurately reflect the breakout of Cumulative Operating Results. The net effect of this restatement on the Statement of Changes in Net Position is zero. For its effect on the Balance Sheet, refer to Note 28, *Restatements.*

Other Financing – Other

The Department recorded $15.9 billion in FY 2019 as Other Financing – Other resulting from the revaluation of General Plant and Equipment.

Reconciliation Differences

Statement of Budgetary Resources to the Statement of Changes in Net Position

Appropriations (Discretionary and Mandatory) reported on the Statement of Budgetary Resources exceed Appropriations Received on the Statement of Changes in Net Position by $71.6 billion in FY 2019 and $68.8 billion in FY 2018. A reconciliation of these amounts is presented in the tables below.

Table 20A. Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

For the year ended September 30 ($ in billions)		2019		2018
Appropriations, Statement of Budgetary Resources (SBR)	$	874.4	$	863.6
Permanent and Temporary Reductions		101.6		95.8
Trust and Special Fund Receipts		(172.5)		(164.2)
Miscellaneous Items		(0.7)		(0.4)
Total Reconciling Difference		(71.6)		(68.8)
Appropriations Received, Statement of Changes in Net Position	$	802.8	$	794.8

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority permanently or temporarily reduced by enacted legislation.

Trust and Special Fund Receipts are not immediately available for obligation that are awaiting authorizing legislation and or the satisfaction of specific legal requirements.

Miscellaneous Items primarily includes the current year authority transfers in, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

Funds from Dedicated Collections Information to the Balance Sheet and Statement of Changes in Net Position

Funds from Dedicated Collections information is presented on a combined basis in Note 18, *Funds from Dedicated Collections*. The tables below summarize the elimination of intradepartmental activity between Funds from Dedicated Collections and all Other Fund types to arrive at the consolidated Net Position amounts presented on the DoD Agency-wide Balance Sheet and Statement of Changes in Net Position.

Table 20B. Reconciliation of Combined Dedicated Collections and Other Funds to Consolidated Dedicated Collections and Other Funds

As of September 30 ($ in millions)	2019 Combined	 Reconciling Difference	 Consolidated
Unexpended Appropriations - Dedicated Collections	$ -	$ -	$ -
Unexpended Appropriations - Other Funds	545,168.2	-	545,168.2
Cumulative Results of Operations - Dedicated Collections	15,021.0	(15,310.1)	30,331.1
Cumulative Results of Operations - Other Funds	(430,262.4)	15,310.1	(445,572.5)
Total Net Position	$ 129,926.8	$ -	$ 129,926.8

As of September 30 ($ in millions)	2018 (Restated) Combined	 Reconciling Difference	 Consolidated
Unexpended Appropriations - Dedicated Collections	$ -	$ -	$ -
Unexpended Appropriations - Other Funds	529,803.7	-	529,803.7
Cumulative Results of Operations - Dedicated Collections	14,614.6	(13,119.4)	27,734.0
Cumulative Results of Operations - Other Funds	(358,834.7)	13,119.4	(371,954.1)
Total Net Position	$ 185,583.6	$ -	$ 185,583.6

Note 21. Disclosures Related to the Statement of Budgetary Resources

The Statement of Budgetary Resources is presented on a combined basis in accordance with OMB *Circular No. A-136*; thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other principal financial statements, which are presented on a consolidated basis.

Restatement

The Department corrected a $921.6 million understatement of Exempt from Apportionment, Unexpired Accounts and overstatement of Unapportioned, Unexpired Accounts. See Note 28, Restatements, for further information.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

There were no material adjustments during FY 2019 to the budgetary resources available at the beginning of the year.

Terms of Borrowing Authority Used

The Department utilizes borrowing authority for the Military Housing Privatization Initiative (MHPI). Borrowing authority is used in compliance with OMB *Circular No. A-129*. See Note 7, Direct Loans and Loan Guarantees, Non-Federal Borrower, for additional information related to MHPI.

Available Borrowing/Contract Authority, End of Period

No available borrowing authority remained at the end of the period for FY 2019 or 2018.

Budgetary Resources Obligated for Undelivered Orders

Table 21A. Available Borrowing/Contract Authority

As of September 30 ($ in millions)	2019	2018
Available Borrowing and Contract Authority at the End of the Period	$ -	$ -

Undelivered Orders at the End of the Period

Table 21B. Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30 ($ in millions)	2019	2018
Intragovernmental		
Unpaid	$ 92,795.2	$ 120,202.7
Prepaid/Advanced	3,523.4	3,285.7
Total Intragovernmental	$ 96,318.6	$ 123,488.4
Non-Federal		
Unpaid	$ 381,742.3	$ 319,795.6
Prepaid/Advanced	20,370.1	23,988.3
Total Non-Federal	$ 402,112.4	$ 343,783.9
Total Budgetary Resources Obligated for Undelivered Orders At the End of the Period	$ 498,431.0	$ 467,272.3

Legal Arrangements Affecting the Use of Unobligated Balances

A portion of the Department's unobligated balances represent trust fund receipts collected in the current fiscal year exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the funds and are available for obligation in the future. The Department operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances.

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

Table 21C presents a reconciliation between the budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays in the FY 2018 column on the Combined Statement of Budgetary Resources (SBR) to the actual amounts for FY 2018 from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2019 President's Budget. The FY 2020 Budget will display the FY 2018 actual values and is expected to be published in February 2020 at *https://www.whitehouse.gov/omb/budget*.

Apportionment Categories for New Obligations and Upward Adjustments

Table 21C. Explanation of Differences Between the SBR and the Budget of the U.S. Government

For the year ended September 30 ($ in billions)	FY 2018 Actual Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Agency Outlays, Net
Combined Statement of Budgetary Resources	**$ 1,252.6**	**$ 1,054.3**	**$ 102.0**	**$ 763.3**
Expired Accounts that are Excluded from the Budget of the U.S. Government	(46.5)	(18.8)	-	-
Closed accounts included in budget	0.1	0.1	-	0.1
Permanent Reporting Differences	(0.1) [1]	(0.1) [1]	-	-
Other	0.1	0.1	0.1	-
Budget of the U.S. Government	**$ 1,206.2**	**$ 1,035.6**	**$ 102.1**	**$ 763.4**

[1] *The difference reported above for Budgetary Resources and New Obligations and Upward Adjustments is due to different reporting requirements on the SBR versus the Budget.*

Contributed Capital

There was no infusion of capital received in FY 2019.

Other Disclosures

In compliance with OMB guidance, $129.9 billion of FY 2019 and $123.0 billion of FY 2018 General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds. This duplicate reporting on the SBR relates to amounts from the Military Services' contributions and Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The Department received additional funding of $68.8 billion in FY 2019 and $65.9 billion in FY 2018 to cover obligations incurred above baseline operations in support of contingency operations.

The SBR reflects an unobligated expired appropriations in the amount of $22.7 billion, (2 percent of total budget authority). The Department strives to obligate as close as prudently possible to the total available budget authority before it expires. Its internal controls and systems for administrative control of funds are designed to avoid over-obligating or over-expending funds in violation of the *Antideficiency Act.* The enormous number of contracts, projects, and activities (for example, construction projects, complex acquisitions, cutting edge/high risk technology efforts, and contingency operations) that must be carried out without exceeding available budget authority do result in liabilities that must recorded against finite unobligated expired appropriation balances. Consequently, some level of unobligated expired appropriations must be available for recording adjustments to existing obligations, as authorized by *31.U.S.C. §1553*.

Permanent Indefinite Appropriations:

The following permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

The Department received the following permanent indefinite appropriations in FY 2019 and FY 2018:

Department of the Army General Gift Fund (*10 U.S.C. §2601(c)(1)*)

Department of the Navy General Gift Fund (*10 U.S.C. §2601(c)(2)*)

Department of the Air Force General Gift Fund (*10 U.S.C. §2601(c)(3)*)

Department of Defense General Gift Fund (*10 U.S.C. §2601*)

Disposal of Department of Defense Real Property (*40 U.S.C. §572(b)(5)(A)*)

Lease of Department of Defense Real Property (*40 U.S.C. §485(h)*)

Foreign National Employees Separation Pay Account, Defense (*10 U.S.C. §1581*)

United States Naval Academy Gift and Museum Fund (*10 U.S.C. §8474*)

Ship Stores Profits, Navy (*10 U.S.C. §8620*, *31 U.S.C. §1321*)

Burdensharing Contributions (*10 U.S.C. §2350j*)

Forest Program (*10 U.S.C. §2665*)

Medicare-Eligible Retiree Health Care Fund (*10 U.S.C. §1111*)

Military Retirement Fund (*10 U.S.C. §1461*)

Education Benefits Fund (*10 U.S.C. §2006*)

Host Nation Support for U.S. Relocation Activities (*10 U.S.C. §2350k*)

Hydraulic Mining Debris Reservoir (*33 U.S.C. §683*)

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (*16 U.S.C. §810(a)*)

Payments to States (*33 U.S.C. §701c-3*)

Wildlife Conservation (*16 U.S.C. §§670-670f*)

Ainsworth Bequest (*31 U.S.C. §1321*)

DoD Family Housing Improvement Fund (*10 U.S.C. §2883(a)*)

DoD Military Unaccompanied Housing Improvement Fund (*10 U.S.C. §2883(a)*)

Voluntary Separation Incentive Fund (*10 U.S.C. §1175(h)*)

Rivers & Harbors Contributed Funds (*33 U.S.C. §§560*, *701h*)

Concurrent Receipt Accrual Payments to the Military Retirement Fund (*10 U.S.C. §1466(b)(1)*)

Rocky Mountain Arsenal, Restoration (United States Statutes at Large, Volume 100, page 4003, section 1367 (*100 Stat. 4003 §1367*))

Homeowners Assistance Fund (*42 U.S.C. §3374(d)*, *Public Law 111-5*)

Payments to Military Retirement Fund, Defense (*10 U.S.C. §1466*)

Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund (*10 U.S.C. §1116(a)*)

Medicare-Eligible Retiree Health Fund Contribution, Navy (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Marine Corps (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Army (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Army (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Air Force (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force (*10 U.S.C. §1116*)

Department of Defense Vietnam War Commemoration Fund, Defense (*Public Law 110-181*, *122 Stat. 141 §598*)

Note 22. Disclosures Related to Incidental Custodial Collections

In FY 2019 and FY 2018, the Department collected $4.9 million and $11.8 million, respectively, of incidental custodial revenues generated primarily from forfeitures of unclaimed money and property. These funds are not available for use by the Department; the accounts are closed and relinquished to the U.S. Treasury at the end of the fiscal year.

Note 23. Fiduciary Activities

Table 23A. Schedule of Fiduciary Activity

For the years ended September 30 ($ in millions)	2019	2018
Fiduciary Net Assets, Beginning of Year	$ 77.9	$ 77.8
Fiduciary Revenues	-	-
Contributions	98.6	42.5
Investment Earnings	0.3	0.3
Gain (Loss) on Disposition of Investments, Net	-	-
Administrative and Other Expenses	-	-
Distibutions To and On Behalf Of Beneficiaries	(109.8)	(42.7)
Increase / (Decrease) in Fiduciary Net Assets	(10.9)	0.1
Fiduciary Net Assets, End of Year	$ 67.0	$ 77.9

Table 23B. Schedule of Fiduciary Net Assets

As of September 30 ($ in millions)	2019	2018
Fiduciary Assets		
Fund Balance with Treasury	$ 67.0	$ 77.9
Investments	-	-
Other Assets	-	-
Fiduciary Liabilities		
Less: Liabilities	-	-
Total Fiduciary Net Assets	$ 67.0	$ 77.9

Fiduciary activities exist when the Department has collected, received, held, or made disposition of assets on behalf of an individual or non-Federal entity. Fiduciary assets are not recognized on the Balance Sheet. The Department is not aware of any non-valued fiduciary assets for which it has management responsibility.

Public Law 89-538 authorized the Department, through the Savings Deposit Program (*SDP*), to collect voluntary contributions from members of the Armed Forces serving in designated areas, up to $10,000 per deployment per member. These contributions and earned interest (10% per year, paid quarterly) are deposited in the Treasury on behalf of the members and kept as a separate fund. Military members have access to SDP statements for viewing deposits and other activity. Funds are returned to a military member upon request after leaving the designated area; however, at 120 days if a request is not made, the funds are returned to the member via direct deposit by the Department. Funds in excess of $10,000 may be withdrawn quarterly. Otherwise, while in the designated area, a withdrawal of deposit may only be made in limited situations.

Note 24. Reconciliation of Net Cost to Net Outlays

Table 24. Reconciliation of the Net Cost of Operations to Net Outlays

For the year ended September 30 ($ in millions)	2019		
	Intragovernmental	With the public	Total
Net Cost of Operations (SNC)	(4,377.9)	875,020.9	870,643.0
Components of Net Cost that are Not Part of Net Outlays:			
Property, plant, and equipment depreciation	$ -	$ (67,691.6)	$ (67,691.6)
Property, plant, and equipment disposal & revaluation	-	(9,029.7)	(9,029.7)
Year-end credit reform subsidy re-estimates	-	107.3	107.3
Unrealized valuation loss/(gain) on investments	-	-	-
Other	-	(60,774.3)	(60,774.3)
Increase/(decrease) in assets:			
Account Receivable	(2,466.7)	206.3	(2,260.4)
Loans Receivable	-	41.2	41.2
Investments	37.0	-	37.0
Other Assets	79.3	(8,884.9)	(8,805.6)
(Increase)/Decrease in Liabilities:			
Accounts Payable	2,481.1	(10,925.0)	(8,443.9)
Salaries and Benefits	97.1	(517.2)	(420.1)
Insurance guarantee program liabilities	-	7.7	7.7
Environmental and disposal liabilities	-	(5,713.5)	(5,713.5)
Other Liabilities (Unfunded Leave, Unfunded FECA Actuarial FECA)	(200.2)	(178,061.6)	(178,261.8)
Other Financing Sources:			
Federal Employee retirement benefit costs paid by OPM and Imputed to the agency	(5,237.4)	-	(5,237.4)
Transfers out (in) without reimbursement	73.0	-	73.0
Other imputed financing	(372.4)	-	(372.4)
Total Components of Net Costs that are Not part of Net Outlays	**(5,509.2)**	**(341,235.3)**	**(346,744.5)**
Components of Net Outlays that are Not Part of Net Cost:			
Effect of prior year agencies credit reform subsidy re-estimates	$ -	$ -	$ -
Acquisition of capital assets	16.1	84,775.3	84,791.4
Acquisition of inventory	246.8	63,456.5	63,703.3
Acquisition of other assets	-	-	-
Other	61,075.8	(1,841.5)	59,234.3
Total Components of Net Outlays that are Not Part of Net Cost	**$ 61,338.7**	**$ 146,390.3**	**$ 207,729.0**
Other Temporary Timing Differences	$ -	$ -	$ -
Net Outlays	**$ 51,451.60**	**$ 680,175.90**	**$ 731,627.5**
Agency Outlays, Net, Statement of Budgetary Resources			$ 721,260.8
Reconciling Differences			**$ 10,366.7**

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

Components of Net Cost that are Not Part of Net Outlays includes non-cash charges primarily consisting of $180.8 billion in changes in Actuarial Pension and Health Insurance Liability and $58.4 billion in depreciation, revaluation and disposal of property, plant and equipment.

Components of Net Outlays that are Not Part of Net Cost includes $148.5 billion in amounts paid during the acquisition of capital assets and inventory. The Other line includes $62.2 billion recognized as outlays in pass-through entities for Military Services contributions and Treasury payments to certain trust funds. See Note 21, *Disclosures Related to the Statement of Budgetary Resources* for additional information. The transaction of the pass-through entities are eliminated within consolidated financial reporting, but are not eliminated in budgetary reporting which is presented on a combined basis. These outlays primarily consist of payments made for costs incurred in prior years, as well as capitalized purchased, that are not recognized in net cost in the current period.

The Reconciling Difference is due to timing differences between the recognition of expenses/revenues and disbursements/collections on the Statement of Net Cost and Statement of Budgetary Resources. Additionally, the Department's diverse business events may be recorded using different, but equally valid, transaction scenarios. Research is on-going to resolve the remaining difference.

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

Note 25. Public-Private Partnerships

Public-Private Partnerships (P3s) are risk-sharing arrangements lasting more than 5 years between public and private sector entities that provide a service or asset for the government/general public. P3s can be extremely complex agreements (e.g. structural arrangements and special purpose vehicles) involving a wide variety of assets and liabilities and alternative financing arrangements (appropriated funds, third party financing and/or significant amounts of private capital/investment). P3s are a form of investment that are not reflected in the financial statements; therefore, disclosure is required so that financial statement users can assess assets of the U.S. government, how effectively the assets are being managed, and the risks associated with P3 arrangements.

SFFAS 49 *Public-Private Partnerships*, effective October 1, 2018, requires the disclosure of the nature of the Government's relationship with the private entities, the nature and magnitude of the relevant activity during the period and balances at the end of the period, and a description of financial and non-financial risks, potential benefits, and, if possible, the amount of the Government's exposure to gains or losses from the past or future operations of the disclosure entity or entities. SFFAS 49 helps achieve the operating performance and budgetary integrity objectives outlined in Statement of Federal Financial Accounting Concepts (SFFAC) 1, *Objectives of Federal Financial Reporting*, by making P3s more understandable.

Military Housing Privatization Initiative (MHPI)

The National Defense Authorization Act for Fiscal Year 1996, Public Law 104-106 (110, Stat 186, Section 2801), contains authorities for the Military Housing Privatization Initiative (MHPI). This act includes a series of authorities that allow the Department (DoD) to work with the private sector to build, renovate and sustain military housing. The goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private-sector approaches to build and renovate military housing faster and cheaper for American taxpayers. By engaging in P3s, the government benefits through the use of expertise and tools afforded to private Limited Liability Companies (LLC), the condition of military housing improvements occurred more expediently and efficiently than the traditional Military construction process would allow. Title 10 U.S.C §§ 2871-2886 codifies the Service Secretaries' MHPI authority, oversight, and accountability measures.

With the enactment of Pub. L. 115-91 § 603, and then Pub L. 115-232 § 606, the Military Departments are required to make direct payments to the MHPI entities in an amount up to 5% of the Basic Allowance for Housing (BAH) amount as calculated under Section 403(b)(3)(A)(i) of the military pay statute in Title 37, U.S.C. § 403 for the area in which the covered housing existed through September 30, 2018. From October 1, 2018 forward, Pub. L. 115-232 § 606 instructs that payments to the MHPI entities of 5% of BAH will occur monthly until Congress modifies or rescinds this direction.

Funding and Contributions

MHPI projects operate under long-term (generally 50 years) ground leases and associated legal agreements with a Military Department, with one 25 year option period. The expected life of each MHPI arrangement corresponds to the duration of the ground lease (generally 50 years), and negotiations between the Military Departments and the private partners establish the duration of the ground lease based on the minimum duration required to ensure project success. The DoD MHPI program is expected to engage in future government direct loan and loan guarantees, which will be addressed in FY 2020.

The DoD MHPI program made direct cash contributions and loans to the LLCs. Cash contributions to MHPI P3 partners from the DoD Family Housing Improvement Fund (FHIF) or DoD Military Unaccompanied Housing Improvement Fund (MUHIF) requires Congressional notification (10 U.S.C. § 2883(f)). There are no contractual requirements for additional federal contributions to the LLCs.

The Military Departments are not required to contribute resources to the MHPI P3 beyond the initial contribution to the FHIF or MUHIF. However, the enactment of Pub L. 115-91 § 603, required the Military Departments to make direct payments to the MHPI entities (lessors) of 1% of the Basic Allowance for Housing (BAH) amount for the period January 1, 2018 through December 31, 2018. The amount of BAH was calculated under of the military pay statute in 37, U.S.C. § 403(b)(3)(A)(i) for the area in which the covered housing existed. From September 1, 2018 forward, *Pub L. 115-232 § 606* directs that payments to the MHPI entities of 5% of BAH will occur monthly until Congress modifies or rescinds this direction.

The following table represents the aggregated Federal and Private Partner LLC contribution amounts paid to MHPI Program and LLCs through September 30, 2019:

Table 25. Summary of Contributions

As of September 30 ($ in millions)	2019
Military Department Contributions	
Funding Contributions to DoD MHPI Program	$ 2,771.1
Real Property Contributions to the LLCs (value of Real Property Assets (RPA) Conveyed, per OMB Scoring Documents)	7,598.4
Direct Payments as Required by Pub. L. 115-91 § 603 (1% BAH) and 15-232 § 606 (5% BAH)	160.0
BAH Under § 403 of Title 37	2,738.4
DoD Contributions	
Direct Cash Contributions	$ 1,607.2
Differential Lease Payments	16.5
Direct Loans Disbursed	1,851.9
Contributions by Private Partners	
Direct Cash Contributions	$ 606.5
Bonds/Loans Contributed	11,315.0
Real Property and Land Contributions	5.2
Real Property Asset Donations	51.7

Risk

The Department's risk of loss is the initial cash contribution to the program, the risk of default on a government direct loan, the risk of a guaranty threshold event under a loan guaranty agreement, and the failure to deliver quality housing services to Military Personnel. The private partner's risk of loss includes the recovery of the initial cash contributions, inability to repay bonds and/or loans, and the loss of a long-term revenue source. The MHPI Operating Agreements and Lockbox Agreements do not explicitly identify risk of loss contingencies, but some projects include reserve accounts for specific circumstances, such as an Operating Expense Reserve Account or Utility Reserve Account to save funds for protecting against unexpectedly high expenses. The total risk associated with these agreements are the total initial investment (funding and net book value of assets at the time of transfer) of these projects plus the commercial loan guarantees associated with three of the MHPI agreements. The LLC operates as its own entity, and all assets revert back to the Department upon termination of the leasehold interest at no-cost to either party. The Military Services rights and responsibilities are limited to monitoring the financial conditions of the MHPI projects and reporting on them timely and accurately.

Investment Recognition

The Military Services investments in limited partnerships and LLCs engaged in privatized military housing projects will be accounted for under the equity method of accounting. The FASAB currently has not issued specific accounting standards for this type of financial arrangement. As a result, beginning in FY 2020, the Department will apply a private sector accounting standard to account for investment/share of the public-private partnerships: Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 323 Investments – Equity Method and Joint Ventures. Furthermore, the Department will treat such an investment/share as a consumption of budgetary resources, recording an obligation and an outlay in an amount equal to the equity investment. According to ASC 323, investments in limited partnerships generally should be accounted for under the equity method of accounting unless the investment is so minor that the limited partner may have virtually no influence over the partnership's operating or financial policies. In practice, investments of more than 3 to 5 percent are viewed as more than minor. See Note 5, *Investments and Related Interest*, for additional information on Other Investments.

Other Investments

Other potential investments may exist, which would qualify as P3s, per the disclosure determinations set forth in *SFFAS 49* and OMB Circular A-136. These are currently being researched by the Military Services for scope and quantification.

Note 26. Disclosure Entities and Related Parties

In accordance with *SFFAS 47 "Reporting Entity"*, the Department is disclosing its relationship with its Department-sponsored DoD Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). The financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements.

The Department has relationships with DoD-sponsored Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). The financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements. NAFIs and FFRDCs are, in aggregate, not quantitatively material to the DoD consolidated financial statement; however, both are qualitatively material due to the public accountability and high visibility of these activities to Congress and their military constituents.

Nonappropriated Fund Instrumentalities

The Department has a distinctive relationship with NAFIs, entities supported in whole or in part by nonappropriated funds (NAFs) that are intended to enhance the quality of life of DoD personnel, retired Military Service members, and dependents of such members, and to support military readiness, recruitment, and retention. The NAFs that support these entities are generated primarily by sales and user fees. NAFIs are established by Department policy, controlled by the Military Departments, and governed by sections of *Title 10, U.S.C.*. The Department does not have any ownership interest in the NAFIs; however, the Department establishes them and requires DoD components to assign organizational responsibility for NAFI administration, management, and control. A NAFI acts in its own name to provide or assist the Secretaries of the Military Departments in providing programs for DoD personnel. There are currently approximately 460 DoD NAFIs, classified into six program groups to ensure uniformity in the establishment, management, allocation, and control or resource support:

- Military Morale, Welfare, and Recreational (*MWR*) Programs,
- Armed Services Exchange Programs,
- Civilian MWR Programs,
- Lodging Program Supplemental Mission Funds,
- Supplemental Mission Funds, and
- Special Purpose Central Funds.

The Under Secretary of Defense for Personnel and Readiness (*USD(P&R)*) exercises overall policy direction for and oversight of DoD NAF activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (*USD(C)/CFO*) and the Defense Finance and Accounting Service (*DFAS*), in coordination with the USD(P&R), are responsible for NAF accounting policy. DoD Components appoint advisory groups to ensure that each NAFI is meeting the objectives for which they were created. Additionally, the NAFIs are subject to annual financial audits conducted by independent public accounting firms.

NAFIs present only very limited financial and non-financial risks to the Department, as they are separate legal entities apart from DoD, and they are operated and accounted for in financial systems separate from DoD. Together, these factors limit the Federal Government's financial exposure. NAFIs operate for the benefit of DoD Service members, so they provide non pay benefits to DoD; however, the non-financial risks arising from NAFI relationships are limited.

Federally Funded Research and Development Centers

The Department maintains contractual relationships with the parent organizations of ten DoD sponsored FFRDCs to meet some special long-term research or development needs that cannot be met as effectively by existing government or contractor resources. The work performed by the FFRDCs provide significant benefits to the Department, which are considered critical to national security. FFRDCs that provide support to the Department are classified into three categories – (1) research and development laboratories, (2) systems engineering and integration centers, and (3) study and analysis centers.

FFRDC relationships are defined through a bi-lateral sponsoring agreement between each DoD sponsoring organization and the parent organization that operates each FFRDC. All DoD funding for FFRDC work is provided through the Department's contract with the FFRDC's parent organization. While the Department does not control the day-to-day operations of the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest. The Department does not have any ownership interest in the FFRDCs. An FFRDC may be used only for work within its purpose, mission, and general scope of effort, as established in the sponsoring agreement. Additionally, Congress sets annual limits on the amount of staff-years of technical effort that may be funded for FFRDCs. Together, the sponsoring agreements, contract terms, and Congressional controls on staff-years of effort and funding, serve to limit the Federal Government's exposure to financial and non-financial risks arising from FFRDC relationships.

Related Parties

Organizations are considered related parties if: (1) the existing relationship, or one party to the existing relationship, has the ability to exercise significant influence over the other party's policy decisions and (2) the organizations do not meet the inclusion principles of *SFFAS 47*. The Department has identified that its Public Private Partnerships (P3) meet the criteria for disclosure as related parties and are continuing to perform an assessment on all of its P3 investments to determine if they meet the criteria for consolidation. See Note 25 *Public Private Partnerships* for additional disclosures.

Note 27. Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Compilation in the U.S. Government wide Financial Report

Agency financial statements, including the Department's, are included in the Financial Report of the U.S. Government (*FR*). The FY 2019 FR will be published by *The Bureau of Fiscal Service* upon its release.

To prepare the FR, the Department of the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements.

The following tables display the relationship between each of the Department's financial statements (on the left side) and the Department's corresponding reclassified statements (on the right side) prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items.

"Non-Federal" transactions are with individuals, businesses, non-profit entities, and state, local, and foreign governments.

Table 27A. Reclassification of Balance Sheet

As of September 30
($ in millions)

FY2019 Department of Defense SNC				Line Items Used to Prepare FY 2019 Government-wide Balance Sheet			
Financial Statement Line		Amount			Reclassified Financial Statement Line		Amount
				1	Assets		
				2	Non-Federal		
Cash and Other Monetary Assets (Note 4)	$	918.3					
Total	$	918.3		2.1	Cash and Other Monetary Assets	$	918.3
Accounts Receivable, Net (Note 6)	$	5,894.5					
Total	$	5,894.5		2.2	Accounts and Taxes Receivable, Net	$	5,894.5
Loans Receivable (Note 7)	$	1,738.7					
Total	$	1,738.7		2.3	Loans Receivable, Net	$	1,738.7
Inventory and Related Property, Net (Note 8)	$	291,489.7					
Total	$	291,489.7		2.4	Inventories and Related Property, Net	$	291,489.7
General Property, Plant and Equipment, Net (Note 9)	$	768,558.4					
Total	$	768,558.4		2.5	Property, Plant, and Equipment, Net	$	768,558.4
Investments (Note 5)	$	3,511.6					
Total	$	3,511.6		2.6	Debt and Equity Securities	$	3,511.6
Other Assets (Note 10)	$	19,543.1					
Total	$	19,543.1		2.8	Other Assets	$	19,543.1
Total Non-Federal Assets	**$**	**1,091,654.3**		**2.9**	**Total Non-Federal Assets**	**$**	**1,091,654.3**
				3	Federal		
Fund Balance with Treasury (Note 3)	$	607,555.3					
Total	$	607,555.3		3.1	Fund Balance With Treasury (RC 40)/1	$	607,555.3
Investments (Note 5) (1 of 2)	$	1,179,528.4					
Total	$	1,179,528.4		3.2	Federal Investments (RC 01)/1	$	1,179,528.4
Accounts Receivable (Note 6) (1 of 2)	$	1,465.8					
Other Assets (Note 10) (1 of 2)	$	123.4					
Total	$	1,589.2		3.3	Accounts Receivable (RC 22)/1	$	1,589.2
Investments (Note 5) (2 of 2)	$	8,080.6					
Total	$	8,080.6		3.5	Interest Receivable - Investments (RC 02)/1	$	8,080.6
Accounts Receivable (Note 6) (2 of 2)	$	559.4					
Total	$	559.4		3.8	Transfers Receivable (RC 27)/1	$	559.4
Other Assets (Note 10) (2 of 2)	$	983.1					
Total	$	983.1		3.10	Advances to Others and Prepayments (RC 23)/1	$	983.1
Total Federal Assets	**$**	**1,798,296.0**		**3.14**	**Total Federal Assets**	**$**	**1,798,296.0**
Total Assets	**$**	**2,889,950.3**		**4**	**Total Assets**	**$**	**2,889,950.3**

Table 27A. Reclassification of Balance Sheet

As of September 30
($ in millions)

FY2019 Department of Defense SNC			Line Items Used to Prepare FY 2019 Government-wide Balance Sheet	
Financial Statement Line	**Amount**		**Reclassified Financial Statement Line**	**Amount**
		5	**Liabilities**	
		6	**Non-Federal**	
Accounts Payable	$ 39,682.5	6.1	Accounts Payable	$ 39,682.5
Total	$ 39,682.5			
Military Retirement and Other Federal	$ 2,596,371.8	6.3	Federal Employee and Veteran Benefits Payable	$ 2,597,130.4
Other Liabilities (Note 15 and Note 17) (1 of 3)	$ 758.6			
Total	$ 2,597,130.4			
Environmental and Disposal Liabilities (Note 14)	$ 76,124.9	6.4	Environmental and Disposal Liabilities	$ 76,124.9
Total	$ 76,124.9			
Other Liabilities (Note 15 and Note 17) (2 of 3)	$ 3.3	6.5	Benefits Due and Payable	$ 3.3
Total	$ 3.3			
Loan Guarantee Liability (Note 7)	$ 50.7	6.6	Loan Guarantee Liabilities	$ 50.7
Total	$ 50.7			
Other Liabilities (Note 15 and Note 17) (3 of 3)	$ 35,996.3	6.9	Other Liabilities	$ 35,996.3
Total	$ 35,996.3			
Total Non-Federal Liabilities	**$ 2,748,988.1**	**6.10**	**Total Non-Federal Liabilities**	**$ 2,748,988.1**
		7	**Federal**	
Accounts Payable (1 of 2)	$ 1,543.7	7.1	Accounts Payable (RC 22)/1	$ 2,345.7
Other Liabilities (Note 15 & 17) (1 of 6)	$ 802.0			
Total	$ 2,345.7			
Debt (Note 12)	$ 1,714.1	7.6	Loans Payable (RC 17)/1	$ 1,714.1
Total	$ 1,714.1			
Accounts Payable (2 of 2)	$ 0.6	7.7	Transfers Payable (RC 27)/1	$ 0.6
Total	$ 0.6			
Other Liabilities (Note 15 & 17) (2 of 6)	$ 1,716.6	7.8	Benefit Program Contributions Payable (RC 21)/1	$ 1,716.6
Total	$ 1,716.6			
Other Liabilities (Note 15 & 17) (3 of 6)	$ 2,032.3	7.9	Advances from Others and Deferred Credits (RC 23)/1	$ 2,032.3
Total	$ 2,032.3			
Other Liabilities (Note 15 & 17) (4 of 6)	$ 3,097.0	7.10	Liability to the General Fund for Custodial and Other Non-Entity Assets (RC 46)/1	$ 3,097.0
Total	$ 3,097.0			
Other Liabilities (Note 15 & 17) (5 of 6)	$ 2.3	7.11	Liability to agency Other Than the General Fund of the U.S. Government for custodial and other non-entity assets (RC 29)/1	$ 2.3
Total	$ 2.3			
Other Liabilities (Note 15 & 17) (6 of 6)	$ 126.8	7.12	Other Liabilities (Without Reciprocals) (RC 29)/1	$ 126.8
Total	$ 126.8			
Total Federal Liabilities	**$ 11,035.4**	**7.15**	**Total Federal Liabilities**	**$ 11,035.4**
Total Liabilities	**$ 2,760,023.5**	**8**	**Total Liabilities**	**$ 2,760,023.5**
		9	**Net Position:**	
Cumulative Results of Operations - Dedicated	$ 30,331.1	9.1	Net Position - Funds From Dedicated Collections	$ 30,331.1
Total	$ 30,331.1			
Unexpended Appropriations - Other Funds	$ 545,168.2	9.2	Net Position - Funds Other Than Those From Dedicated Collections	$ 99,595.7
Cumulative Results of Operations - Other Funds	$ (445,572.5)			
Total	$ 99,595.7			
Total Net Position	**$ 129,926.8**	**10**	**Total Net Position**	**$ 129,926.8**
Total Liabilities and Net Position	**$ 2,889,950.3**	**11**	**Total Liabilities and Net Position**	**$ 2,889,950.3**

Table 27B. Reclassification of Statement of Net Cost

As of September 30
($ in millions)

FY2019 Department of Defense SNC		Line Items Used to Prepare FY 2019 Government-wide SNC		
Financial Statement Line	**Amount**		**Reclassified Financial Statement Line**	**Amount**
		1	**Gross Costs**	
Gross Cost	$ 780,402.3	2	Non-Federal Gross Cost	$ 780,402.3
Total	$ 780,402.3			
Losses/(Gains) from Actuarial Assumption Changes	$ 138,808.5	4	Gains/Losses from Changes in Actuarial Assumptions	$ 138,808.5
Total	$ 138,808.5			
Total Non-Federal Gross Cost	**$ 919,210.8**	**6**	**Total Non-Federal Gross Cost**	**$ 919,210.8**
		7	**Federal Gross Cost**	
Gross Costs (1 of 6)	$ 15,598.7	7.1	Benefit program costs (RC 26)/2	$ 15,598.7
Total	$ 15,598.7			
Gross Costs (2 of 6)	$ 5,609.8	7.2	Imputed Costs (RC25)/2	$ 5,609.8
Total	$ 5,609.8			
Gross Costs (3 of 6)	$ 15,532.3	7.3	Buy/Sell Cost (RC24)/2	$ 15,532.3
Total	$ 15,532.3			
Gross Costs (4 of 6)	$ 262.8	7.4	Purchase of assets (RC 24)/2	$ 262.8
Total	$ 262.8			
Gross Costs (5 of 6)	$ 67.2	7.6	Borrowing and other interest expense (RC05)/2	$ 67.2
Total	$ 67.2			
Gross Costs (6 of 6)	$ 5,126.4	7.8	Other expenses (without reciprocals) (RC 29)	$ 5,126.4
Total	$ 5,126.4			
Total Federal Gross Cost	**$ 42,197.2**	**8**	**Total Federal Gross Cost**	**$ 42,197.2**
Department Total Gross Cost	**$ 961,408.0**	**9**	**Department Total Gross Cost**	**$ 961,408.0**
		10	**Earned Revenue**	
Less: Earned Revenue	$ (44,190.0)	11	Non-federal earned revenue	$ (44,190.0)
Total	$ (44,190.0)			
		12	**Federal Earned Revenue**	
Less: Earned Revenue (1 of 4)	$ (229.6)	12.1	Benefit Program Revenue (exchange) (RC26)/2	$ (229.6)
Total	$ (229.6)			
Less: Earned Revenue (2 of 4)	$ (9,452.3)	12.2	Buy/Sell Revenue (exchange) (RC24)/2	$ (9,452.3)
Total	$ (9,452.3)			
Gross Costs	$ (262.8)	12.3	Purchase of assets offset (RC 24)/2	$ (262.8)
	$ (262.8)			
Less: Earned Revenue (3 of 4)	$ (36,626.3)	12.4	Federal securities interest revenue including associated gains and losses (exchange) (RC 03)/2	$ (36,626.3)
Total	$ (36,626.3)			
Less: Earned Revenue (4 of 4)	$ (4.0)	12.5	Borrowing and other interest revenue (exchange) (RC 05)/2	$ (4.0)
Total	$ (4.0)			
Total Federal Earned Revenue	**$ (46,575.0)**	**13**	**Total Federal Earned Revenue**	**$ (46,575.0)**
Department Total Earned Revenue	**$ (90,765.0)**	**14**	**Department Total Earned Revenue**	**$ (90,765.0)**
Net Cost of Operations	**$ 870,643.0**	**15**	**Net Cost of Operations**	**$ 870,643.0**

Table 27C. Reclassification of Statement of Changes in Net Position

As of September 30
($ in millions)

FY2019 Department of Defense SCNP			Line Items Used to Prepare FY 2019 Government-wide SCNP			
Financial Statement Line		Amount		Reclassified Financial Statement Line		Amount
Unexpended Appropriations, Beginning	$	529,803.7				
Cumulative Results of Operations, Beginning	$	(344,220.1)	1	Net position, beginning of period	$	185,583.6
Total	$	185,583.6				
			2	**Non-Federal Prior-Period Adjustments**		
Cumulative Results of Operations ,Changes in accounting principles (+/-) (1 of 2)	$	5,727.6	2.1	Changes in Accounting Principles	$	5,727.6
Total	$	5,727.6				
Cumulative Results of Operations, Corrections of errors (+/-)	$	7,250.4	2.3	Corrections of Errors - Years Preceding the Prior Year - Non federal	$	7,250.4
Total	$	7,250.4				
			3	**Federal Prior Period Adjustments**		
Cumulative Results of Operations ,Changes in accounting principles (+/-) (2 of 2)	$	(1,449.8)	3.1	Changes in Accounting Principles-Federal (RC 29)/1	$	(1,449.8)
Total	$	(1,449.8)				
Net position, beginning of period - adjusted	**$**	**197,111.8**	**4**	**Net position, beginning of period - adjusted**	**$**	**197,111.8**
			5	**Non-Federal Nonexchange Revenue:**		
Nonexchange revenue	$	2,075.2				
Donations and Forfeitures of Cash and Cash Equivalents	$	137.5				
Other budgetary financing sources	$	(2,521.5)	5.7	Other Taxes and Receipts	$	16,469.5
Other (+/-)	$	16,778.3				
Total	$	16,469.5				
Total Non-Federal Nonexchange Revenue	**$**	**16,469.5**	**5.9**	**Total Non-Federal Nonexchange Revenue**	**$**	**16,469.5**
			6	**Federal Nonexchange Revenue:**		
Nonexchange revenue (1 of 3)	$	231.7	6.1	Federal Securities Interest Revenue Including Associated Gains and Losses (Non-exchange) (RC	$	231.7
Total	$	231.7				
Nonexchange revenue (2 of 3)	$	117.0	6.4	Other Taxes and Receipts (RC 45)/1	$	117.0
Total	$	117.0				
Nonexchange revenue (3 of 3)	$	1,573.7	6.6	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 15)	$	1,573.7
Total	$	1,573.7				
Other (+/-)	$	(2.3)	6.7	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 16)	$	(2.3)
Total	$	(2.3)				
Total Federal Nonexchange Revenue	**$**	**1,920.1**	**6.9**	**Total Federal Nonexchange Revenue**	**$**	**1,920.1**

Table 27C. Reclassification of Statement of Changes in Net Position

As of September 30
($ in millions)

FY2019 Department of Defense SCNP			Line Items Used to Prepare FY 2019 Government-wide SCNP			
Financial Statement Line		Amount		Reclassified Financial Statement Line		Amount
			7	**Budgetary Financing Sources:**		
Appropriations received	$	802,827.9				
Other adjustments (+/-)	$	(22,533.9)				
Total	**$**	**780,294.0**	7.1	Appropriations Received As Adjusted (Rescissions and Other Adjustments) (RC 41)/1	$	780,294.0
Appropriations used (1 of 2)	$	(764,988.7)				
Total	$	(764,988.7)	7.2	Appropriations Used (RC 39)	$	(764,988.7)
Appropriations used (2 of 2)	$	764,988.7				
Total	$	764,988.7	7.3	Appropriations expended (RC 38)/1	$	764,988.7
Transfers-in/out without reimbursement (1 of 3)	$	378.1				
Appropriations transferred-in/out (1 of 2)	$	290.4				
Total	**$**	**668.5**	7.6	Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources (RC 08)/1	$	668.5
Transfers-in/out without reimbursement (2 of 3)	$	(42.9)				
Appropriations transferred-in/out (2 of 2)	$	(231.2)				
Total	**$**	**(274.1)**	7.7	Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources (RC 08)/1	$	(274.1)
Transfers-in/out without reimbursement (3 of 3)	$	(197.7)				
Total	$	(197.7)	7.9	Expenditure transfers-out of financing sources (RC 09)/1	$	(197.7)
Other adjustments (+/-)	$	(210.8)				
Total	**$**	**(210.8)**	7.12	Revenue and Other Financing Sources - Cancellations (RC 36)	$	(210.8)
Total budgetary financing sources	**$**	**780,279.9**	**7.20**	**Total budgetary financing sources**	**$**	**780,279.9**
			8	**Other Financing Sources:**		
Transfers-in/out without reimbursement (+/-) (1 of 2)	$	173.3				
Total	$	173.3	8.1	Transfers-In Without Reimbursement (RC 18)/1	$	173.3
Transfers-in/out without reimbursement (+/-) (2 of 2)	$	(126.9)				
Total	$	(126.9)	8.2	Transfers-Out Without Reimbursement (RC 18)/1	$	(126.9)
Imputed financing from costs absorbed by others	$	5,609.8				
Total	$	5,609.8	8.3	Imputed Financing Sources (RC 25)/1	$	5,609.8
Other (+/-) (1 of 2)	$	(821.8)				
Total	$	(821.8)	8.4	Non-Entity Collections Transferred to the General Fund (RC 44)	$	(821.8)
Other (+/-) (2 of 2)	$	(45.9)				
Total	$	(45.9)	8.5	Accrual for Non-Entity Amounts To Be Collected and Transferred to the General Fund of the U.S. Government (RC 48)	$	(45.9)
Total Other Financing Sources	**$**	**4,788.5**	**8.11**	**Total Other Financing Sources**	**$**	**4,788.5**
Net Cost of Operations (+/-)	**$**	**(870,643.0)**	**9**	**Net Cost of Operations (+/-)**	**$**	**(870,643.0)**
Ending Net Position Balance	**$**	**129,926.8**	**10**	**Ending Net Position Balance**	**$**	**129,926.8**

Note 28. Restatements

The Department restated its financial statements as of September 30, 2018 to correct errors in liabilities, Cumulative Results of Operations – Dedicated Collections and Cumulative Results of Operations – Other Funds, net cost, earned revenue and budgetary resources. The restatement brought offline adjustments from published component Agency Financial Reports into the Department reporting system.

The following notes were restated: Note 3, *Fund Balance with Treasury*; Note 11, *Liabilities Not Covered by Budgetary Resources*; Note 15, *Other Liabilities*; Note 19, *General Disclosures Related to the Statement of Net Cost*; Note 20, *Disclosures Related to the Statement of Changes in Net Position;* Note 21, *Disclosures Related to the Statement of Budgetary Resources.*

Table 28A. Effect on FY 2019 Beginning Cumulative Results of Operations and Unexpended Appropriations

For the years ended September 30
($ in millions)

FY 2019 Net Position		2019
Unexpended Appropriations - Other Funds	$	57.1
Cumulative Results of Operations - Dedicated Collections		10,955.6
Cumulative Results of Operations - Other Funds		(10,955.6)
Total Net Position	**$**	**57.1**

Table 28B. Effect on FY 2018 Comparative Balances

For the years ended September 30
($ in millions)

FY 2018 Balance Sheet		
Fund Balance With Treasury (net effect of restatements)	$	-
Other Liabilties	$	(57.1)
Total Other Liabilities	**$**	**(57.1)**
Unexpended Appropriations - Other Funds	$	57.1
Cumulative Results of Operations - Dedicated Collections		10,955.6
Cumulative Results of Operations - Other Funds		(10,955.6)
Total Net Position	**$**	**57.1**
FY 2018 Statement of Net Cost		
Gross Costs	$	36.8
Less Earned Revenue		(27.3)
Net Cost of Operations	**$**	**9.5**
FY 2018 Statement of Changes in Net Position		
Beginning Balance	$	66.6
Appropriations Used		(9.5)
Total Unexpended Appropriations	**$**	**57.1**
Appropriations Used	$	9.5
Nonexchange Revenue		1,513.2
Transfers-in/out without reimbursement		(1,513.2)
Total Financing Sources	**$**	**9.5**
(Includes Funds from Dedicated Collections)		
Net Cost of Operations	**$**	**9.5**
Net Position	**$**	**57.1**
FY 2018 Statement of Changes in Net Position		
Exempt from apportionment, unexpired accounts	$	921.6
Unapportioned, unexpired accounts	**$**	**(921.6)**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

The Department makes substantial investments for the benefit of the Nation. Stewardship Investments are treated as expenses, when incurred, in calculating net costs. These investments are reported as Required Supplementary Stewardship Information to highlight the extent of the investments that are made for long-term benefit to the public.

The Department's stewardship investments are measured by expensed for (1) federally-financed, but not federally owned physical property (Non-Federal Physical Property) and (2) federally-financed Research and Development (R&D).

NON-FEDERAL PHYSICAL PROPERTY

Table RSSI-1. Non-Federal Physical Property Investments

As of September 30 ($ in millions)	2019	2018	2017	2016	2015
Transferred Assets					
National Defense Mission Related	$ 1,119.5	$ 1,162.4	$ 1,011.4	$ 1,265.2	$ 1,307.2
Funded Assets					
National Defense Mission Related	41.1	16.4	15.5	17.2	12.7
Total Non-Federal Phsical Property Investments	$ 1,160.6	$ 1,178.8	$ 1,026.9	$ 1,282.4	$ 1,319.9

The Non-Federal Physical Property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. In addition, Non-Federal Physical Property investments include federally-owned physical property transferred to state and local governments. The Department participates in cost-sharing agreements with non-federal sponsors which are governed under numerous Water Resources Development Acts. The Department's transferred assets include expenditures supporting the design, build, and construction services/management for the missions of commercial navigation, flood/storm damage reduction, hydropower, regulatory, environmental, recreation and water supply.

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Investment values included in this report are based on R&D expenditures. The R&D programs are classified in the following categories: Basic Research, Applied Research, and Development. The amounts reported in Table RSSI-2 present the expenditures from FY 2015 to FY 2019 for all DoD Components.

Table RSSI-2. Investments in Research and Developments

As of September 30 ($ in millions)	2019	2018	2017	2016	2015
Basic Research	$ 1,510.8	$ 2,321.1	$ 1,960.3	$ 2,106.8	$ 1,958.0
Applied Research	6,069.2	6,393.6	6,988.6	6,307.5	5,744.7
Development					
Advanced Technology Development	5,677.9	5,862.9	5,736.5	5,525.8	5,007.6
Advanced Component Development and Prototypes	16,405.2	16,243.7	13,965.7	12,517.9	11,954.9
System Development and Demonstration	9,328.2	13,241.3	11,487.3	11,037.7	10,733.8
Research, Development, Test and Evaluation Management Support	6,544.4	6,882.3	5,189.3	5,335.5	5,163.3
Operational Systems Development	23,954.6	24,776.1	21,611.1	20,428.8	20,441.9
Subtotal	$ 69,490.3	$ 75,721.0	$ 66,938.8	$ 63,260.0	$ 61,004.2
Department of the Navy - FY 2019 in total*	18,519.0	N/A	N/A	N/A	N/A
Total	$ 88,009.3	$ 75,721.0	$ 66,938.8	$ 63,260.0	$ 61,004.2

* The Department of the Navy's (DON) investments in R&D for FY 2019 are presented separately. A mid-year data conversion from a legacy accounting system to its Enterprise Resource Planning System did not permit the classification of the DON's data into the proper categories for FY 2019 only. The DON's investments are consolidated with the other DoD Components for the other fiscal years presented.

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, or limited construction of a weapon system component, to include non-system-specific development efforts.

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development consists of the five stages:

- Advanced Technology Development is the systematic use of the knowledge or understanding gained from research and directed toward proof of concept and feasibility rather than directed toward the development of hardware for service use. It employs demonstration activities intended to test a technology or method.
- Advanced Component Development and Prototypes evaluates integrated technologies in an operating environment as realistic as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system-specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components and complete weapon systems ready for operational and developmental testing and field use.

- System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.
- Research, Development, Test, and Evaluation Management Support bolsters installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses furthering the Research and Development program.
- Operational Systems Development funding finances projects, programs, or upgrades in engineering and manufacturing development stages which have received approval for production, including production funds that have been budgeted in subsequent fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

This section provides the deferred maintenance and repairs disclosures, required in accordance with *SFFAS 42*, and the Combining Statement of Budgetary Resources, which disaggregates the information aggregated for presentation on the DoD Agencywide Combined Statement of Budgetary Resources.

Real Property Deferred Maintenance and Repairs

Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when needed or were scheduled to be and are delayed for a future period. DM&R are identified through condition assessment surveys in accordance with the September 10, 2013 Under Secretary of Defense for Acquisition Technology and Logistics policy memorandum, *Standardizing Facility Condition Assessments*. The real property record is the data source for obtaining the reported total deferred maintenance and repairs. Facility Categories are:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission, including multi-use Heritage Assets;
- Category 2: Buildings, Structures, and Linear Structures that are Heritage Assets; and
- Category 3: Buildings, Structures, and Linear Structures that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.

Table RSI-1. Real Property Deferred Maintenance and Repairs (excluding Military Family Housing)

As of September 30	2019		
($ in millions)	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 1,153,937.2	$ 101,584.8	9%
Category 2	81,209.7	11,332.8	14%
Category 3	38,216.2	6,074.0	16%
Total	$ 1,273,363.1	$ 118,991.6	9%

As of September 30	2018		
($ in millions)	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 1,122,340.6	$ 95,815.9	9%
Category 2	94,998.7	10,903.7	11%
Category 3	18,301.0	4,097.0	22%
Total	$ 1,235,640.3	$ 110,816.6	9%

Table RSI-2. Real Property Deferred Maintenance and Repairs (Military Family Housing only)

As of September 30 ($ in millions)	2019		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 24,285.0	$ 3,197.0	13%
Category 2	595.0	162.0	27%
Category 3	410.0	105.0	26%
Total	$ 25,290.0	$ 3,464.0	14%

As of September 30 ($ in millions)	2018		
	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Property Type			
Category 1	$ 24,560.0	$ 1,451.0	6%
Category 2	531.0	123.0	23%
Category 3	383.0	111.0	29%
Total	$ 25,474.0	$ 1,685.0	7%

As of the end of FY 2019, the Department estimates facility maintenance cost of more than $122.5 billion for facilities with replacement cost of $1.3 trillion. The totals include $7.9 billion in civil works related maintenance needs under the USACE with replacement cost of more than $267.1 billion.

Maintenance and Repair Policies

The Department is migrating to the Sustainment Management System (*SMS*), to perform a cyclical assessment of real property facilities and assign a facility condition index (FCI), which considers an asset's key life-cycle attributes such as age and material.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department considers mission, health and safety, and quality of life when assigning priority to maintenance needs and assessing whether a facility is in acceptable condition. Generally, an asset is considered acceptable when it is in good condition with an assigned FCI of 90 percent or above.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets.

EQUIPMENT DEFERRED MAINTENANCE AND REPAIRS

Table RSI-3. Equipment Deferred Maintenance and Repairs

As of September 30 ($ in millions)	2019	2018
Major Categories		
Aircraft	$ 986.3	$ 583.7
Automotive Equipment	19.3	47.3
Combat Vehicles	284.6	372.6
Construction Equipment	11.5	8.7
Electronics and Communications Systems	122.9	113.9
Missiles	52.1	123.9
Ships	525.6	221.2
Ordnance Weapons and Munitions	88.2	65.8
Other Items Not Identified Above	75.3	74.3
Total	$ 2,165.8	$ 1,611.4

Maintenance and Repair Policies

Depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. Not all unfunded depot maintenance requirements are deferred. In support of the Planning, Programming, Budgeting, and Execution (PPBE) process, each Military Service has fairly detailed and methodical processes for determining their depot maintenance requirements. During this process, and as more information becomes available, depot requirements are adjusted and refined, and the amount of funding is determined, based on Military Service priorities and assessment of risk.

Ultimately, Military Service depot maintenance requirements and funding amounts are included in the baseline budget. In the year of execution, the Military Services may take steps to either mitigate, or exacerbate the levels of deferred maintenance depending upon the availability of resources and Military Service priorities. The Military Services may take steps to mitigate deferred maintenance through the reprogramming of resources from cancelled programs, or from those of a lesser priority, or utilize supplemental funding. The Military Services may also cancel requirements, direct maintenance be performed at the field-level, or even reduce force structure and reprogram those operation and maintenance.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department prioritizes maintenance and repair requirements based on mission and health and safety. In addition, emerging requirements and real world events drive review and reprioritization of maintenance and repair requirements. The Department employs risk-based methodologies in determining acceptable levels of equipment operational risk.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD equipment and is not restricted to capitalized assets.

Significant Changes in Deferred Maintenance and Repair

The Department’s deferred maintenance and repair work for equipment, platforms, and weapon systems increased by $554.4 million during FY 2019. The increase was primarily driven by parts constraints, unplanned in-service repair, and increased unit costs related to aircraft as well as workload growth related to ships.

Combining Statement of Budgetary Resources

Table RSI-4. Combining Statement of Budgetary Resources (Budgetary)

For the year ended September 30 ($ in millions)	2019							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Contstuction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 8,045.2	$ 82,446.8	$ 26,936.2	$ 18,375.1	$ -	$ 31,327.1	$ 59,637.7	$ 226,768.1
Appropriations (Discretionary and Mandatory)	149,383.7	146,873.0	97,348.1	11,354.1	71,409.9	10,954.2	387,055.1	874,378.1
Borrowing Authority (Discretionary and Mandatory)	-	-	-	-	-	-	-	-
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	86,854.4	86,854.4
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,604.0	2,859.9	12,491.8	6,463.2	-	14,792.1	74,754.6	112,965.6
Total Budgetary Resources	$ 159,032.9	$ 232,179.7	$ 136,776.1	$ 36,192.4	$ 71,409.9	$ 57,073.4	$ 608,301.8	$1,300,966.2
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	$ 155,371.6	$ 159,675.6	$ 117,159.1	$ 17,043.3	$ 71,409.9	$ 24,400.7	$ 570,880.0	$1,115,940.2
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	428.8	69,888.6	17,815.5	18,108.2	-	32,687.8	18,225.4	157,154.3
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	43.0	3,997.4	4,040.4
Unapportioned, Unexpired Accounts	-	0.4	1.9	0.4	-	(64.6)	1,190.1	1,128.2
Unexpired Unobligated Balance, End of Year	428.8	69,889.0	17,817.4	18,108.6	-	32,666.2	23,412.9	162,322.9
Expired Unobligated Balance, End of Year	3,232.5	2,615.1	1,799.6	1,040.5	-	6.5	14,008.9	22,703.1
Unobligated Balance, End of Year (Total)	3,661.3	72,504.1	19,617.0	19,149.1	-	32,672.7	37,421.8	185,026.0
Total Budgetary Resources	$ 159,032.9	$ 232,179.7	$ 136,776.1	$ 36,192.4	$ 71,409.9	$ 57,073.4	$ 608,301.8	$1,300,966.2
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	$ 148,360.5	$ 124,324.4	$ 90,659.1	$ 7,024.7	$ 71,160.1	$ 7,259.3	$ 379,845.2	$ 828,633.3
Distributed Offsetting Receipts (-)	-	-	-	-	(104,217.7)	(815.0)	(2,377.4)	(107,410.1)
Agency Outlays, Net (Discretionary and Mandatory)	$ 148,360.5	$ 124,324.4	$ 90,659.1	$ 7,024.7	$ (33,057.6)	$ 6,444.3	$ 377,467.8	$ 721,223.2

Table RSI-4. Combining Statement of Budgetary Resources (Budgetary)

For the year ended September 30 ($ in millions)	2018							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Contstuction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 6,518.2	$ 66,143.6	$ 20,602.4	$ 14,586.2	$ -	$ 11,986.6	$ 61,171.2	$ 181,008.2
Appropriations (Discretionary and Mandatory)	144,017.0	147,080.9	93,807.9	10,241.0	69,065.7	25,087.7	374,282.8	863,583.0
Borrowing Authority (Discretionary and Mandatory)	-	-	-	-	-	-	-	-
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	88,428.1	88,428.1
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,385.9	3,771.0	11,324.3	6,201.2	-	20,516.2	76,215.3	119,413.9
Total Budgetary Resources	$ 151,921.1	$ 216,995.5	$ 125,734.6	$ 31,028.4	$ 69,065.7	$ 57,590.5	$ 600,097.4	$1,252,433.2
Memorandum (Non-Add) Entries								
Net Adjustments to Unobligated Balances Brought Forward, Oct 1	$ 2,777.7	$ 5,318.7	$ 1,427.8	$ 245.9	$ -	$ 442.5	$ 12,087.7	$ 22,300.3
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	$ 148,779.7	$ 140,398.4	$ 101,647.5	$ 13,553.1	$ 69,065.7	$ 26,937.2	$ 553,827.7	$1,054,209.3
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	228.8	73,423.7	22,497.8	16,427.8	-	30,618.9	22,505.9	165,702.9
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	27.3	3,769.9	3,797.2
Unapportioned, Unexpired Accounts	-	14.9	11.3	0.9	-		984.5	1,011.6
Unexpired Unobligated Balance, End of Year	228.8	73,438.6	22,509.1	16,428.7	-	30,646.2	27,260.3	170,511.7
Expired Unobligated Balance, End of Year	2,912.6	3,158.5	1,578.0	1,046.6	-	7.1	19,009.4	27,712.2
Unobligated Balance, End of Year (Total)	3,141.4	76,597.1	24,087.1	17,475.3	-	30,653.3	46,269.7	198,223.9
Total Budgetary Resources	$ 151,921.1	$ 216,995.5	$ 125,734.6	$ 31,028.4	$ 69,065.7	$ 57,590.5	$ 600,097.4	$1,252,433.2
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	$ 138,990.3	$ 111,904.0	$ 78,315.2	$ 6,338.1	$ 64,541.9	$ 5,932.9	$ 357,193.6	$ 763,216.0
Distributed Offsetting Receipts (-)	-	-	(7.8)	-	(98,904.2)	(860.2)	(2,200.9)	(101,973.1)
Agency Outlays, Net (Discretionary and Mandatory)	$ 138,990.3	$ 111,904.0	$ 78,307.4	$ 6,338.1	$ (34,362.3)	$ 5,072.7	$ 354,992.7	$ 661,242.9

Table RSI-5. Combining Statement of Budgetary Resources (Non-Budgetary Credit Reform Financing Account)

For the year ended September 30 ($ in millions)	2019 Operations, Readiness & Support	2019 Combined	2018 Operations, Readiness & Support	2018 Combined
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 69.0	$ 69.0	$ 85.1	$ 85.1
Appropriations (Discretionary and Mandatory)	-	-	-	-
Borrowing Authority (Discretionary and Mandatory)	63.3	63.3	55.4	55.4
Contract Authority (Discretionary and Mandatory)	-	-	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	56.8	56.8	61.6	61.6
Total Budgetary Resources	189.1	189.1	202.1	202.1
Memorandum (Non-Add) Entries				
Net Adjustments to Unobligated Balances Brought Forward, Oct 1	-	-	-	-
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	129.2	129.2	133.1	133.1
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	-	-	-
Exempt from Apportionment, Unexpired Accounts	-	-	-	-
Unapportioned, Unexpired Accounts	59.9	59.9	69.0	69.0
Unexpired Unobligated Balance, End of Year	59.9	59.9	69.0	69.0
Expired Unobligated Balance, End of Year	-	-	-	-
Unobligated Balance, End of Year (Total)	59.9	59.9	69.0	69.0
Total Budgetary Resources	189.1	189.1	202.1	202.1
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	37.6	37.6	71.2	71.2
Distributed Offsetting Receipts (-)	-	-	-	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 37.6	$ 37.6	$ 71.2	$ 71.2

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FY 2019

Other Information

2019 DoD Warrior Games' Senior Athlete Learns New Meaning of "Still in the Fight"

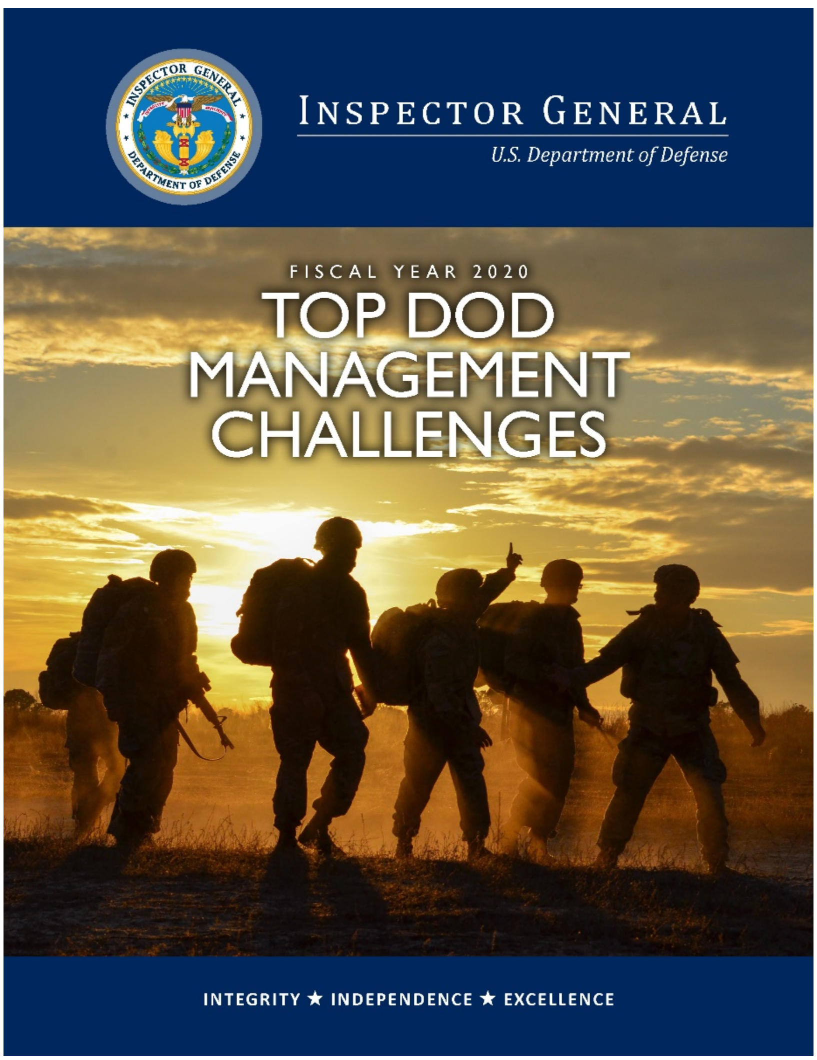
Click picture for the full article

Management Challenges

In accordance with the *Reports Consolidation Act of 2000*, the DoD Inspector General (*DoD IG*) prepares an annual statement that summarizes what the DoD IG considers to be the most serious management and performance challenges facing the Department. This statement is included in a larger report by the DoD IG that provides additional background and descriptive information about each challenge and provides an assessment of the Department's progress in addressing the challenges.

The DoD Office of the Inspector General uses the DoD IG report as a research and planning tool to identify areas of risk in DoD operations. As the report is forward-looking and outlines the most significant management and performance challenges facing the Department now and in the future, it is labelled as FY 2020 rather than FY 2019 to reflect its forward-looking orientation.

The DoD IG's statement and executive summary of the most serious management and performance challenges facing the Department are included on the following pages. The complete DoD IG report on FY 2020 Top DoD Management Challenges as well as reports from previous years are available at the *DoD IG website*.



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

October 15, 2019

The Reports Consolidation Act of 2000 requires each Inspector General (IG) to prepare an annual statement that summarizes what the IG considers to be the "most serious management and performance challenges facing the agency" and to assess the agency's progress in addressing those challenges. According to the law, each "agency head may comment on the IG's statement, but may not modify the statement." The IG's statement must also be included in the Agency Financial Report.

This document, the FY 2020 Top DoD Management Challenges, outlines the DoD OIG's independent assessment of the DoD's most significant management challenges. This document is forward looking and identifies the top challenges facing the DoD in FY 2020 and beyond. The DoD OIG also uses this document as a critical part of the DoD OIG's oversight planning process, which seeks to ensure that the DoD OIG's planned oversight of DoD programs and operations addresses the DoD's most significant management challenges.

The DoD OIG independently identifies these challenges based on a variety of factors, including our independent research, assessment, and judgment; oversight work completed by the DoD OIG and other oversight organizations; congressional hearings and legislation; input from DoD officials; and issues highlighted by the media that are adversely affecting the DoD.

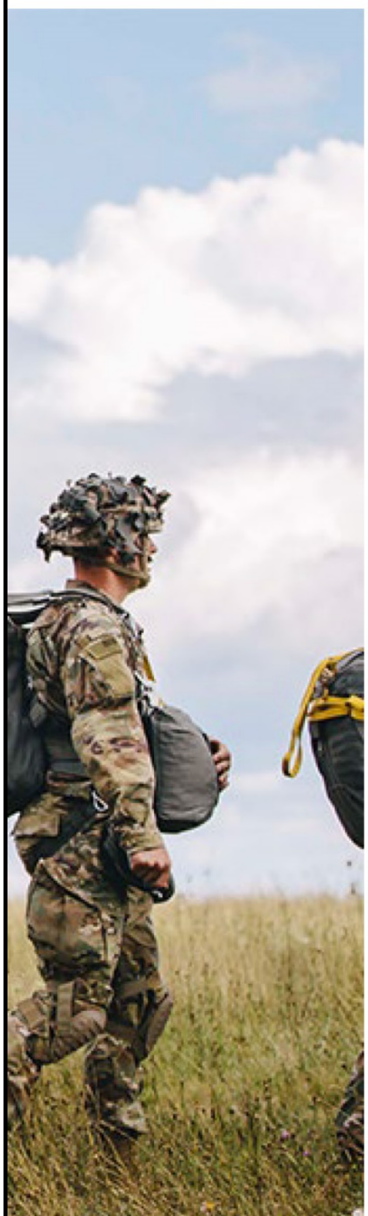
This year, many of the challenges remain from previous years, because they are persistent, long-standing challenges that the DoD will continue to face. The DoD OIG added two new management challenges this year, focused on the welfare and well-being of service members and their families and on supply chain management and security. Both of these are critical issues that contribute to the readiness of the DoD and its ability to pursue its mission.

In this document, we discuss each challenge, the actions taken by the DoD to address the challenge, and we assess the DoD's progress towards addressing each challenge. We also discuss completed oversight work and ongoing and planned DoD OIG oversight work related to the challenges.

The DoD OIG will continue to assess these challenges and conduct independent oversight to help promote the economy, efficiency, and effectiveness of the DoD; detect and deter fraud, waste, and abuse in DoD programs and operations; and ensure ethical conduct throughout the DoD.

Glenn A Fine

Glenn A. Fine
Principal Deputy Inspector General
Performing the Duties of Inspector General



Executive Summary

The DoD OIG independently identifies the top management challenges after soliciting input from across the DoD, reviewing congressional legislation and hearings, considering oversight work completed by the U.S. Government Accountability Office and other Defense oversight organizations, and examining issues highlighted by the media that are adversely affecting the performance of the DoD. The DoD OIG also assesses the DoD's progress towards addressing previously reported findings and recommendations from completed audits, evaluations, and investigations.

FY 2020 TOP DOD MANAGEMENT CHALLENGES

The FY 2020 Top DoD Management Challenges are:

1. Countering China, Russia, Iran, and North Korea
2. Countering Global Terrorism
3. Ensuring the Welfare and Well-being of Service Members and Their Families
4. Ensuring Ethical Conduct
5. Financial Management: Implementing Timely and Effective Actions to Address Financial Management Weaknesses Identified During the First DoD-Wide Financial Statement Audit
6. Enhancing DoD Cyberspace Operations and Capabilities
7. Enhancing Space-Based Operations, Missile Detection and Response, and Nuclear Deterrence
8. Improving Supply Chain Management and Security
9. Acquisition and Contract Management: Ensuring That the DoD Gets What It Pays For On Time, at a Fair Price, and With the Right Capabilities
10. Providing Comprehensive and Cost-Effective Health Care

These challenges are not listed in order of importance or by magnitude of the challenge. All are critically important management challenges facing the DoD.

NEW DOD MANAGEMENT CHALLENGES

Many of the top management challenges facing the DoD are enduring challenges that do not change each year. However, each year the OIG assesses the challenges, deleting some, adding others, and modifying the scope of some of the challenges.

This year, the DoD OIG added two new management challenges focused on the welfare and well-being of service members and their families and supply chain management and security. The FY 2019 Management Challenge "Implementing DoD Reform Initiatives" is no longer a standalone challenge, although the DoD OIG's oversight work continues to assess the effectiveness of DoD reform initiatives. Additionally, the DoD OIG revised the management challenge that traditionally addressed operational readiness to focus on the welfare and well-being of service members and their families.

The first new challenge, Management Challenge 3, "Ensuring the Welfare and Well-being of Service Members and Their Families," highlights the importance of taking care of the DoD's most important asset, its people. In July 2019, when he became the Secretary of Defense, Secretary Mark Esper stated during his welcoming ceremony:

> [A]s a personal priority of mine, we will place a particular focus on the well-being of our families. Our military spouses and civilians and children make tremendous sacrifices for this country [a]nd in return, I am committed to ensuring they are properly cared for. . . . They know that this administration, that this Congress and the American people have their back. And they know that when they are deployed far away from home, their families will be taken care of.

This management challenge discusses issues related to the quality and effectiveness of measures that affect the welfare and well-being of service members and their families, such as substance abuse programs, sexual assault prevention and response programs, suicide prevention programs, installations and housing, child care services, and spousal employment.

The second new challenge is Management Challenge 8, "Improving Supply Chain Management and Security." In today's global and integrated world, ensuring the security of the DoD's supply chain is critical to the DoD's mission. This management challenge examines the risks of diminishing supplies and reliance on sole-source suppliers, repairing existing parts economically and efficiently, identifying and prosecuting fraudulent parts suppliers, expanding limited distribution networks and transportation capabilities, improving asset visibility and property accountability, and maintaining cybersecurity in the supply chain.

ENDURING DOD MANAGEMENT CHALLENGES

Some challenges remain persistent, even as the DoD continues to address them.

Management Challenge 1, "Countering China, Russia, Iran, and North Korea," and Management Challenge 2, "Countering Global Terrorism," discuss the continued threats to the United States and to international and regional stability from these countries and terrorist groups. In this challenge, the DoD must maintain technological superiority and military readiness to deter military operations from U.S. adversaries; prevent increased development of nuclear weapons; counter support of terrorism; and combat cyber intrusions and technological theft from the U.S. Government, corporations, and allies.

Management Challenge 4, "Ensuring Ethical Conduct," discusses the need to maintain high ethical standards and ensure appropriate accountability for any misconduct. According to a June 2019 Gallup poll on confidence in institutions, the U.S. military remains the most highly trusted public institution, with more than 70 percent of Americans having a great deal of trust in the U.S. military, which is higher than any other U.S. institution. This management challenge focuses on trends in ethical misconduct and how investigations of senior officials, investigations of whistleblower reprisal and restriction, and criminal investigations support the DoD's efforts to maintain the American public's trust and execute its mission.

Management Challenge 5, "Financial Management: Implementing Effective Correction Action Plans to Correct Identified Financial Management Weakness," another persistent challenge, focuses on the importance of accurate and comprehensive financial records. Last year, the DoD OIG completed and oversaw the first ever full scope financial statement audit of the DoD. While the DoD received a disclaimer of opinion the benefit of the audit was in the findings and deficiencies the audit identified. If corrected, these findings can help the DoD address longstanding financial management challenges that continue to impair the DoD's ability to provide reliable, timely, and useful financial and managerial information to support reported financial statement balances. The lack of reliable financial information can adversely affect the DoD's operating, budgeting, and policy decisions.

Management Challenge 6, "Enhancing DoD Cyberspace Operations and Capabilities," highlights the threat to the DoD from cyber attacks that seek to collect intelligence, target DoD critical infrastructures, manipulate information, conduct cyber attacks, and disrupt or extort critical U.S. Defense contractors. To counter these threats, the DoD is conducting offensive and defensive cyber operations to protect its cyberspace networks and is attracting and retaining a skilled cyber workforce.

Management Challenge 7, "Enhancing Space-based Operations, Missile Detection and Response, and Nuclear Deterrence," is an increasingly important challenge. The DoD is heavily investing in space-based operations, ballistic missiles, and nuclear weapons to counter threats from adversaries. According to the 2019 Missile Defense Review, Russia, China, and North Korea are investing substantially in their missile capabilities, enhancing their ground and sea-launched missile arsenals with short, intermediate, and intercontinental-range systems, in addition to fielding mobile missiles to challenge the U.S. ability to detect their launch preparations. To ensure that the United States maintains its dominance in these areas and to protect itself and its allies, the DoD must modernize and replace these systems to meet current and future threats.

Management Challenge 9, "Acquisition and Contract Management: Ensuring That the DoD Gets What It Pays For On Time, at a Fair Price, and With the Right Capabilities," recognizes long-standing challenges in acquisition and contract management. Without clearly defined requirements, acquisitions of weapons systems that are regularly experiencing cost overruns and schedule delays may reduce the DoD's capabilities and readiness. The complexity of developing major systems, while also addressing cyber security challenges within the acquisition process and deterring contactor fraud in DoD acquisition programs, further compounds the challenge for the DoD. In addition, the DoD obligates hundreds of billions of dollars for goods and services each year, which if not managed properly, creates the potential for significant fraud, waste, and abuse.

Management Challenge 10, "Providing Comprehensive and Cost-Effective Health Care," discusses the challenges DoD faces in providing high-quality health care, at a reasonable cost, for 9.4 million beneficiaries, including service members, retirees, and eligible family members. Annual appropriations for Defense Health Programs have increased from $31.4 billion in FY 2015 to $33.3 billion in FY 2019, an increase of 6.1 percent. The DoD will also transfer the administration and control of military medical treatment facilities to the Defense Health Agency in FY 2020, as part of broader reform of the military healthcare system. This transition will create additional challenges, while the DoD seeks to reduce vulnerabilities and inefficiencies in the health care system, prevent health care fraud, and improve the integration of health records with the Department of Veterans affairs.

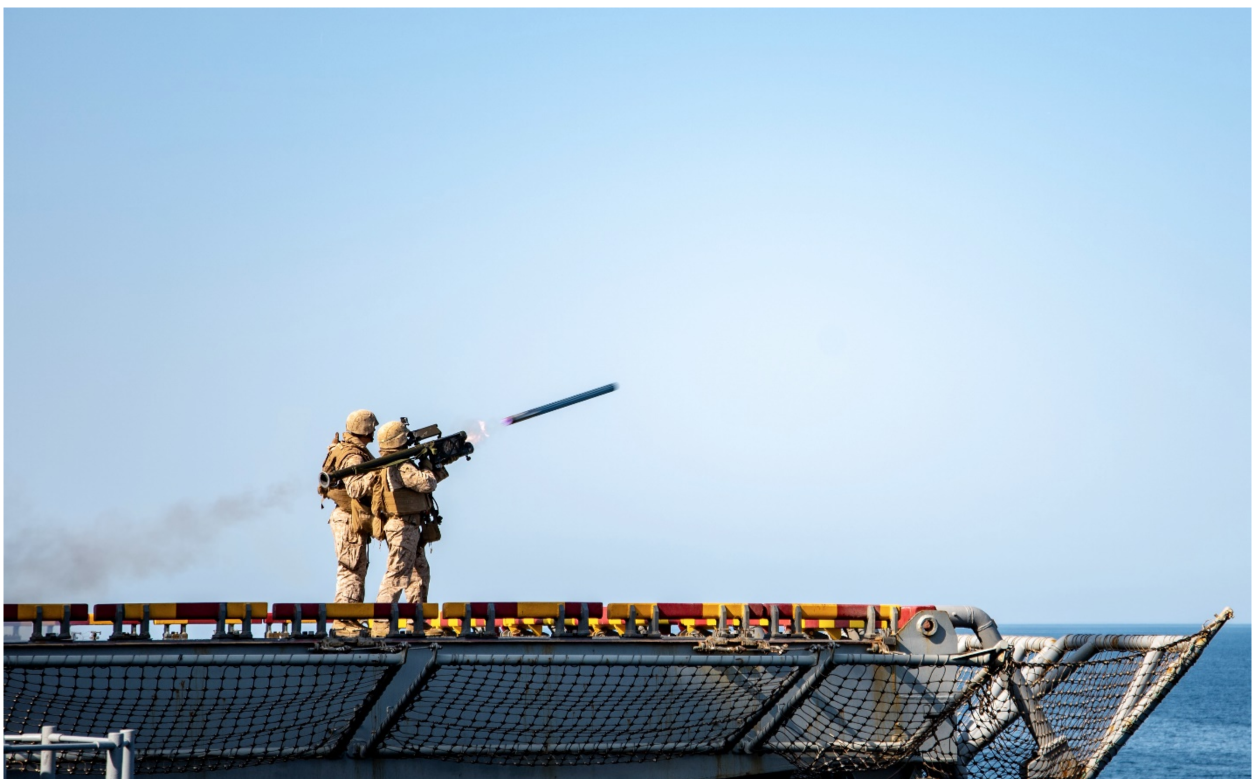
While there are other challenges facing the DoD, the DoD OIG considers these the top 10 challenges facing the DoD.

Summary of Financial Statement Audit and Management Assurances

Department of Defense (DoD or the Department) management has a fundamental responsibility to develop and maintain effective internal controls to ensure that its programs operate, and federal resources are used, efficiently and effectively to achieve the DoD mission. As discussed in Management's Discussion and Analysis, managers throughout the Department are accountable for ensuring effective internal controls in their areas of responsibility. All DoD Components are required to establish and assess internal controls over financial reporting, mission-essential operations, and financial management systems.

Management-identified weaknesses are determined by assessing internal controls, as required by the Federal Managers' Financial Integrity Act of 1982 (*FMFIA*), the Federal Financial Management Improvement Act of 1996 (*FFMIA*), and Office of Management and Budget (OMB) *Circular No. A-123*, and fall into one of the following categories:

- FMFIA Section 2, Effectiveness of Internal Control over Financial Reporting;
- FMFIA Section 2, Effectiveness of Internal Control over Operations; or
- FMFIA Section 4, Compliance with Federal Financial Management Systems Requirements / FFMIA Section 803(a), Implementation of Federal Financial Management Improvements.



U.S. Marine Corps Sgt. Jade Woodend, assigned to Battalion Landing Team 3/1, fires a FIM-92 Stinger antiaircraft missile from the flight deck of the Wasp-class amphibious assault ship USS Essex (LHD 2) during a regularly scheduled deployment of Essex Amphibious Ready Group (ARG) and 13th Marine Expeditionary Unit (MEU) in the Arabian Sea Oct. 7, 2018.

U.S. Navy photo by Mass Communication Specialist 3rd Class Jenna Dobson

Summary of Financial Statement Audit

Exhibit 1 lists the 25 areas of material weaknesses in the Department's financial statement reporting as identified by the DoD Inspector General (DoD IG) in the Independent Auditor's Report. The material weakness areas identified by DoD IG in the Independent Auditor's Report are consistent with those identified by DoD management (which are primarily identified using the assessable unit categories as defined by the DoD Enterprise Risk Management and Internal Control Program) with five exceptions: Joint Strike Fighter Program, Military Housing Privatization Initiative (MHPI), Service Providers, DoD-Wide Oversight and Monitoring, and Component-Level Oversight and Monitoring. The Department concurs with DoD IG's conclusions and will focus on implementing the necessary corrective actions to address each of the material weaknesses noted by the DoD IG in the Independent Auditor's Report.

Joint Strike Fighter Program

The Department concurs with DoD IG's conclusions and will initiate further efforts to substantiate the existence, completeness, and valuation of the *Joint Strike Fighter* program's government property. The independent auditors of the relevant Military Services recognized improved DoD asset valuation efforts, but additional effort is required to gain full accountability and proper financial reporting of the Joint Strike Fighter program's assets and activities.

Military Housing Privatization Initiative (MHPI)

The Department concurs with DoD IG's conclusions and will initiate further efforts to properly record and disclose the financial activities of the *Military Housing Privatization Initiative* program in accordance with the requirements of Accounting Standards Codification (ASC) 302, Statements of Federal Financial Accounting Standards *(SFFAS) 49*, and Office of Management and Budget (OMB) *Circular No A-136*.

Service Providers

The Department concurs with DoD IG's conclusions and will initiate further efforts to design and implement reliable controls at DoD service providers to provide greater assurance to their DoD Component and Federal Agency customers. During FY 2019, the Department continued to assess DoD service provider controls through the use of Statement on Standards for Attestation Engagements *(SSAE) 18* examinations. Through these and other related efforts, the Department successfully closed approximately 65% of notices of findings and recommendations (NFRs) identified during the FY 2018 examinations that related to DoD service provider controls.

DoD-Wide Oversight and Monitoring & Component-Level Oversight and Monitoring

The Department concurs with DoD IG's conclusions and will initiate further efforts to strengthen controls to oversee and monitor DoD Agency-Wide and Component-level financial statements. During FY 2019, the Department made progress toward the remediation of the Oversight and Monitoring material weakness identified by the DoD IG in FY 2018 related to the development of enterprise-wide corrective actions through the implementation and use of a Department-wide NFR database. As of September 30, 2019, approximately 93% of the NFRs related to material weakness assessable unit areas have corrective action plans entered into the NFR database.

Exhibit 1. Summary of Financial Statement Audit

Audit Opinion: Disclaimer
Restatement: No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Financial Management Systems and Information Technology[1]	1				1
Universe of Transactions[2]	1				1
Fund Balance with Treasury	1				1
Suspense Accounts[3]	0	1			1
Inventory and Related Property	1				1
Operating Materials & Supplies	1				1
General Property, Plant, and Equipment[4]	1				1
Real Property[4]	0	1			1
Government Property in Possession of Contractors[5]	1				1
Joint Strike Fighter Program	0	1			1
Military Housing Privatization Initiative (MHPI)	0	1			1
Accounts Payable[3]	1				1
Environmental and Disposal Liabilities	1				1
Legal Contingencies[6]	1				1
Beginning Balances[6]	1				1
Unsupported Accounting Adjustments[7, 8]	1				1
Intradepartmental Eliminations and Intragovernmental Transactions[3]	1				1
Gross Costs[6, 9]	0	1			1
Earned Revenue[6, 9]	0	1			1
Reconciliation of Net Cost of Operations to Outlays[6]	1				1
Budgetary Resources[10]	1				1
Service Providers	0	1			1
Entity-Level Controls	1				1
DoD-Wide Oversight and Monitoring[11]	0	1			1
Component-Level Oversight and Monitoring[11]	0	1			1
Financial Statement Compilation[12]	1			(1)	0
Accounts Receivable[13]	1		(1)		0
Statement of Net Cost[9]	1			(1)	0
Oversight and Monitoring[11]	1			(1)	0
Total Material Weaknesses	**20**	**9**	**(1)**	**(3)**	**25**

[1] The Financial Management Systems and Information Technology material weakness identified by the DoD IG is included within the Federal Financial Management Systems Requirements material weakness identified by DoD management in Exhibit 6.

[2] The Universe of Transactions material weakness identified by the DoD IG is included within the Federal Financial Management Systems Requirements material weakness identified by DoD management in Exhibit 6.

[3] The Suspense Accounts, Accounts Payable, and Intradepartmental Eliminations and Intragovernmental Transactions material weaknesses identified by the DoD IG are included within the Health Care Liabilities, Military Pay, Contract/Vendor Pay, Reimbursable Work Orders, and Fund Balance with Treasury material weaknesses identified by DoD management in Exhibit 2.

[4] The General Property, Plant, and Equipment and Real Property material weaknesses identified by the DoD IG includes the Equipment Assets and Real Property Assets material weaknesses identified by DoD management in Exhibit 2.

[5] The Government Property in Possession of Contractors material weakness identified by the DoD IG is included within the Accountability and Management of Property Furnished to Contractors for the Performance of a Contract material weakness identified by DoD management in Exhibit 2.

[6] The Legal Contingencies, Beginning Balances, Gross Costs, Earned Revenue, and Reconciliation of Net Cost of Operations to Outlays material weaknesses identified by the DoD IG are included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.

[7] The Unsupported Accounting Adjustments material weakness identified by the DoD IG was titled Journal Vouchers by the DoD IG in the DoD Agency Financial Report for FY 2018.

[8] The Unsupported Accounting Adjustments material weakness identified by the DoD IG is included within the Fund Balance with Treasury material weakness identified by DoD management in Exhibit 2.

[9] The Gross Costs and Earned Revenue material weaknesses identified by the DoD IG were broken out from the Statement of Net Cost material weakness identified in the DoD Agency Financial Report for FY 2018.

[10] The Budgetary Resources material weakness identified by the DoD IG is included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.

[11] The DoD-Wide Oversight and Monitoring and Component-Level Oversight and Monitoring material weaknesses identified by the DoD IG were broken out from the Oversight and Monitoring material weakness identified in the DoD Agency Financial Report for FY 2018.

[12] The Financial Statement Compilation material weakness identified by the DoD IG in the DoD Agency Financial Report for FY 2018 was consolidated into the DoD-Wide Oversight and Monitoring and Entity-Level Controls material weaknesses identified by the DoD IG in FY 2019.

[13] The Accounts Receivable material weakness identified by the DoD IG in the DoD Agency Financial Report for FY 2018 was downgraded to a significant deficiency in FY 2019.

U.S. Navy Master-at-Arms 2nd Class Christopher Henderson, and Military Working Dog Mark, forward-deployed to the security department, practice on an agility course at Camp Lemmonier, Djibouti, Jan. 4, 2019.

U.S. Navy photo by Mass Communication Specialist 1st Class Joe Rullo

Summary of Management Assurances

FMFIA Section 2, Effectiveness of Internal Controls over Financial Reporting

Exhibit 2 lists the FY 2019 material weaknesses in internal controls over financial reporting, captured by end-to-end process and assessable unit, and reports the changes from the material weaknesses disclosed in the DoD Agency Financial Report (AFR) for FY 2018.

Exhibit 2. FY 2019 Effectiveness of Internal Control over Financial Reporting (FMFIA §2)

Statement of Assurance: Modified Assurance

End-to-End Process	Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A	Entity Level Controls	0	1				1
	Oversight and Monitoring[1]	0	1	(1)			0
Budget-to-Report	Fund Balance with Treasury (FBWT)	3					3
	Financial Reporting Compilation	6					6
Hire-to-Retire	Health Care Liabilities[2]	2			(1)		1
	Military Pay	3					3
Procure-to-Pay	Contract/Vendor Pay	6	2				8
	Reimbursable Work Orders	3					3
Acquire-to-Retire	Equipment Assets	2					2
	Real Property Assets	2					2
	Environmental Liabilities	0	1				1
	Accountability and Management of Property Furnished to Contractors for the Performance of a Contract	1					1
	Internal Use Software (IUS)	1					1
Plan-to-Stock	Inventory[3]	4	3			(3)	4
	Operating Materials & Supplies (OM&S)	3	2				5
	Requisitioning Process (Customer Orders)[4]	2			(2)		0
Total Material Weaknesses		**38**	**10**	**(1)**	**(3)**	**(3)**	**41**

[1] In FY 2019, the Department concurred with a material weakness identified by the auditor, implemented corrective actions to remediate the material weakness, and validated the effectiveness of the corrective actions.

[2] In FY 2019, two material weaknesses that were separately reported in FY 2018 were consolidated into a single reportable material weakness

[3] In FY 2019, three material weaknesses that were separately reported in FY 2018 were determined to be defined more accurately under new headings

[4] In FY 2019, two material weaknesses that were separately reported in FY 2018 as Requisitioning Process (Customer Orders) were consolidated into the existing Reimbursable Work Orders material weaknesses

Exhibit 3. Internal Control over Financial Reporting Corrective Action Plans

Areas of Material Weakness	Corrective Actions
Entity Level Controls Department-wide; Identified FY 2019 • Multiple DoD Components do not have sufficient Entity Level Controls to establish an internal control system that will produce reliable financial reporting. The lack of sufficient controls at the Component level increase the risk of material misstatement on both the Components' financial statements and Agency-wide financial statements	Entity Level Controls Department-wide; Correction Target FY 2021 • Components will conduct an annual evaluation of Entity Level Controls to analyze high-risk areas and develop mitigation and corrective action efforts.
Fund Balance with Treasury Department-wide; Identified FY 2005 • Ineffective processes and controls related to the reconciliation of transactions posted to the Department's Fund Balance with Treasury (FBwT) accounts with the Treasury's records. • Collections and disbursements are reported to Treasury but are not recorded in the Department's general ledger. • Ineffective processes for providing sufficient and accurate documentation to support FBwT transactions and reconciling items.	Fund Balance with Treasury Department-wide; Correction Target FY 2023 • Track and reconcile collection/disbursement activity from the core financial systems and associated feeder systems to the Department's general ledgers and to Treasury accounts. • Develop an auditable FBwT reconciliation process, to include the implementation of internal controls that ensure reconciling differences are accurate, documented, and resolved in a timely manner. • Analyze and resolve transactions posted to budget clearing accounts ("suspense" accounts). • Analyze and resolve transactions reported on Treasury's Statement of Differences (e.g., deposit in-transit, Intra-Governmental Payment and Collection, and check issue differences). • Perform aging analysis of appropriations received and apply reconciliations back to at least FY 2013. • Obtain Statement on Standards for Attestation Engagements (SSAE) 16/ SSAE 18, Reporting on Controls on Fund Balance with Treasury – Transaction Distribution, which includes Defense Cash Accountability Systems.
Financial Reporting Compilation Department-wide; Identified FY 2005 • Ineffectively designed processes and controls to prepare accurate financial statements supported by general ledger balances that align with strategic performance plans to ensure compliance with Generally Accepted Accounting Principles (GAAP) and the DoD Financial Management Regulation. • Inability to reconcile detail-level transactions with the general ledgers and provide adequate supporting documentation for adjusting entries. • Accounting balances are unsupported due to inadequate financial management systems and related processes and procedures. • Inconsistency between documented processes and procedures versus actual procedures performed regarding reconciliations and resolving differences. • Lack of developed approach for performing reconciliations and retaining data for sensitive activities. • Inconsistent procedures for recording Journal Vouchers and Standard Business Transactions. Supporting documentation retention procedures also pose a significant risk to producing accurate and complete financial statements and reports.	Financial Reporting Compilation Department-wide; Correction Target FY 2024 • Revise standard operating procedures and control descriptions to incorporate the requirements of OMB Circular No. A-136, and improve variance analysis and annual financial report review procedures. Implement Standard Financial Information Structure (SFIS) to standardize financial reporting that aligns with the Department's mission. • Obtain population of feeder system transactional data and perform reconciliations from feeder systems to the general ledgers and financial statements. • Establish process to govern posting logic changes within DoD accounting systems; consolidate, categorize, document, and prioritize system requirements for changes to enable correct posting logic compliance issues. • Establish guidelines for reconciliation variances that need to be resolved and require relevant service providers to post corrections in a timely manner. • Develop approach for performing reconciliations and retaining data for sensitive activities. • Implement controls that ensure adequate documentation exists to validate and support journal entries • Establish an enterprise records management program and develop file management plans that will identify a centralized repository for documentation retention.

Areas of Material Weakness	Corrective Actions
Health Care Liabilities Department-wide; Identified FY 2003 • The Military Treatment Facilities (MTFs) do not have compliant, transaction-based accounting systems that apply common and consistent business rules in a manner envisioned by the Department's planned Standard Financial Information Structure. There is insufficient evidence that adequate controls exist and have been implemented to ensure the timeliness and accuracy of medical coding processes at MTFs. The MTF-level data is based on budget execution processes, rather than accrual-based accounting. There is insufficient evidence that appropriate and consistent cutoff of accounting activity occurs at the MTF level.	Health Care Liabilities Department-wide; Correction Target FY 2025 • Complete the implementation of new Enterprise Resource Planning (ERP) core financial systems for each Service in order to record accrual-based, patient-level cost accounting data. • Develop and implement methodology for patient itemized bills to address the auditor-identified weakness related to direct care. Itemized patient bills for all patients provided care will be attainable with the deployment of the new Electronic Health Record; which is projected to be implemented across the Military Health Services by close of FY 2025. • Deploy the Itemized Billing Solution and the Coding Compliance Editor to support the Department's ability to generate accurate itemized bills and establish justifiable audit trails. The initial deployment is projected to begin in July 2021, and is anticipated to be fully deployed by the close of FY 2025.
Military Pay Department-wide; Identified FY 2011 • Ineffective processes and controls to record military pay transactions and personnel actions in a timely, complete, and accurate manner. • Unreliable and/or lack of supporting documentation for personnel actions. • Outdated military pay and financial management information technology systems lack modern capabilities to support required auditability framework. Current deficiencies require unsustainable manual activities to support auditability.	Military Pay Department-wide; Correction Target FY 2020 • Develop and implement a plan for an integrated pay and personnel system designed to determine pay and entitlements, report ad hoc financial management data, and capture and store key supporting documentation.
Contract/Vendor Pay Department-wide; Identified FY 2003 • Lack of standard data structure governing purchase request format prevents traceability and use of electronic transactions from initiation of funding through contract execution. • Funding may not be accurately recorded or available in the accounting system at the time of contract award. Lack of standard processes for recording contract obligations electronically in financial systems. • Insufficient policies governing the recording of accruals related to contracts. • Inability to reconcile contract data to financial data. Unable to reconcile buyer and seller intragovernmental and intergovernmental transactions. • Current systems and processes do not enable match of award to accounting data for public transparency, (e.g., Data Act). • Lack of timely contract closeout and de-obligation of funds limits the Department's access to capital. • Improper payments may result from incorrect payment request type or from assignment of contracts to entitlement systems that do not have procedures for the financing payments or payment of cost vouchers on cost type contracts.	Contract/Vendor Pay Department-wide; Correction Target FY 2025 • Establish and publish DoD Instruction setting policies, procedures, and data standards for purchase requests. • Publish and implement an automated pre-award funds validation standard operating procedure to ensure funds have been accurately recorded and are available prior to award, and that accounting systems can accurately record proposed contract award structure. • Publish a policy to expand the use of accrual recording based on Wide Area Workflow acceptance data to additional accounting systems • Develop policies, procedures, and data standards for electronic intergovernmental / intragovernmental transactions. Pilot capability to obtain contract source data can be accurately matched to recorded accounting data for public posting. • Remove regulatory discretion in establishing type of payment request. Establish entitlement systems assignment rules based on payment type. • Implement controls to ensure contract data can be accurately matched to recorded accounting data for public posting. • Develop department-wide contract closeout standard operating procedures to ensure financial systems are in balance and de-obligations of funds occur returning available funds back to programs in a timely manner.

Areas of Material Weakness	Corrective Actions
• Lack of standard processes for recording contract obligations electronically in financial systems.	• Scorecard all accounting and entitlement systems to track progress toward recording contract obligation compliance with standard procedures
<u>Reimbursable Work Orders</u> Department-wide; Identified FY 2011	<u>Reimbursable Work Orders</u> Department-wide; Correction Target FY 2022
• Lack of evidence of performance, acknowledgement of receipt of intragovernmental goods and services, and validity of open obligations.	• Treasury has identified G-Invoicing as a solution to intragovernmental transaction differences and will develop an online portal for conducting Buy/Sell transactions to manage the processing and approval of general terms and conditions (GT&C) Agreements, Orders, and Invoices.
• Inability to verify the timeliness and accuracy of disbursements and validate recorded reimbursable agreements.	• DoD Components will perform gap analyses on key processes, build and enter GT&C's agreements in G-Invoicing system, participate in G-Invoicing training, and build orders in accordance with data standards.
• Ineffective process to collect, exchange and reconcile buyer and seller intragovernmental transaction.	• DoD Components will fund, design, and build all accounting system interfaces in alignment with Treasury's G-Invoicing release schedule. • DoD Components and the Defense Finance and Accounting Service will implement training, guidance, and management oversight of periodic reviews, and identify and implement standard enterprise reconciliations that provide for validation of the seller/buyer-side balances and input of supported journal vouchers for timing differences.
<u>Equipment Assets</u> Department-wide; Identified FY 2006	<u>Equipment Assets</u> Department-wide; Correction Target FY 2022
• Processes and controls to account for the quantity and value of military and general equipment are not effective.	• DoD Components to continue to validate asset listings, document process and control environments.
• Insufficient internal controls and supporting documentation requirements to ensure timely recording, relief, and accuracy of Construction in Progress (CIP).	• DoD Components are developing and implementing an approach for valuing Equipment and sustaining these values, modifying Accountable Property System of Record (APSR) to ensure they capture the required data. • DoD Components are applying controls and procedures to manage property accountability. • Provide a consistent and streamlined valuation methodology for General Equipment (GE) across the department. • Continue to convene the GE Working Group, report on quarterly progress in establishing accountable records. • Leverage Component Property Lead property accountability workshop to promote sound accountability practices. • Develop standard data elements and reporting metrics to standardize equipment accountability.
<u>Real Property Assets</u> *Existence and Completeness* Department-wide; Identified FY 2000	<u>Real Property Assets</u> *Existence and Completeness* Department-wide; Correction Target FY 2021

• Real property processes, controls and supporting documentation do not substantiate that (1) all existing assets are recorded in an APSR and (2) all assets recorded in the APSR properly reflect the Department's legal interest in the asset.	• Implement and regularly conduct a lifecycle process for a real property physical inventory:
	
	  o Include validation of information for those data elements required in the calculation of Plant Replacement Value for alternative valuation in accordance with Statement of Federal Financial Accounting Standards 50.
	
	  o Ensure adequate documentation is available to support existence and completeness and placed in service dates.
	
	• Implement lifecycle process for regular reconciliation of real property assets and the financial statements.

Areas of Material Weakness	Corrective Actions
Valuation, Rights & Obligations, Presentation, and Disclosure Department-wide; Identified FY 2000 • Real property processes, controls and supporting documentation do not substantiate that (1) all real property assets are properly valued and (2) documentation for all real property assets properly support rights and obligations, and are appropriately presented and consistently reported in the financial statements. The Department has insufficient internal controls and supporting documentation to ensure complete physical inventories to support deemed cost; and the timely recording relief, and accuracy of CIP values for real property construction or improvements in financial systems and the Accountable Property System of Record.	*Valuation, Rights & Obligations, Presentation, and Disclosure* Department-wide; Correction Target FY 2024 • Ensure proper posting and reporting within financial systems and implement process for regular reconciliation of CIP and the financial statements. • Ensure adequate documentation is available to support valuation of real property in the APSR, to include physical inventories used to calculate deemed cost values. • Ensure adequate documentation is available to support rights and obligations for financial statement reporting, specifically real property use agreements outlining responsibilities of each party, to include but not limited to, responsibility for financial reporting.
<u>Environmental Liabilities</u> Department-wide; Identified FY 2019 • The Department is unable to develop accurate estimates and account for Environmental Liabilities (EL) in accordance with generally accepted accounting procedures due to the following issues: o The Real Property Department-wide Existence and Completeness Material Weakness does not allow a full and accurate accounting of asset-driven EL outside of the Defense Environmental Restoration Program. o Existence and Completeness issues with the General Equipment inventories does not allow a full and accurate accounting of asset-driven EL associated with equipment. o Insufficient formal policy, procedures and supporting documentation exists for developing and supporting cost estimates.	<u>Environmental Liabilities</u> Department-wide; Correction Target FY 2021 • Track progress of individual action plans related to real property and equipment physical inventory procedures. • Review NFRs for overarching policy gaps and develop policy as needed. • Review and track Component corrective action plans to implement systems, processes, and controls to ensure the accuracy of environmental liabilities identification, valuation, documentation and reporting. • Complete centralized packages for support of Remedial Action Cost Engineering Requirements model during Component audit.
<u>Accountability & Management of Property Furnished to Contractors for the Performance of a Contract</u> Department-wide; Identified FY 2011 • The Department does not have clear guidance and had not properly trained Program Office staff, contract specialists, and accountable property officers regarding policies and procedures for appropriately managing property provided to a contractor (this includes both contractor acquired property and Government Furnished Property (GFP)). As a result, the Department's Accountability records are incomplete. Audit reports have consistently identified a lack of accountability concerning GFP and contractor acquired property, for which the Department has title but not immediate physical control.	<u>Accountability & Management of Property Furnished to Contractors for the Performance of a Contract</u> Department-wide; Correction Target FY 2021 • Improve guidance and business processes to ensure accountability of GFP and contractor acquired property and continue to review existing contracts and establish accountability over legacy GFP. • Continue to deploy and utilize the electronic DoD enterprise solutions for standard GFP transactions. • Review metrics such as GFP contract clause compliance, assertion packages and APSRs for each component and provide analysis of progress towards accountability. • Continue to hold GFP Working Group meetings. • Monitor newly established requirements for reporting compliance.

Areas of Material Weakness	Corrective Actions
Internal Use Software Department-wide; Identified FY 2015	Internal Use Software Department-wide; Correction Target FY 2023
• The Department has not properly addressed the management and financial reporting of Internal Use Software (IUS), which is required by Statement of Federal Financial Accounting Standards (SFFAS) 10 and must be addressed through updated guidance in the Financial Management Regulation (FMR)	• Continue to identify and establish accountability over existing IUS and identify new acquisitions to ensure capital IUS costs are captured and reported appropriately in accordance GAAP. • Develop and implement processes and system changes to APSRs, and deploy and update APSRs to account for IUS. Evaluate Department-wide compliance for IUS APSR requirements to drive IUS APSR requirement and policy changes. Continue to convene the IUS working group to highlight policy and guidance gaps. • Develop implementation guidance and updated policies in response to Component identified gaps. • Validate corrective actions; promote use of SFFAS 50 allowances for opening balance of IUS. • Develop and draft implementation guidance on software licenses in conjunction with Chief Information Officer, Comptroller, and Components.
Inventory Department-wide; Identified FY 2005	Inventory Department-wide; Correction Target FY 2023
• Inadequate policies and procedures over comingled inventory, timely reconciliation of subsidiary ledgers to the Electronic Business System, and proper application of SFFAS 48 inventory costing methodologies.	• The Department drafted policy to address issues with physical inventories and comingling. DoD Components will develop systematic requirements to perform a transactional level reconciliation by implementing automated solutions, developing policy, and testing internal controls. DoD Components have updated and implemented procedures and are testing internal controls around inventory valuation. DoD Components are developing and implementing a new policies and Standard Operating Procedures covering SFFAS 3 methods.
• Lack of internal controls to support management's assertion of existence and completeness of Inventory, to prevent users from posting transactions that exceed their approved thresholds, to review and follow-up of inventory and to review interface transmission errors, and to ensure transactions are recorded in the proper period for existence, completeness, and valuation of inventory.	• DoD Components will use Enterprise Risk Management and Internal Control Programs to develop a Manager's Internal Control Program process with internal controls in accordance with an enterprise Corrective Action Plans. The Department drafted policy to address issues with physical inventories and comingling and has placed priority on Government Property in Possession of Contractors. Efforts will continue to updated inventory accrual internal control activities. DoD Components will update inventory processes to include controls to verify the existence, completeness and valuation of inventory and implement policy changes to support long-term Courses of Action to mitigate inventory weaknesses
• Insufficient evidential matter to support inventory transactions, inventory held at third parties, and that erroneous transactions were identified and corrected completely and accurately.	• The Department drafted policy to address issues with physical inventories. The Department published a memo to prioritize Government Property in possession of contractors. DoD Components to design better reports and improve management oversight and the procedures to improve Design and Effectiveness of management oversight controls.
• Insufficient documentation to ensure updated business process control measures completely reflect all sub-processes within inventory and are recorded on a timely basis.	• DASD(Logistics) and the DoD Components will define Title Transfer for each category of in-transit inventory. DoD Components will create and maintain documentation that provides an end-to-end process narrative including an accurate depiction of the internal control environment.

Areas of Material Weakness	Corrective Actions
Operating Materials & Supplies (OM&S) Department-wide; Identified FY 2005	Operating Materials & Supplies (OM&S) Department-wide; Correction Target FY 2024
• Historical cost data is not maintained while using the Moving Average Cost calculation method as required by the FMR.	• The Department is implementing a new system to calculate Moving Average Costs and maintain proper documentation, as required by the FMR.
• DoD Components do not consistently have evidential matter readily available to demonstrate that OM&S was properly reported in financial statement.	• The Department is implementing a new accounting system to improve transaction recording, improve documentation, correct control gaps, and improve internal processes to ensure proper valuation and documentation.
• DoD Components lack policies and procedures to demonstrate end-to-end process to account for OM&S-Remainder and related financial documentation.	• The Department drafted policy to address issues with physical inventories. DoD Components will create and update policies and procedures to accurately process and document OM&S. Services to migrate accounting processes to an accountable property system of record.
• The Department has not performed an annual assessment of OM&S acquired by Components for the purposes of determining appropriate accounting treatment under SFFAS 3.	• The Department Plant Property & Equipment team is developing enterprise level guidance to appropriately account and value all Inventory & Real Property assets.
• The Department does not report OM&S Inventory on the Balance Sheet in accordance with SFFAS 3 and related standards.	• The Department will determine the aggregate value of the OM&S categories and analyze which the Purchase Method to be used. The Department will finalize the analysis and reporting format/approach for OM&S amounts in accordance with the FMR.

U.S. Army Paratroopers with the 1st Squadron, 40th Cavalry Regiment (Airborne), 4th Infantry Brigade Combat Team (Airborne), 25th Infantry Division, U.S. Army Alaska, huddle to protect a mock casualty from the rotor-wash of a landing UH-60 Black Hawk helicopter at Joint Base Elmendorf-Richardson, Alaska Feb. 20, 2019.

U.S. Army photo by Sgt. Alex Skripnichuk

FMFIA Section 2, Effectiveness of Internal Control over Operations

DoD Components use an entity-wide, risk-based, self-assessment approach to establish and assess internal controls for mission-essential operations. Exhibit 4 lists the FY 2019 material weaknesses in the internal controls over operations, captured by operational area, and reports the changes from the material weaknesses disclosed in the DoD AFR for FY 2018.

Exhibit 4. FY 2019 Effectiveness of Internal Controls over Operations (FMFIA §2)

Statement of Assurance: Modified Assurance

Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Acquisition	1	2			0	3
Comptroller and/or Resource Management	1					1
Communication	1					1
Contract Administration[5]	3			(2)		1
Information Technology	2	1				3
Force Readiness	1					1
Manufacturing, Maintenance, and Repair	1					1
Personnel and/or Organizational Management	5					5
Operations[6]	1		(1)			0
Security[7]	1				(1)	0
Support Services	2					2
Supply Operations	1	1				2
Total Material Weaknesses	**20**	**4**	**(1)**	**(2)**	**(1)**	**20**

[5] In FY 2019, three material weaknesses that were separately reported in FY 2018 were consolidated into a single reportable material weakness

[6] In FY 2019, one material weakness reported in FY 2018 related to Department of the Navy ship operations was downgraded to a significant deficiency following implemented improvements

[7] In FY 2019, one material weakness reported in FY 2018 related to Department of the Navy facility security was downgraded to a significant deficiency following implemented improvements

Exhibit 5. Effectiveness of Internal Controls over Operations Corrective Action Plans

Areas of Material Weakness	Corrective Actions
Acquisition Department-wide; Identified FY 2011	Acquisition Department-wide; Correction Target FY 2021
• Many DoD acquisition programs fall short of cost, schedule, and performance expectations resulting in unanticipated cost overruns, reduced buying power, and/or in some cases resulting in a delay or reduction in the capability ultimately delivered to the warfighter.	• Implement DoD 5000 series policy mandates and guidance to properly align acquisition with Agency Mission and Needs which reduces risk and impacts to cost, schedule and performance. • Continue to improve implementation of Better Buying Power 3.0 and clarification/update of DoD Instruction 5000.02.
• Lack of Program Executive Office Program, as mandated by the DoD 5000 series of issuances o Acquisition lifecycle oversight, policies, regulations, and organizational structure are non-compliant o Lack of effective process to support mission by identifying, assessing, and providing oversight of development and procurement solutions. o Inadequate documentation and filing of acquisition records.	• Develop and implement Procedural Instruction for Acquisition Approval and Governance. Create supporting tools to aid and inform decisions, reduce the staff effort to review the programs, and improve the monitoring and forecasting of potential trouble or risk areas. • Conduct Systems Reviews, Capability Portfolio Reviews, Configuration Steering Boards and Cost Reviews to identify process inefficiencies and improve the acquisition management process. • Develop additional procedures to establish oversight controls for programs, including procedures to report cost, schedule and performance variances, and to address reported variances. • Establish a system of tracking to report acquisition program performance and highlight variances.
• Non-compliance with Clinger Cohen Act, 10 U.S.C. §2222, DoD Instruction (DoDI) 5000.74, and DoDI 5000.75; insufficient management and oversight of IT services and Defense Business Systems; Inadequate use of DoD and Defense Contract Management Agency controls.	• Publish updated Investment Management Guidance with business capability review instructions and schedule. • Publish the Defense Business Operations Management Strategic Plan addressing investment management, portfolio management, business architecture, and information technology modernization strategies. • Establish portfolios and capability strategies for each portfolio, conduct portfolio reviews following implementation. • Identify initial optimization opportunities for review by Defense Enterprise Business Operations Senior Steering Group / Defense Business Council, pursue approved optimization opportunities. • Complete validation of Defense Acquisition Workforce Improvement Act (DAWIA) acquisition certification required positions. • Establish training plan for involved personnel, certify personnel; • Staff-up DAWIA positions with certified employees.
Comptroller and/or Resource Management Department-wide; Identified FY 2013	Comptroller and/or Resource Management Department-wide; Correction Target FY 2021
• Ineffective internal controls and management oversight for processes such as management of improper payments and use of Internal Use Software and property furnished to contractors.	• Brief leadership, appoint and train staff, develop risk profiles, conduct initial, quarterly and annual validation and assessment, and automate as appropriate.

Areas of Material Weakness	Corrective Actions
Communication Department of the Air Force; Identified FY 2018 • The Department of the Air Force (AF) has identified a systemic issue in communication of security information between installations and appropriate external entities.	Communication Department of the Air Force; Correction Target FY 2023 • Identify Digital fingerprinting hardware, software to improve archiving, and ability to reference/verify fingerprinting and facilitate transfer of fingerprints between U.S. law enforcement agencies. • Identify partnering solution with AF Office of Special Investigations. • Security Forces Management Information System Replacement. • Long-term software solution for case management.
Contract Administration Department-wide; Identified FY 2009 • The Department must strategically manage Services Acquisition, define outcomes, and capture data to facilitate strategic management of the acquisition function. • The Department continues to face challenges meeting fiscal year competition goals and needs to address ill-suited contract arrangements and utilize incentives. • The acquisition workforce is not appropriately sized, trained, and equipped to meet the Department's needs.	Contract Administration Department-wide; Correction Target Reassessed annually • Continue to track and monitor training requirements for Acquisition workforce including new training for Mid / High Level Requirements and Contracting Professionals. • Publication of a revised DoDI 5000.74, "Acquisition of Services" as required by the National Defense Authorization Act (NDAA) for FY 2017, Sec. 803. • Continue publication of DoD quarterly competition achievement; on-track to achieve continuing goal of 53%; continue to implement the April 2016 DoD publication, "Guidance on Using Incentive and Other Contract Types" when selecting and negotiating a contract type.
Information Technology Department-wide; Identified FY 2010 • DoD financial and business management systems and processes do not provide reliable, timely, and accurate information. • Systemic shortfalls in implementing cybersecurity measures to guard the data protection environment. Gaps in cybersecurity access controls including privileged user authentication and public key infrastructure and device hardening / encryption contribute to data protection vulnerabilities. Issues exist in policy compliance with cybersecurity measures, oversight, and accountability. • Numerous weaknesses in IT governance, especially in the areas of security management, access controls, segregation of duties, and inconsistent IT policies/procedures/practices across Components; lack of clear, concise IT security requirements for in-house-developed and acquired systems; inability to produce detailed user listings to support periodic recertification of privileged and non-privileged user accounts; an inability to produce application-level	Information Technology Department-wide; Correction Target FY 2020 • Expand review and analysis of proposed information technology (IT) systems. Update the DoDI 5000.75 and increase Investment Review Board oversight. The target date to correct this material weakness coincides with the full deployment schedule of the core business systems. • Establish processes to ensure stakeholder participation in the Cybersecurity Scorecard meetings and alignment of service scorecard metrics to audit findings. • Revise current user system access policy, to include clear guidance on requirements for privileged user access authorization and credential revocation, user access and control training certification, user monitoring and Public Key Infrastructure-based authentication/credentials. • Revise current acquisition and IT purchase contracts and policy to require the adoption of established user access controls and encryption/hardening standards. • Revise current policy on shared file and drive protection, to include requirements for encryption use and stringent password protection that at a minimum meets password requirements specified in DoDI 8520.03 for stronger authentication. • Develop, communicate, and implement entity-level IT security policy, procedures, and practices focusing in the areas of security management, access controls, and segregation of duties. • Develop and provide training to users and privileged users regarding the consistent implementation of new IT security policy, procedures, and practices for Defense Health Program Component systems.

Areas of Material Weakness	Corrective Actions
audit logs related to account management and configuration management; and a lack of periodic review and update of system-level policy documentation. DoD Component officials did not assess network components for cybersecurity vulnerabilities prior to connection and throughout the component life cycle.	• Continuously monitor implementation of entity-level IT policies, procedures, and practices locally and holistically. • Designate employees to manage accountable property; establish & implement cyclical inventory schedule (staff up). • Integrate software acquisition, license media management, and limited asset resources into a single focus point managing software lifecycle. • Automate acquisition, discovery, tracking, fielding, retirement, and involved audit processes to the greatest extent possible. • Research and acquire, or design and implement an access control system or record. • Update Enterprise Configuration Monitoring Strategy to include investigating, identifying, and disseminating the best use of monitoring tools and techniques for the network component level. • Clearly identify lines of demarcation between acquisition and provisioning. • Deploy and Test Access control system where appropriate.
Force Readiness Department-wide; Identified FY 2016 • Independent and internal reviews of DoD's nuclear enterprise identified problems and recommendations needed for a safe, reliable, and credible nuclear deterrent. These included internal control related items such as a need for increased managerial oversight, for an improved self-assessment program, for increased oversight capability, and for useful nuclear inspection reports. The reviews also made recommendations to address these problems.	Force Readiness Department-wide; Correction Target Reassessed annually • Develop corrective action plans that align with the recommendations from the independent reviews. Classified corrective action plans are maintained by the applicable entities within the U.S. Strategic Nuclear Forces and are based on year-to-year Congressional funding. Remediation of this corrective action will involve incremental improvements over a multi-year horizon.
Manufacturing, Maintenance, and Repair Department of the Navy; Identified FY 2016 • Multiple audits and studies identified a wide range of control issues that cumulatively create material weaknesses in ship depot maintenance. Policies for defining, costing, and executing maintenance all require improvement to correctly predict both cost and duration of depot maintenance.	Manufacturing, Maintenance, and Repair Department of the Navy; Correction Target FY 2020 • Identify obstacles to execution performance. • Identify variance between Execution Year Guidance to President's Budget and developed mitigations. • Integrate depot maintenance in assessable units Managers' Internal Control Program. • Establish the President's Budget as the baseline for execution year variance tracking.

Areas of Material Weakness	Corrective Actions
Personnel and/or Organizational Management Department-wide; Identified FY 2017	Personnel and/or Organizational Management Department-wide; Correction Target FY 2023
• Average civilian time-to-hire in the Department increased by 40% (from 70 to 106 days) between FY 2013 and FY 2017. • The Department does not systematically collect data on hiring manager satisfaction with process or with quality of candidates for civilian positions. • The Department manages its civilian workforce under 66 personnel systems, over 60 pay systems, and scores of special Human Resource (HR) authorities and flexibilities. This has caused excessive complexity and variability in HR processes. • DoD HR specialists and managers lack training and tools to master the complex civilian federal hiring process.	• The Department has multiple civilian personnel HR service providers operating within and across components but no systems to define, collect, monitor, or analyze their performance or cost data, nor to monitor and control the types of services provided. • The Department required all components to develop and execute data-based Action Plans to reduce time to hire. The Department's initial goal is to reduce average time to hire from 106 to 85 days or less. A Department-level functional workgroup was established and is working to reach the target goal. • The Department will start collecting hiring quality and satisfaction data; after determining baseline measures, the Department will establish future quality / satisfaction goals consistent with results achieved by other large federal agencies. • The Department is undertaking procedures to simplify, streamline, and standardize its HR processes and to provide better and more cost-effective HR services. The Department intends to pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes. Expect initial results in FY 2020. • The DoD HR Functional Community was formally organized in FY 2018 to define and assess HR competencies, establish learning standards, and develop career paths. Expect initial results in FY 2021. • Execute HR Service Delivery project (HR Reform lead) to define, monitor, and evaluate key performance and efficiency measures for Defense Agency and Field Agency HR Service providers; identify and remedy instances of fragmentation, overlap, and duplication; and address inefficiencies and implement reforms. Expect initial results in FY 2021. • Transition to single Software as a Service/Cloud civilian human capital management system initially for core HR transactions, and eventually for integrated talent management (i.e., performance management, learning, compensation, awards, workforce and succession planning). (Joint IT, HR, FM Reform project continuing through FY 2023.)
Support Services Department-wide; Identified FY 2017	Support Services Department-wide; Correction Target FY 2020
• Insufficient Component/Assessable Unit (AU) audit or review of internal operations: Lack of evidence showing sufficient leadership actions regarding internal audit or review results. Excessive Government Accountability Office and DoD Inspector General (DoD IG) findings. DoD IG report indicates 37% of DoD internal audit organizations have deficiencies or fail in effectively monitoring Component / AU activities, several DoD Components / AUs do not seem to have an internal audit/review function. Systemic deficiencies exist across the audit and review services. • Business Transformation: The Department spends billions of dollars each year to maintain key business functions intended to support the warfighter. Lack of support for transformation. The Department continues to confront decades-old management weaknesses related to its business functions that support these forces.	• Generate requirements for internal audit/review of operations performance and law, regulation, and policy compliance and document in DoD instruction. • Generate and deliver training in audit objectives and techniques to Department leadership and entire global DoD audit/review and managements' internal control program communities. • Form Office of the Secretary of Defense-level audit function reviewing the audit performance of DoD entity audit / review functions and reporting to DoD senior leadership routinely. • Adopt a reorganization under the new Chief Management Officer in accordance with the NDAA for FY 2018. Initiate expanded Department-wide continuous process improvement (CPI) training, develop CPI experts, and promote continuous and visible leadership support for transformation.

Areas of Material Weakness	Corrective Actions
Supply Operations Department-wide; Identified FY 2011	Supply Operations Department-wide; Reassessed annually
• Insufficient asset visibility causes the DoD to unnecessarily order supplies it already has. Lack of supply condition knowledge inhibits reorder of supplies were damaged and need to be reordered.	• Improve supplier threat assessment collection and analyses, implement methods to mitigate risk such as improved hardware and software testing; and enhancing processes for approved product and vendor lists. • Conduct an evaluation of whether DoD Components are conducting appropriate risk assessments, implementing risk mitigation strategies, and using continuous monitoring procedures
• Recent reductions in the number of suppliers from which the DoD can purchase raw materials and finished goods affects the DoD's ability to obtain necessary supplies in a timely manner and of sufficient quality. The DoD needs to continue to focus on strengthening the security and effectiveness of its supply chain.	• Improve the buying power of the DoD. • Increase transparency in the procurement process. • Implement best practices in cost and contract management by strategically sourcing. • Continue utilization of reverse engineering where applicable and appropriate. • Repair existing parts economically and efficiently where applicable and appropriate. • Remove fraudulent suppliers currently in the supply chain. • Address limited distribution networks and transportation capabilities to transport supplies to the right place at the right time, safely and securely.

The Navy's forward-deployed aircraft carrier USS Ronald Reagan (CVN 76) sails alongside the Japan Maritime Self-Defense Force guided-missile destroyer JS Myoko (DDG-175) while underway.

U.S. Navy photo by Mass Communication Specialist 2nd Class Kaila V. Peters

FMFIA Section 4, Compliance with Federal Financial Management Systems Requirements

In accordance with FMFIA section 4, the Department requires that all DoD financial systems comply with federal financial management systems requirements. Exhibit 6 lists the number of instances of non-conformance with federal financial management systems requirements and reports the changes from the instances of non-conformance disclosed in the DoD AFR for FY 2018.

Exhibit 6. FY 2019 Compliance with Federal Financial Management System Requirements (FMFIA §4)

Statement of Assurance: No Assurance

Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management Systems Requirements [8]	3				(3)	0
Business System Modernization	0	1				1
General & Application Controls	0	1				1
FFMIA Compliance	0	1				1
Total Non-Conformances	**3**	**3**	**0**	**0**	**(3)**	**3**

FFMIA Section 803(a), Implementation of Federal Financial Management Improvements

Section 803(a) of the FFMIA requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. Exhibit 7 lists the instances of non-compliance with federal financial management systems requirements.

Exhibit 7. FY 2019 Implementation of Federal Financial Management Improvements (FFMIA §803(a))

	Agency	Auditor
Federal Financial Management Systems Requirements	Lack of Compliance Noted	Lack of Compliance Noted
Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
USSGL at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

[8] In FY 2019, three material weaknesses that were previously reported together under a single heading were determined to be defined more accurately under separate headings.

Exhibit 8. Compliance with Federal Financial Management System Requirements Corrective Action Plans

Areas of Material Weakness	Corrective Actions
<u>Business System Modernization</u> Department-wide; Identified FY 2001	<u>Business System Modernization</u> Department-wide; Correction Target FY 2028
• Delays in achieving business system modernization targets, results in a significant probability of degraded DoD business process operations to include efficiency and effectiveness and non-compliance with certain laws and regulations (ex., FFMIA). In addition, the number of applications, hosting locations, variations in technology, number of interfaces, etc. creates a complex environment where it is difficult to maintain effective IT General and Application controls (including information security).	• By the end of FY 2020, the Department will have a business system rationalization plan that will, lay out the number of systems to be retired, resulting in a reduced footprint of systems that impact Financial Reporting. This includes a reduction in the number of legacy IT systems by 51, between FY 2019 to FY 2023. • To date, 23 of 26 Other Defense Organizations (ODOs) have been migrated to a common ERP system, the Defense Agencies Initiative (DAI). There are three additional ODOs scheduled for deployment in FY 2021. The DAI application received an unmodified SOC 1 report for FY 2019. DAI is an FFMIA-compliant Oracle ERP Commercial off the Shelf (COTS) solution.
<u>General & Application Controls</u> Department-wide; Identified FY 2001	<u>General & Application Controls</u> Department-wide; Correction Target FY 2025
• The DoD IT systems environment includes numerous legacy systems, core enterprise systems that support the major end-to-end processes, and nine Enterprise Resource Planning (ERP) systems. Most of the business legacy systems were originally designed to support functional purposes, such as human resource management, property management, and logistics management. These systems were not originally created for auditable financial statement reporting. The current systems environment is made up of many legacy, core, and newly implemented (feeder and general ledger) systems that lack integration and are not in line with the Federal Information System Controls Audit Manual (FISCAM) requirements with regards to entity-level technology general controls, application-level general controls and automated application controls (including security management, access, segregation of duties, configuration management, system interfaces, master data, and audit trails).	• The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) has established a database, FIAR Systems Database, to identify applications and hosting locations that impact DoD financial statement audits and track the auditor feedback regarding system controls reliance. During the FY (June 30, 2019), DoD Reporting Entities and Service Organizations had identified 247 systems relevant to internal controls over financial reporting. This number is expected to change as the system environment evolves and the financial statement audits mature. • The Military Departments (MILDEPS) continue to deploy ERP solutions to their Commands along with software upgrades, implement System Change Requests (SCRs) and standup formal enterprise monitoring programs for transitioning to a Risk Management Framework (RMF). In addition, the Department has integrated audit relevant IT controls into the RMF system accreditation process (for systems that impact internal controls over financial reporting). • In 2005, DoD service organizations began to obtain System and Organization Control (SOC 1) Reports for systems and hosting services. For FY 2019, DoD Service Organizations have obtained 11 unmodified opinions and 12 modified opinions. This includes one new SOC 1 report and two transitioning from a Type 1 to a Type 2 for FY 2019. Reporting entities and their auditors have been instructed to provide feedback on the SOC 1 reports and service organizations have also been instructed to provide plans for SOC1 scope expansions and additional SOC 1 reports. • OUSD(C) has implemented a database to track auditor NFRs and associated corrective action plans. A CFO IT Functional Council was established in April 2018 to report on the status of IT NFRs and associated CAPs, identify common IT issues, share solutions, and identify instances where common solutions are needed. • In February 2019, the Secretary of Defense issued a memo defining high priority areas for correction identified during the FY18 Financial Statement Audit, which included system access controls. Subsequently, DoD CMO/CFO/CIO issued a policy memo in July 2019, defining six priority items for corrective actions.

Areas of Material Weakness	Corrective Actions
FFMIA Compliance Department-wide; Identified FY 2001 • The Department's financial systems currently do not provide the capability to record financial transactions in compliance with: o Current federal financial management requirements o Applicable federal accounting standards o The Treasury USSGL at the transaction level	FFMIA Compliance Department-wide; Correction Target FY 2028 • OUSD(C) updated the Internal Control Guide in April 2018 to include additional guidance related to identifying relevant financial and non-financial systems and performing FFMIA assessments. System owners record the FFMIA compliance status for their applications in the FIAR Systems Database concurrent with audit readiness status. • To date, a 23 of 26 Other Defense Organizations (ODOs) have been migrated to a common ERP system, the Defense Agencies Initiative (DAI). There are three additional ODOs scheduled for deployment in FY 2021. The DAI application received an unmodified SOC 1 report for FY 2019. DAI is an FFMIA compliant Oracle ERP COTS solution. • The Military Departments (MILDEPS) continue to deploy ERP solutions to their Commands along with software upgrades, implement System Change Requests (SCRs). • With the assistance of the Joint Interoperability Test Command, OUSD(C) worked with the Department financial system owners to complete SFIS compliance assessments for 28 systems through FY 2018. Assessments for an additional 26 systems are currently planned through FY 2020. The SFIS requirements are aligned to and consistent with FFMIA requirements. Currently, the Department is assessing which systems require SFIS compliance assessments. • In the interim for systems not providing USSGL compliant data to ADVANA (Universe of Transactions), we are building automated SFIS validation checks into ADVANA. Currently, these checks have been validated for DAI and Navy ERP, with the remainder of the systems to be validated by the end of FY 2020. This includes checks such as: posting logic, tie point logic, and valid USSGL attributes. • By the end of FY 2020, DoD will have a business system rationalization plan that will, lay out the number of systems to be retired, resulting in a reduced footprint of systems that impact Financial Reporting. This includes a reduction in the number of legacy IT systems by 51, between FY19 to FY23.

U.S. Army Sgt. Nicholas Ofield, assigned to the 91st Brigade Engineer Battalion, 1st Armored Brigade Combat Team, 1st Cavalry Division, takes up a defensive position in an M2 Bradley Fighting Vehicle during exercise Combined Resolve XI in Hohenfels, Germany, Dec. 6, 2018.

U.S. Army National Guard photo by Staff Sgt. Ron Lee

Payment Integrity

The reduction of improper payments[9] and compliance with the Improper Payments Elimination and Recovery Act of 2010 (*IPERA*) continue to be top financial management priorities for the Department. The Department complied with the requirements of federal improper payments legislation[10] through the activities of its Payment Integrity program. This program is comprised of eight separate programs that report improper payments for six categories of pay/benefits (civilian pay, commercial pay, military health benefits, military pay, military retirement, and travel pay) that collectively encompass the majority of payments made by the Department annually.

In FY 2019, each of the Department's eight programs reported improper payment estimates below the IPERA statutory threshold of 10%. Specifically, the Department identified $608.42 billion in payments[11] subject to testing under IPERA and estimated an overall improper payments rate of 1.43%. Given the large dollar amount of DoD payments, this percentage represents $8.68 billion in improper payments and an estimated $599.74 billion (98.57%) in properly paid payments (see Exhibit 9).

- Overpayments, underpayments, and technically improper payments due to noncompliance with statutes or regulations totaled $1.09 billion (0.18% of total outlays subject to testing under IPERA).
- Unknown payments, which are payments with insufficient supporting documentation available to review totaled $7.59 billion (1.25% of total outlays subject to testing under IPERA). As a result of a new sampling methodology and a more extensive examination of key supporting documentation in the Military Pay program in FY 2019, a significant increase in improper payments due to insufficient supporting documentation[12] was identified in this program. As such, the majority of the improper payments were categorized as unknown payments and may or may not equate to inaccurate payments or monetary losses. The Department is aggressively researching these results in an effort to develop corrective action plans (CAPs) and institute the internal controls necessary to ensure complete and accurate supporting documentation.

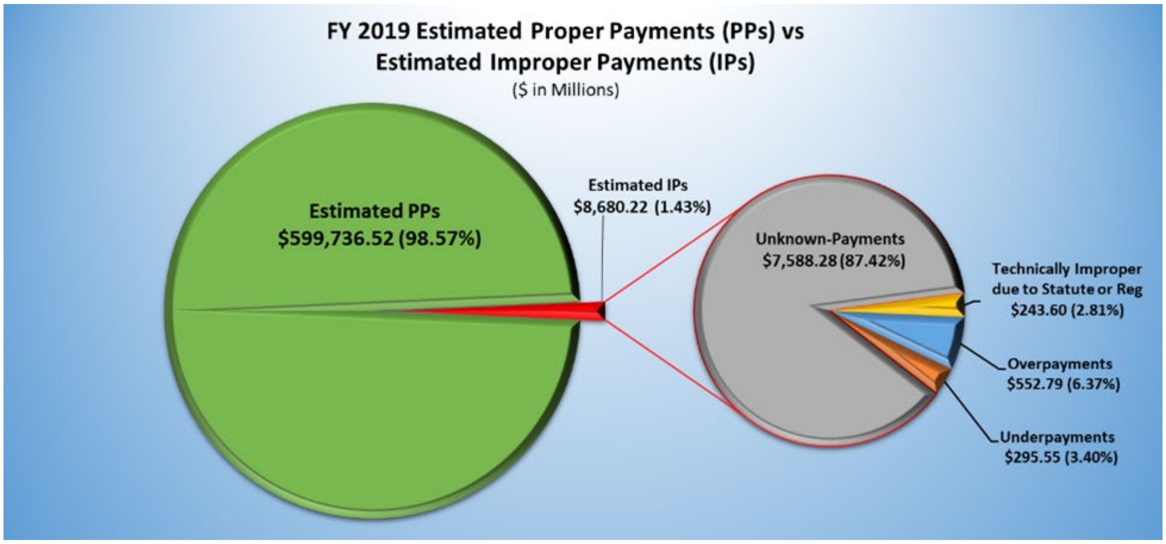
[9] OMB Circular No. A-123, *Appendix C* defines an "improper payment" as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). Additionally, when an agency's review is unable to discern whether a payment was proper as the result of insufficient or lack of documentation, the payment must be considered an improper payment.

[10] Improper Payments Information Act of 2002 (*IPIA*), as amended by the Improper Payments Elimination and Recovery Act of 2010 (*IPERA*) and the Improper Payment Elimination and Recovery Improvement Act of 2012 (*IPERIA*)

[11] The Independent Auditor's Report on the DoD FY 2018 and FY 2017 Basic Financial Statements issued by the Office of the Inspector General identified a material weakness related to the Universe of Transactions because "DoD components were unable to validate the completeness of the universe of transactions underlying their financial statements." Past improper payment audits identified similar weaknesses attributable to the Department's inability to perform reconciliations to ensure complete and accurate populations of payments from which to select statistical samples. Once the Department is able to validate the completeness of the universe of transactions underlying its financial statements, the DoD Payment Integrity program will be able to ensure the completeness and accuracy of sampled populations. In the interim, the Department is working to strengthen the program by adding omitted payment populations as it becomes aware of them through internal reviews, self-assessments, and audits.

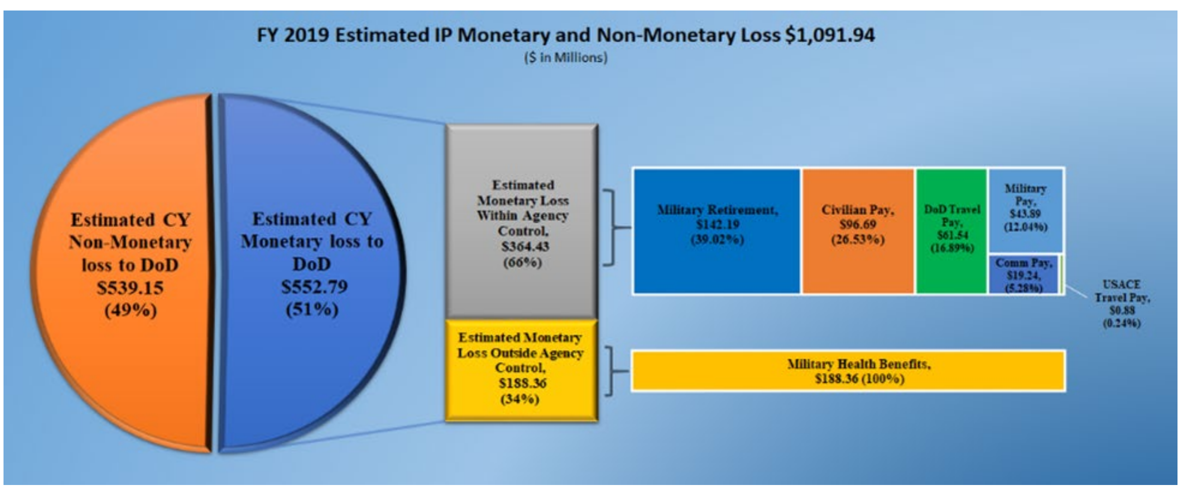
[12] The insufficient supporting documentation errors identified in the Military Pay program resulted from an inability to provide reviewers of sampled Military Service member entitlements and/or allowances, such as Basic Allowance for Housing (BAH), with proper supporting documentation. For more information on the types of errors identified, see the Military Pay root causes and corrective action plan section.

Exhibit 9. FY 2019 Estimated Proper and Improper Payments



Of the $1.09 billion in overpayments, underpayments, and technically improper payments due to noncompliance with statutes or regulations, only $552.79 million was identified as monetary losses. The $552.79 million estimated total monetary loss represents overpayments only–amounts that should not have been paid by the Department and in theory can be recovered. This amount was further analyzed and classified into two subcategories (see Exhibit 10): (1) estimated monetary loss within DoD control ($364.43 million) and (2) estimated monetary loss outside DoD control ($188.36 million). The $539.15 million estimated total non-monetary loss represents underpayments and amounts paid to the right recipients and in the right amounts, but did not follow applicable regulations and statutes. Unknown payments ($7.59 billion) are not reported as monetary or non-monetary losses.

Exhibit 10. FY 2019 Estimated Improper Payments Monetary and Non-Monetary Loss



When improper payments are identified, the relevant DoD Components conduct evaluations to identify their root causes. CAPs are then developed to mitigate the root causes. The CAPs include milestones or actions that are to be completed by specific dates. Depending on the complexity of the CAPs, execution of the plan may occur over multiple fiscal years until the root causes are fully mitigated.

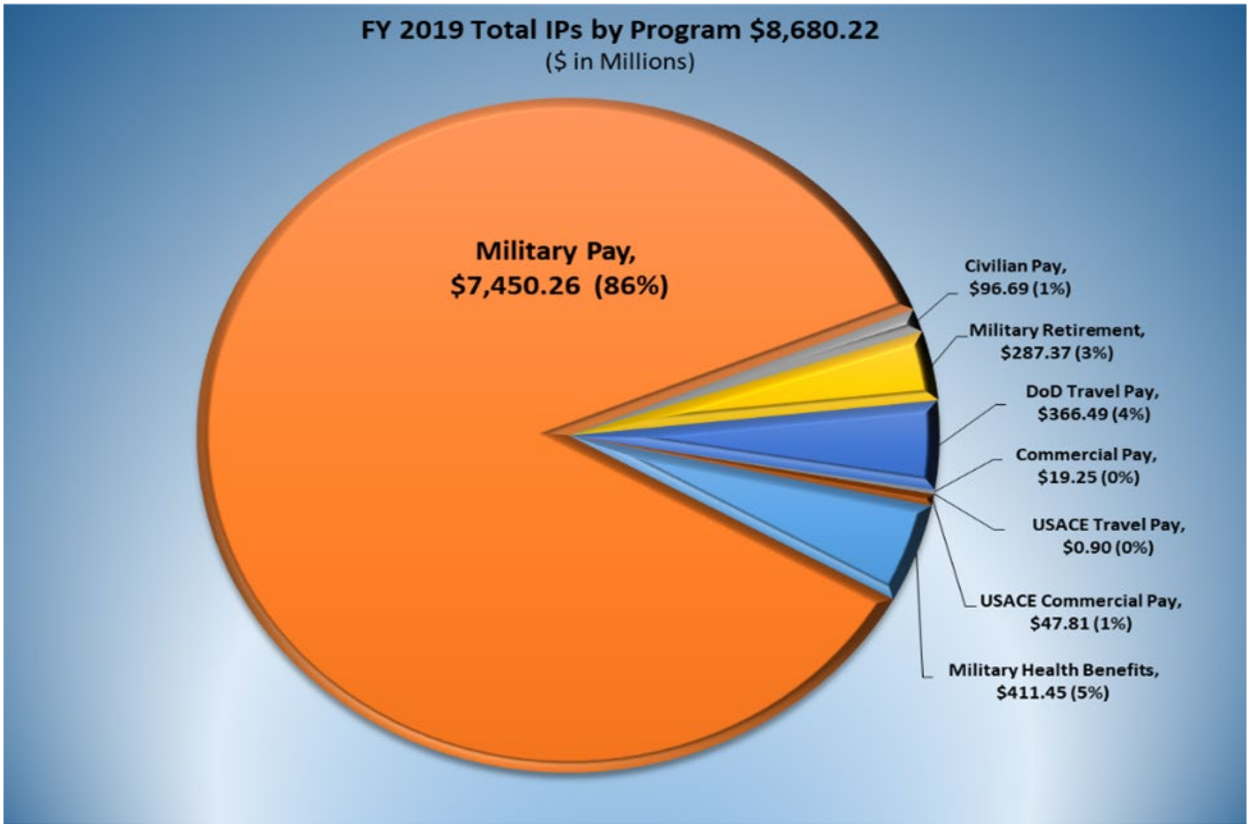
The Department continues to improve payment accuracy in all of its programs to ensure the billions of dollars in federal funds it disburses annually reach the intended recipients in the right amounts and for the right purposes. Through responsible stewardship and accountability, the Department is committed to upholding the trust and confidence of the Congress and the American people.

In FY 2019, the Department reported improper payments of $8.68 billion for the following eight programs (see Exhibit 11):

1. Military Health Benefits: Payments made by the Defense Heath Agency (*DHA*) to private sector contractors for delivery of health care services to *TRICARE*-eligible beneficiaries.
2. Military Pay: Payments made by the Defense Finance and Accounting Service (*DFAS*) to Active, Reserve, and *National Guard* Military Service members for salary, benefits, and other compensation entitlements.
3. Civilian Pay: Payments made by DFAS to civilian employees for salary, benefits, and other compensation entitlements.
4. Military Retirement: Payments made by DFAS to military retirees and their surviving spouses and other family members for pension and/or disability entitlements.
5. DoD Travel Pay: Payments made by DFAS, the *Army*, the *Navy*, the *Air Force*, and the *Marine Corps* to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel- and/or transportation-related expenses.
6. Commercial Pay: Payments made by DFAS, the Army, and the Navy to vendors and contractors for goods and services. It also includes Disaster Relief Funding payments made by the Military Services and DoD Components under *Public Law 115-123*. This program does not include payments for "Transportation of Things"[13] or payments related to government purchase cards.
7. United States Army Corps of Engineers (*USACE*) Travel Pay: Payments made by USACE to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel- and/or transportation-related expenses.
8. USACE Commercial Pay: Payments made by USACE to vendors and contractors for goods and services. It also includes Disaster Relief Funding payments made by USACE under Public Law 115-123.

[13] Transportation of Things payments are expenditures related to the movement of items such as equipment, spare parts, vehicles, food, clothing, and fuel.

Exhibit 11. FY 2019 Total Improper Payments Reported by Program



The information reported in this section complies with the guidance provided in OMB Circular No. A-123, Appendix C and OMB *Circular No. A-136*. This section provides required information that demonstrates the Department's commitment to reducing improper payments. For additional information on improper payments not included in this report, please refer to *PaymentAccuracy.gov*.

This section reports detailed information on the following improper payment requirements:

I. Payment Reporting

II. Recapture of Improper Payments Reporting

III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

IV. Accountability

V. Agency Information Systems and Other Infrastructure

VI. Sampling and Estimation

VII. Risk Assessment

I. Payment Reporting

Exhibit 12 reports the estimated amount of payments that were properly paid (PP), improperly paid (IP), and the corresponding percentages of each by program for FY 2019. It also reports the estimated amount of improper payments that resulted in overpayments, underpayments, unknown payments, and technically improper payments due to noncompliance with statutes or regulations in FY 2019.

Exhibit 12. FY 2019 Estimated Improper Payment

($ in millions)

Program Name	FY 2019 Outlays ($M)	FY 2019 PP Amount ($M)	FY 2019 PP Rate (%)	FY 2019 IP Amount ($M)	FY 2019 IP Rate (%)	FY 2019 Overpayments ($M)	FY 2019 Overpayments Rate (%)	FY 2019 Underpayments ($M)	FY 2019 Underpayments Rate (%)	FY 2019 Unknown-Payments ($M)	FY 2019 Unknown-Payments Rate (%)	FY 2019 Technically Improper due to Statute or Reg ($M)[12]	FY 2019 Technically Improper due to Statute or Reg (%)[12]	Month and Year Start Date for Data	Month and Year End Date for Data
Military Health Benefits[1,2]	$ 23,685.24	$ 23,273.79	98.26%	$ 411.45	1.74%	$ 188.36	0.80%	$ 146.35	0.62%	-	-	$ 76.74	0.32%	Aug-2017	Oct-2018
Military Pay[3]	102,742.39	95,292.13	92.75%	7,450.26	7.25%	43.89	0.04%	28.12	0.03%	7,374.48	7.18%	3.77	0.00%	Oct-2017	Sep-2018
Civilian Pay[4]	66,980.02	66,883.34	99.86%	96.69	0.14%	96.69	0.14%	-	-	-	-	-	-	Aug-2018	Jul-2019
Military Retirement[5]	71,572.63	71,285.26	99.60%	287.37	0.40%	142.19	0.20%	106.89	0.15%	33.82	0.05%	4.48	0.01%	Aug-2018	Jul-2019
DoD Travel Pay[6]	7,700.69	7,334.20	95.24%	366.49	4.76%	61.54	0.80%	14.17	0.18%	179.98	2.34%	110.80	1.44%	Aug-2018	Jul-2019
Commercial Pay[7, 8]	315,096.92	315,077.66	99.99%	19.25	0.01%	19.24	0.01%	0.01	0.00%	-	-	-	-	Jul-2018	Jun-2019
USACE Travel Pay[9]	237.33	236.43	99.62%	0.90	0.38%	0.88	0.37%	0.02	0.01%	-	-	-	-	Jul-2018	Jun-2019
USACE Commercial Pay[10,11]	20,401.52	20,353.71	99.77%	47.81	0.23%	-	-	-	-	-	-	$ 47.81	0.23%	Jul-2018	Jun-2019
TOTAL	**$608,416.74**	**$599,736.52**	**98.57%**	**$8,680.22**	**1.43%**	**$ 552.79**	**0.09%**	**$ 295.55**	**0.05%**	**$7,588.28**	**1.25%**	**$ 243.60**	**0.04%**		

Note: Amounts may not sum or calculate exactly due to rounding.

Exhibit 12 Footnotes:

[1] DHA reports data 12 months in arrears. The sample populations for the Military Health Benefits program is comprised of ten sub-programs. Of these transactional data samples (outlays), 99% fall within the period October 2017 to September 2018; the remaining samples are from periods falling between August 2017 and October 2018. DHA’s staggered sampling time frames are the result of the various TRICARE purchased care contract option year start work dates that are defined to represent external independent contractor (EIC) quarterly or semi-annual sampling time frames.

[2] FY 2019 outlays are the sum of the dollars paid for civilian health care by private sector contractors to health care providers and/or TRICARE beneficiaries. These payments are reviewed by an EIC on a quarterly basis. In addition, the FY 2019 outlays also include administrative payments shared among multiple contractors to administer the TRICARE program and other contracts that are not included in the DHA EIC reviews, but which are subject to internal and external pre- and post-payment controls. For post-payment evaluations, DHA is in the process of implementing post-payment reviews for one of its sub-programs (DHA's Administrative costs). The Estimated IP rates for the low dollar reviews of three sub-programs were significantly influenced by informational errors; these claims were processed and paid correctly, but the contracts were terminated and the Government was unable to obtain timely information from the contractors. Excluding these errors would lower the Estimated IP rate for these three sub-programs by an average of 0.41%. Overall, the Military Health Benefits Estimated IP rate

increased by 1.35% from 0.39% in FY 2018 to 1.74% in FY 2019, and the Estimated IP amount increased by $320.21 million, from $91.24 million in FY 2018 to $411.45 million in FY 2019.

[3] In FY 2019, the Department implemented a revised sampling plan and testing methodology for the Military Pay program, which included the review of Military Service member entitlements paid with available supporting documentation. The Military Pay outlays population utilized for statistical sampling was tested a year in arrears, representing payments from October 2017 to September 2018. The Department performed a full key supporting documentation (KSD) review of entitlements, which constitutes a substantial shift to the sampling and testing methodology from the previous years. As a direct result of the new testing methodology, the Military Pay Estimated IP rate increased by 6.95% from 0.30% in FY 2018 to 7.25% in FY 2019, and the Estimated IP amount increased by $7,144.50 million from $305.76 million in FY 2018 to $7,450.26 million in FY 2019. However, approximately 99% of FY 2019 IPs identified were due to missing or insufficient documentation.

[4] In FY 2020, the Department will implement a revised sampling plan and testing methodology for the Civilian Pay program, which will include an examination of KSDs for entitlements paid to civilian employees, to verify the accuracy and eligibility of pay allowances. As a result of this new sampling plan and testing methodology, the Department anticipates the Estimated IP rate and Estimated IP amount in FY 2020 to be different than those reported for FY 2019.

[5]Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years. In FY 2018, the Military Retirement program Estimated IP rate and amount were 0.45% and $314.44 million, respectively, compared to 0.40% and $287.37 million in FY 2019.

[6] The DoD Travel Pay program reports travel payments disbursed for the period August 2018 to July 2019 by DFAS, the Military Services, and Army Outside the Continental United States (OCONUS) offices. Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years. In FY 2018, the Travel Pay program estimated IP rate and amount were 4.59% and $365.32 million, respectively, compared to 4.76% and $366.49 million in FY 2019.

[7] The Commercial Pay program reports commercial payments disbursed for the period July 2018 to June 2019 by DFAS, the Army, and the Navy. It also includes Disaster Relief Funding payments made by the Military Services and defense agencies under Public Law 115-123. With the exception of Army Outside the Continental United States office disbursements, for which a different 12 month sampling timeframe (August 2018 to July 2019) was used in FY 2019 to test commercial vendor service payments. Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years. In FY 2018, the Commercial Pay program Estimated IP rate and amount were 0.01% and $15.03 million, respectively, compared to 0.01% and $19.25 million in FY 2019. The Commercial Pay program is reported as the DFAS Commercial Pay program on PaymentAccuracy.gov.

[8] The Commercial Pay program is comprised of payments made by DFAS, the Army, and the Navy to vendors and contractors for goods and services. This program does not include payments for the "transportation of things" or payments related to government purchase cards. Title 31, United States Code, section 3726 (*31 U.S.C. §3726*) gives the General Services Administration (*GSA*) the authority and responsibility to audit and settle all federal payments for transportation of things. The GSA *Transportation Audits Division* conducts post-payment audits on all transportation payments (and supporting documentation) provided by the Department. GSA reviews DoD transportation payments for overcharges only. GSA finances their post-payment audit contract and audit-related functions with overpayments collected from the transportation payments previously paid by the Department and other federal agencies. GSA reported the following data related to DoD transportation payments for the 12 month period of July 2018 to June 2019: Total Number of Transactions Submitted by the Department = 209.66 million; Total Value of Transactions Submitted by the Department = $6,033.15 million; Total Number of Overcharges Collected by GSA = 0.03 million; and Total Value of Overcharges Collected by GSA = $10.43 million. Based on the data provided by GSA, the FY 2019 overpayment rate for DoD Transportation payments was

0.17%, a decrease of 0.06% compared to 0.23% in FY 2018, and the FY 2019 overpayment amount was $10.43 million, an increase of $1.11 million compared to $9.32 million in FY 2018. The GSA reported results are not included in the FY 2019 Commercial Pay IP amounts.

[9] The USACE Travel Pay program Estimated IP rate decreased by 0.08%, from 0.46% in FY 2018 to 0.38% in FY 2019. The Estimated IP amount decreased by $0.33 million, from $1.23 million in FY 2018 to $0.90 million in FY 2019. Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years.

[10] The Estimated IP rate for USACE Commercial Pay increased by 0.15%, from 0.08% in FY 2018 to 0.23% in FY 2019, and the Estimated IP amount increased by $32.77 million, from $15.04 million in FY 2018 to $47.81 million in FY 2019. The increase is due to receipt of significant supplemental funding, resulting in increased risk of improper payments associated with a high volume of contract actions occurring in dispersed locations, some remote, under tightened deadlines. Based on the confidence intervals in FY 2018 and FY 2019, there is no statistical evidence of an increase or decrease in IPs between the two years.

[11] The USACE Commercial Pay program includes Disaster Relief Funding payments made by USACE under Public Law 115-123.

[12] Technically improper due to statute or regulation represents a payment made to the right recipient for the right amount but the payment process failed to follow applicable regulations or statutes.

U.S. Air Force Capt. Andrew “Dojo” Olson, F-35 Demonstration Team pilot and commander, performs a dedication pass during the Melbourne Air and Space Show in Melbourne, Fla., March 30, 2019.

U.S. Air Force photo by Senior Airman Alexander Cook

Exhibit 13 reports the estimated improper payments and improper payment classifications (i.e., estimated monetary, non-monetary, and unknown amounts) and their respective percentages by program. Monetary loss to the Department represents overpayments such as duplicate payments or amounts that should not have been paid and can be recovered. Non-Monetary loss represents underpayments and technically improper payments due to noncompliance with statutes or regulations. Unknown represent payments with insufficient supporting documentation available at the time of the post payment review in which the Department is unable to confirm if the payment was proper.

Exhibit 13. FY 2019 Improper Payment Classification (Monetary Loss and Non-Monetary Loss, and Monetary Loss Control)

($ in millions)

Program Name	FY 2019 IP Amount ($M)	Estimated Total FY 2019 Monetary Loss to the Department ($M)	Estimated FY 2019 Monetary Loss to the Department (%)	Estimated Total FY 2019 Non-Monetary Loss to the Department ($M)	Estimated FY 2019 Non-Monetary Loss to the Department (%)	Estimated Total FY 2019 Unknown-Payments to the Department ($M)	Estimated Total FY 2019 Unknown-Payments (%)
Military Health Benefits	$ 411.45	$ 188.36	45.78%	$ 223.09	54.22%	-	-
Military Pay	7,450.26	43.89	0.59%	31.89	0.43%	7,374.48	98.98%
Civilian Pay	96.69	96.69	100.00%	-	-	-	-
Military Retirement	287.37	142.19	49.48%	111.36	38.75%	33.82	11.77%
DoD Travel Pay	366.49	61.54	16.79%	124.97	34.10%	179.98	49.11%
Commercial Pay	19.25	19.24	99.93%	0.01	0.07%	-	-
USACE Travel Pay	0.90	0.88	98.00%	0.02	2.00%	-	-
USACE Commercial Pay	47.81	-	-	47.81	100.00%	-	-
TOTAL	**$8,680.22**	**$ 552.79**		**$ 539.15**		**$ 7,588.28**	

Note: Amounts may not sum or calculate exactly due to rounding.

U.S. Army Spc. Brent Garlic, retired, participates in the Wheelchair Basketball Prelim event of the Department of Defense Warrior Games competition at The Tampa Convention Center in Tampa, Fla., June 24, 2019.

U.S Army photo by Pfc. Dominique Dixon

Exhibit 14 reports the FY 2020 estimated outlays, improper payment amounts, and OMB approved future year reduction target improper payment rates by program.

Exhibit 14. FY 2019 Improper Payment Out Year Projections

($ in millions)

Program Name	FY 2020 Est. Outlays ($M)	FY 2020 Est. IP Amount ($M)	FY 2020 Est. IP Rate (%)
Military Health Benefits[1]	$ 24,727.39	$ 187.93	0.76%
Military Pay[2]	105,259.81	-	-
Civilian Pay[2]	72,818.50	-	-
Military Retirement	73,847.60	295.39	0.40%
DoD Travel Pay[3]	7,354.11	397.12	5.40%
Commercial Pay[4]	339,111.37	20.72	0.01%
USACE Travel Pay[5]	253.66	0.92	0.36%
USACE Commercial Pay[6]	21,475.87	49.39	0.23%
TOTAL	**$ 644,848.30**	**$ 951.49**	0.15%

Note: Amounts may not sum or calculate exactly due to rounding.

Exhibit 14 Footnotes:

[1] DHA established its FY 2020 estimated IP rate of 0.76% based on a trend of sampled IP data from the four most recent full fiscal years.

[2] The Department is not able to estimate an IP rate and an estimated IP amount for the Military Pay and Civilian Pay programs for FY 2020 since the Military Pay program implemented a new sampling and testing methodology in FY 2019 and the Civilian Pay program will implement a new sampling and testing methodology in FY 2020. Changes to both the Military Pay and Civilian Pay programs mark a substantial shift in the review of these programs. As a result, a baseline has not been established for these programs to generate a future estimate. The Department will be able to estimate an IP rate and an IP amount for the Military Pay program in FY 2021 and for the Civilian Pay program in FY 2022.

[3] The DoD Travel Pay IP rate has fluctuated significantly over the past four fiscal years, though numerous corrective actions have been implemented to reduce IPs in this program. However, the Department will continue to estimate future year IP target rates based on the average IP rates reported in the previous four fiscal years until a more consistent baseline is established. The average IP rate for this program based on the rates reported from FY 2016 to FY 2019 is 5.40%. As such, the Department is confident that 5.40% is an achievable target rate. The FY 2020 rate for the DoD Travel Pay program is therefore estimated to be 5.40%. This rate is 0.35% lower than the target rate of 5.75% that was projected for FY 2019.

[4] The Department has reported IP rates of less than one percent for the Commercial Pay program. Since the rates have been very low, the Department is unable to measure a statistically valid difference between the IP rates and the future year reduction targets for this program.

[5] FY 2020 estimated IP rate for USACE Travel Pay equals the FY 2019 estimated IP rate minus twenty percent (20%) of the difference between the FY 2019 estimated IP rate and the FY 2018 estimated IP rate.

[6] The FY 2020 Estimated IP rate for USACE Commercial Pay equals the FY 2019 IP rate.

Exhibit 15 reports the root causes of overpayments, underpayments, unknown payments, and technically improper payments due to noncompliance with statutes or regulations by amount and program for FY 2019.

Exhibit 15. FY 2019 Improper Payment Root Cause Category Matrix

($ in millions)

Program Name	Payment Type	Insufficient Documentation to Determine ($M)	Administrative or Process Errors Made by: Federal Agency ($M)	Administrative or Process Errors Made by: Other Party [1] ($M)	Program Design or Structural Issue ($M)	Inability to Authenticate Eligibility: Inability to Access Data ($M)	Medical Necessity ($M)	TOTAL
Military Health Benefits[2]	Overpayments			$ 182.52		$ 5.29	$ 0.55	**$188.36**
	Underpayments			146.34		0.01		**146.35**
	Unknown Payments							**-**
	Technically Improper due to Statute or Reg				$ 76.74			**76.74**
Military Pay[2]	Overpayments		$ 43.89					**43.89**
	Underpayments		28.12					**28.12**
	Unknown Payments	$ 7,374.48						**7,374.48**
	Technically Improper due to Statute or Reg				3.77			**3.77**
Civilian Pay	Overpayments		96.69					**96.69**
	Underpayments							**-**
	Unknown Payments							**-**
	Technically Improper due to Statute or Reg							**-**
Military Retirement[2]	Overpayments		142.19					**142.19**
	Underpayments		106.89					**106.89**
	Unknown Payments	33.82						**33.82**
	Technically Improper due to Statute or Reg				4.48			**4.48**
DoD Travel Pay[2]	Overpayments		61.54					**61.54**
	Underpayments		14.17					**14.17**
	Unknown Payments	179.98						**179.98**
	Technically Improper due to Statute or Reg				110.80			**110.80**
Commercial Pay	Overpayments		19.24					**19.24**
	Underpayments		0.01					**0.01**
	Unknown Payments							**-**
	Technically Improper due to Statute or Reg							**-**
USACE Travel Pay	Overpayments		0.88					**0.88**
	Underpayments		0.02					**0.02**
	Unknown Payments							**-**
	Technically Improper due to Statute or Reg							**-**
USACE Commercial Pay	Overpayments							**-**
	Underpayments							**-**
	Unknown Payments							**-**
	Technically Improper due to Statute or Reg				47.81			**47.81**
Total		**$ 7,588.28**	**$ 513.62**	**$ 328.86**	**$ 243.60**	**$ 5.30**	**$ 0.55**	**$ 8,680.22**

Note: Amounts may not sum or calculate exactly due to rounding.

Exhibit 15 Footnotes:

[1] "Other Parties" includes participating lenders, health care providers, and any other organizations administering federal dollars.

[2] The Military Health Benefits, Military Pay, Military Retirement, and DoD Travel Pay programs were determined to be susceptible to significant improper payments in accordance with OMB Circular No. A-123, Appendix C.

Root Causes and Corrective Action Plans for Programs Susceptible to Significant Improper Payments (IPs Exceeding $100 million)

When significant improper payments are identified in a program through testing, DoD Components are required to determine the root causes and develop CAPs to remediate them. The CAPs are monitored throughout the year by the DoD Components and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) to ensure milestone dates are completed on a timely basis. The implementation and effectiveness of corrective actions are evidenced through the subsequent improper payment testing results for the program. Based on testing performed on the eight programs in FY 2019, four programs (Military Health Benefits, Military Pay, Military Retirement, and DoD Travel Pay) were estimated to have made improper payments in excess of $100 million and were therefore required to develop and disclose CAPs. OUSD(C) continued to work with DoD Components to strengthen the CAPs for these programs by reinforcing measurable and effective milestones to ensure that the corrective actions achieved the desired results.

The following information relates to overpayments, underpayments, unknown payments, and technically improper payments due to noncompliance with statutes or regulations as well as root causes and corrective actions summarized and described at the DoD consolidated level. Individual DoD Component CAPs and target completion dates are maintained and monitored by the DoD Components and OUSD(C).

The Ohio-class fleet guided-missile submarine USS Florida (SSGN 728) sails in the Mediterranean Sea Aug. 27, 2019.

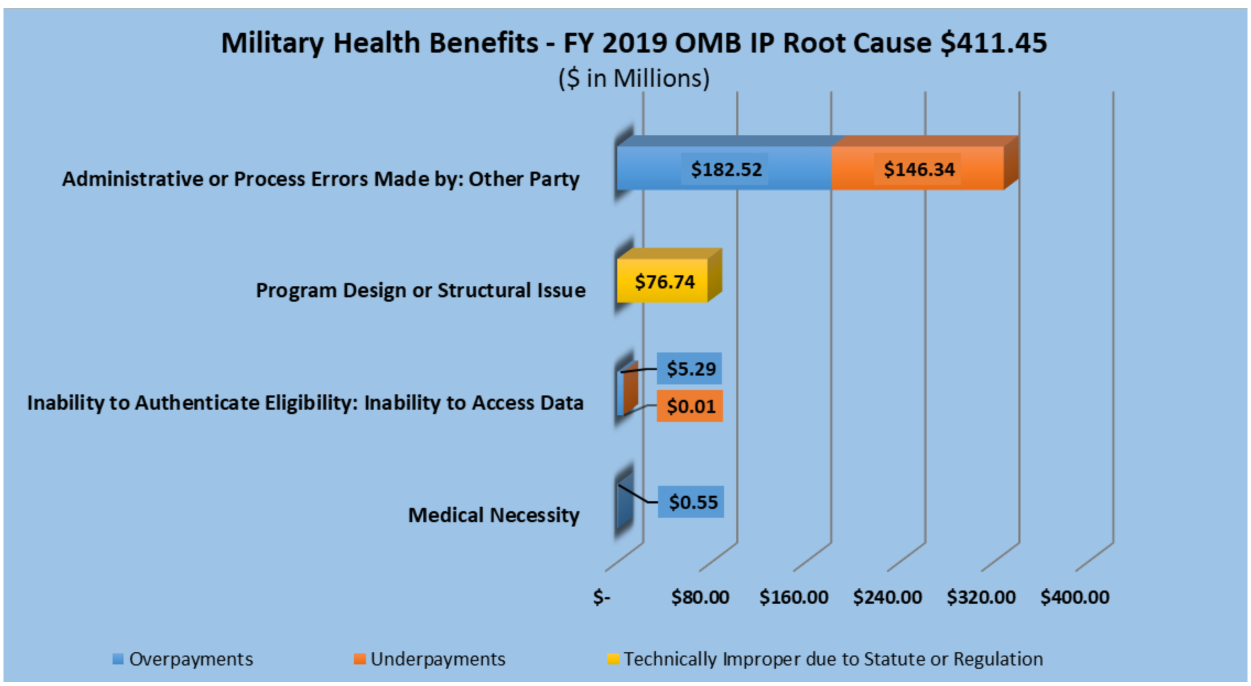
U.S. Navy photo by Mass Communication Specialist 2nd Class Jonathan Nelson

Military Health Benefits

In FY 2019, the estimated improper payments for the Military Health Benefits program were $411.45 million (see Exhibit 16). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 1.74% (+/- 0.3) improper payment rate and an estimated proper processing rate of 98.26%. The estimated improper payments increased by $320.21 million, from $91.24 million in FY 2018 to $411.45 million in FY 2019. The increase is primarily the result of DHA transitioning the administration of healthcare services and claims processing services for the TRICARE health benefits program from three to two regional Managed Care Support Contracts (MCSC) effective January 1, 2018. While the transition of administration efforts for the new TRICARE 2017 MCSC East and West regional contracts was successful, the claims processing services for one of TRICARE 2017 MCSC was impacted by significant challenges.

The primary root cause of improper payments in this program was attributed to "Administrative or Process Errors Made by: Other Party" (e.g., participating lender, health care provider, or any other organization administering federal dollars), which accounted for $328.86 million (79.93%) of the program's improper payments. The second major root cause of improper payments was Program Design or Structural Issue, which accounted for $76.74 million (18.65%) of the program's improper payments.

Exhibit 16. FY 2019 Military Health Benefits Estimated Improper Payments by OMB Root Cause Category



The majority of errors were the result of TRICARE claims processors making duplicate payments for previously paid healthcare services or supplies, miscalculating the appropriate hospital reimbursement rates based on the appropriate TRICARE reimbursement system(s)/methodology, or miscalculating and/or omitting provider or procedural discounts when making final payment.

Exhibit 17. Military Health Benefits Summary Corrective Action Plans

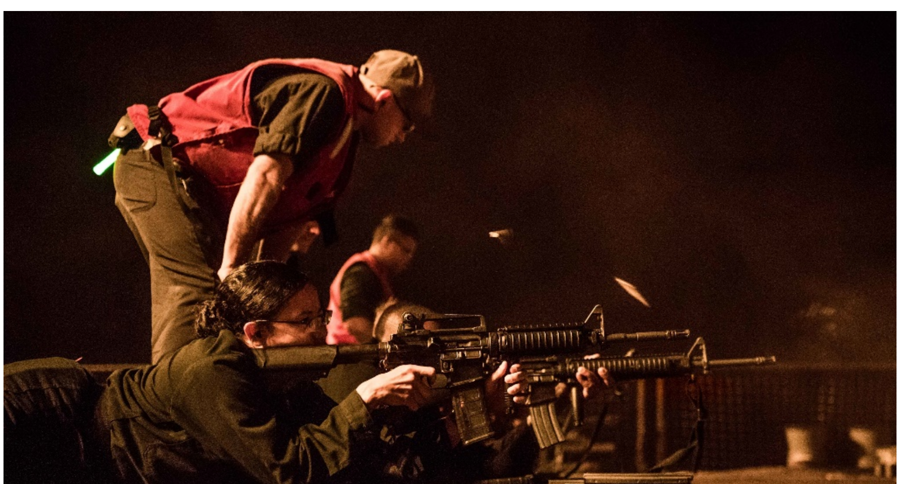
Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Administrative or Processing Errors Made by: Other Party & Program Design or Structural Issue	▪ Modify TRICARE purchased care contracts adding requirements for the contractor to identify and document the root cause of each payment error and develop CAPs for the payment errors assessed during a compliance review.	January 2021
	▪ Develop Contract Data Requirements List (CDRL) template and instructions as part of TRICARE purchased care contract modifications. The CDRL will require contractors to submit monthly status reports on established CAPs.	January 2021
	▪ Develop database or tracking tool to monitor all error assessments and corrective actions. The tool will provide information on error assessments for each claim by TRICARE purchased care contract and compliance review cycle. The database or tracking tool will also maintain information on the status of contractor CAPs.	January 2021

DHA does not deem it to be cost effective to create CAPs for the OMB root cause categories, “Medical Necessity” and “Inability to Authenticate Eligibility: Inability to Access Data” due to the immaterial amounts associated with these improper payments. However, DHA private sector contractors are contractually required to perform the following actions to prevent improper payments:

- Review result findings, formulate an action plan to mitigate error findings, and derive a process to avoid future improper payments.
- If warranted, modify their claims processing systems to meet the Department's health care policy, reimbursement, and benefit requirements.

Results of Corrective Actions

DHA began implementing CAPs for the Military Health Benefits program in FY 2019 and the corrective action procedures are still ongoing. As such, improvements to the program’s improper payment rate have not yet been realized. DHA anticipates completing the full implementation of CAPs during FY 2020; results of the corrective actions will be reported in the DoD Agency Financial Report for FY 2020.



U.S. Navy Gunner’s Mate 1st Class Tatiana Clark, foreground, fires an M4 carbine during a qualification course aboard the Arleigh-Burke class guided-missile destroyer USS Jason Dunham (DDG 109) in the 5th Fleet Area of Operations, Nov. 17, 2018.

U.S. Navy photo by Mass Communication Specialist 3rd Class Jonathan Clay

A U.S. Marine Corps drill instructor with Alpha Company, 1st Recruit Training Battalion, gives his platoon a command during a final drill evaluation at Marine Corps Recruit Depot San Diego, Dec. 22, 2018.

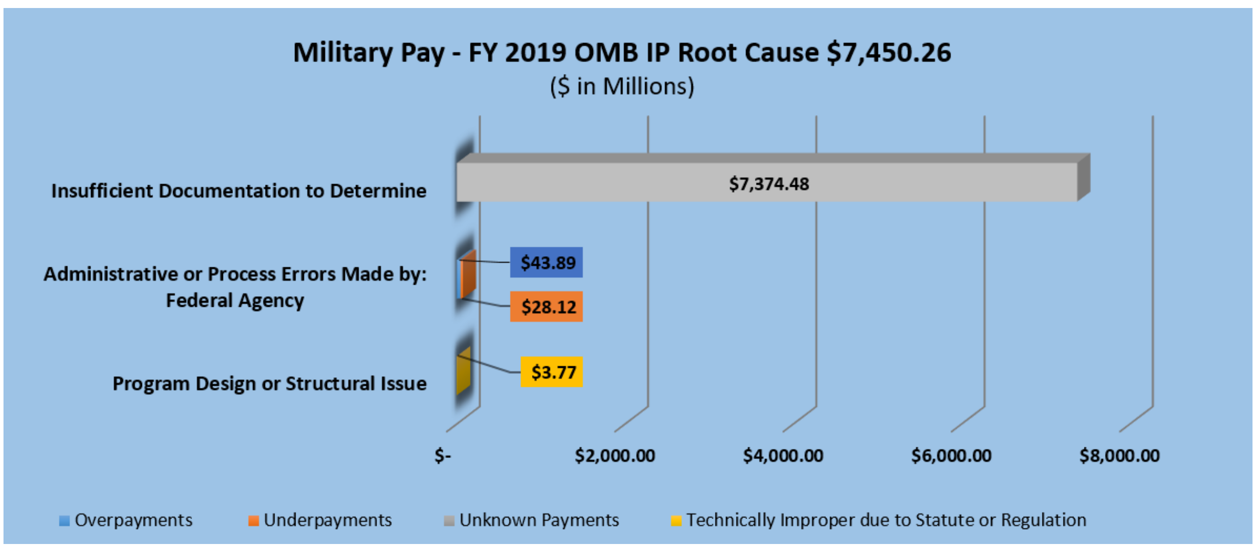
U.S. Marine Corps photo by Lance Cpl. Jesula Jeanlouis

Military Pay

In FY 2019, the estimated improper payments for the Military Pay program were $7,450.26 million (see Exhibit 18). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 7.25% (+/- 1.24) improper payment rate and an estimated proper processing rate of 92.75%. The estimated improper payments increased by $7,144.50 million, from $305.76 million in FY 2018 to $7,450.26 million in FY 2019.

The primary root cause of improper payments in this program was attributed to Insufficient Documentation to Determine, which accounted for $7,374.48 million (98.98%) of the program's improper payments. The second major root cause of improper payments was Administrative or Process Errors Made by: Federal Agency, which accounted for $72.01 million (0.97%) of the program's improper payments

Exhibit 18. FY 2019 Military Pay Estimated Improper Payments by OMB Root Cause Category



DoD military pay is a complicated mix of pay entitlements and benefits, used to recruit and retain Active and Reserve Component Military Service members worldwide. The combination of military payroll entitlements and eligibility criteria result in very complex compensation arrangements which become increasingly more complex each year. The intricacy of military pay is evident in the more than 80 entitlement tables required to process over 200 unique pay conditions such as Hazardous Duty Incentive Pay, Aviation Bonuses, Nuclear Officer Pay, and Hostile Fire Pay/Imminent Danger Pay.

Timing issues coupled with the complexity of entitlement rules dependent on multiple variables including the number, status, and location of dependents are the most critical elements in determining the accuracy of pay. A primary driver of pay inaccuracy is the timeliness of entering changes in personnel status into the military pay systems the longer it takes for a change in status to be recorded, the more erroneous payments result. Military pay is driven primarily by human resource activities or changes captured via manual entry into personnel systems, which feed a disbursement system via interface or additional manual entry. Military pay is also impacted by timely notification (or lack thereof) from Military Service members regarding changes in status (e.g., dependents).

In FY 2019, the Department implemented a revised sampling plan and testing methodology for the Military Pay program, which included verification of Military Service member pay and allowances (i.e., entitlements) against available supporting documentation. As a result, more extensive reviews were performed and improper payments resulting from insufficient supporting documentation that were not detected through previous testing methodologies were identified in FY 2019. The majority of the improper payments identified for the Military Pay program in FY 2019 resulted from insufficient supporting documentation and may or may not equate to inaccurate payments or monetary losses to the Department.

In addition to developing CAPs to mitigate the insufficient documentation errors, the Military Services have also begun implementation of Integrated Personnel and Pay System (IPPS) solutions to reduce improper payments and accelerate payroll processing time.

U.S. Navy Petty Officer 3rd Class Andrew Mercier builds a fire during jungle survival training during exercise KAMANDAG 2 in Ternate, Cavite, Philippines, Oct. 2, 2018.

U.S. Marine Corps photo by Sgt. Mackenzie Carter

Exhibit 19. Military Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Insufficient Documentation to Determine Insufficient Documentation Errors related to the following entitlements and/or allowances: ▪ Basic Allowance for Housing ▪ Family Separation Allowance ▪ Overseas Housing Allowance ▪ Hostile Fire Pay/Imminent Danger Pay ▪ Active Duty Pay (Recoupment of Annual Training Pay or Active Duty Operational Support) ▪ Drill Pay	▪ Based on reviewing supporting documentation for each sample item, determine improper payment exceptions and report exceptions to the DoD Component.	Completed September 2019
	▪ Determine and document the root causes in a detailed analysis for each improper payment exception.	December 2019
	▪ Develop CAPs to address specific root causes identified for improper payments attributable to payroll disbursements.	December 2019
	▪ Execute CAPs and monitor remediation to ensure sustainment through various internal controls – manual and automated.	September 2020
Administrative or Process Errors Made by the Department & Program Design or Structural Issue Improper payments resulted from the following errors: ▪ Payroll data input errors ▪ Untimely updates to payroll records and systems.	▪ The Marine Corps continues to enhance its integrated pay and personnel system through automation of administrative and finance processes and the incorporation of travel into the Marine Corps Total Force System as well as implementing the Treasury Disbursing Office Initiative.	January 2020
	▪ The Navy is transforming its Manpower Personnel Training and Education (MPT&E) enterprise to meet the future needs of the Fleet and Sailors and to mitigate the threat to the Navy's ability to execute future missions vital to national security. The Navy is also establishing a core suite of MPT&E Systems, including the implementation of an auditable commercial off-the-shelf Navy Personnel and Pay (NP2) capability implementing the Treasury Disbursing Office initiative.	January 2021
	▪ The Air Force is implementing the Air Force Integrated Personnel and Pay System (AF-IPPS), a single Total Force military personnel and pay system, enabling financial auditability and long-term sustainment.	January 2021
	▪ The Army's primary strategy for improving the accuracy, effectiveness, and auditability of military pay is focused on the phased, incremental implementation of the Integrated Personnel and Pay System-Army (IPPS-A). In conjunction with the phased implementation of IPPS-A, the Army has initiated a three-prong strategy for training human resources professionals on military pay.	January 2022

Results of Corrective Actions

In FY 2019, the Department's corrective actions resulted in an improved standard operating procedure (SOP) for post-payment reviews of Military Pay accounts. The updated SOP requires reviewers to verify that Military Service members are eligible for special pay and allowances by validating the information included in pay accounts with supporting documentation. This improved level of review enabled the DoD Components to adequately assess the risk of improper payments, identify primary entitlement drivers of improper payments, and develop more effective corrective actions. The Department's new post-payment reviews also resulted in more accurate identification of monetary loss errors, as reviewers were able to more accurately identify and classify improper payments based on available supporting documentation rather than relying on established payroll debts to Military Service members.

U.S. Air Force Col. Spencer Cocanour, former acting commander of the 24th Special Operations Wing, exits an MC-130H Combat Talon II during his final military free fall jump at Hurlburt Field, Florida, Sept. 20, 2019. Cocanour is retiring after 24 years of service.

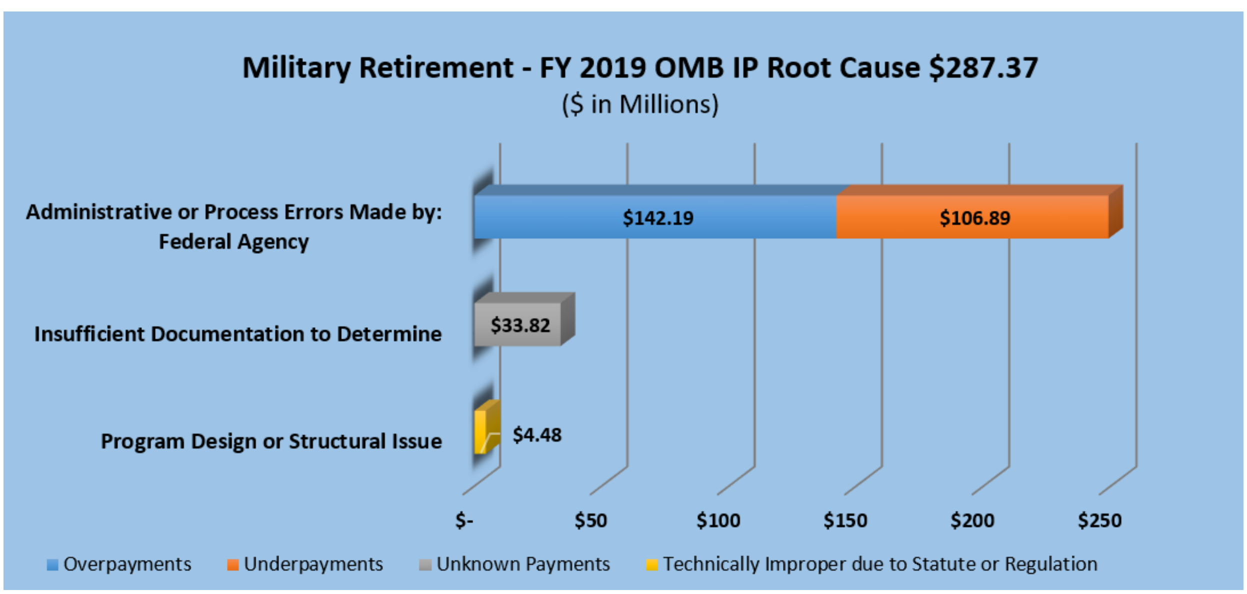
U.S. Air Force photo by Staff Sgt. Rose Gudex

Military Retirement

In FY 2019, the estimated improper payments for the Military Retirement program were $287.37 million (see Exhibit 20). This estimate was based on a sampling methodology with a 95% confidence level, equating to a 0.40% (+/- 0.09) improper payment rate and an estimated proper processing rate of 99.6%.

The primary root cause of improper payments in this program was attributed to Administrative or Process Errors Made by: Federal Agency, which accounted for $249.08 million (86.67%) of the program's improper payments. The second major root cause of improper payments was Insufficient Documentation to Determine, which accounted for $33.82 million (11.77%) of the program's improper payments.

Exhibit 20. FY 2019 Military Retirement Estimated Improper Payments by OMB Root Cause Category



The majority of the errors were the result of untimely application of Dependency and Indemnity Compensation offsets, manual and systematic computation errors, insufficient supporting documentation, and errors in following processing procedures and applying policy changes for Department of Veterans Affairs' (*VA*) waiver awards.

Exhibit 21. Military Retirement Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Administrative or Process Errors Made by the Department & Insufficient Documentation to Determine & Program Design or Structural Issue Errors for retired and annuitant pay (new annuitants, new retirees, and changed annuitant account) included: ▪ Payments made despite insufficient documentation ▪ Errors in following processing procedures and applying policy changes for Department of Veterans Affairs waiver awards ▪ Untimely application of Dependency and Indemnity Compensation offsets ▪ Systematic computation errors ▪ Manual computation errors	▪ Implement a cost refund system change to automate the processing of standard or common cost refund accounts. This automation effort is expected to reduce the number of technician input errors, and thus reduce the number of improper payments due to cost refund processing	October 2020
	▪ Update the cost refund workbook to streamline data transfer from a manual process to automated field population. This will streamline the process and contribute to a greater level of accuracy, which should lead to fewer improper payments	October 2020
	▪ Implement several New Accounts system change requests to reduce the amount of manual processing and eliminate over 50 excel workbooks currently in use. Eliminating manual processing is expected to reduce human errors that result in improper payments. Increase timeliness of processing so that Survivor Benefit Plan elections can be established correctly at the start of retired pay.	October 2020

Results of Corrective Actions

In FY 2019, DFAS implemented comprehensive updates in all areas of retired and annuitant training to more adequately address the complex cases that contributed to the most errors leading to improper payments. They also redesigned the workload distribution and held additional supplemental training at the operational level based on performance monitoring, specifically for the complex cases related to Survivor Benefit Plans and Annuities.

The goal to reduce the improper payment rate from random reviews by 10% was not achieved. DFAS conducted a strategic mid-year review of their operational processes in an effort to make progress toward the ultimate goal of less than $100 million in improper payments. As a result of the review, DFAS concluded they needed to alter their FY 2018 CAP to better posture their operations towards reducing improper payments.

A U.S. Marine with the 24th Marine Expeditionary Unit (MEU) carries cold weather equipment as he begins to march across the Icelandic terrain October 19, 2018.

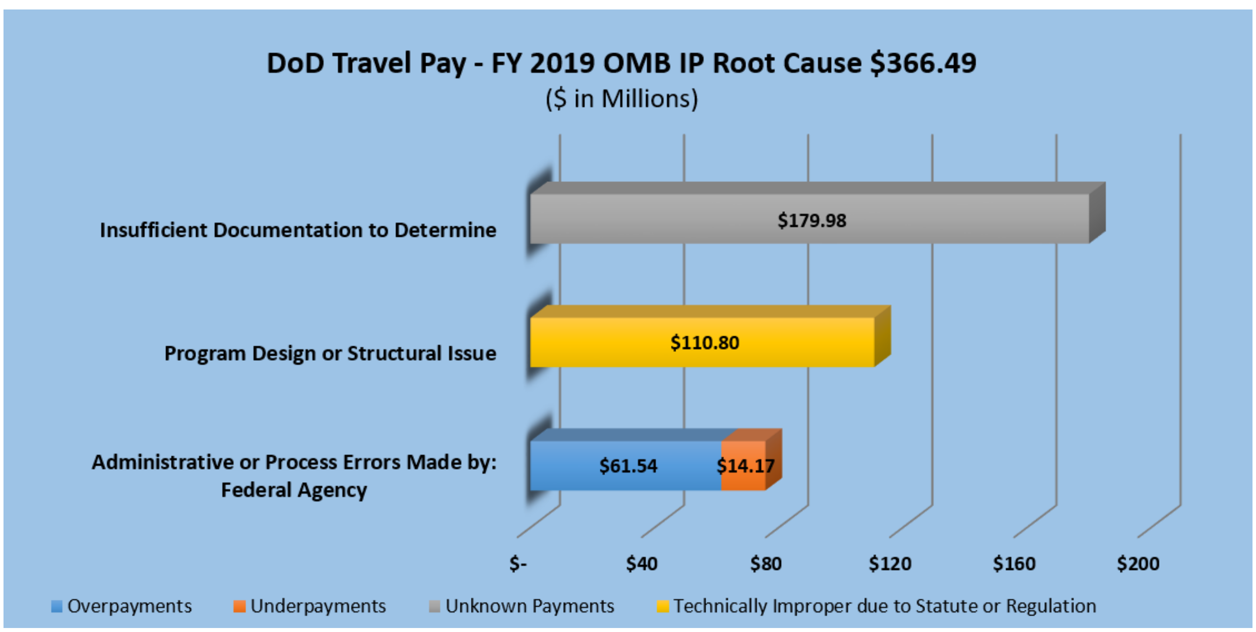
U.S. Air Force photo by Capt. Kylee Ashton

DoD Travel Pay

In FY 2019, the estimated improper payments for the DoD Travel Pay program were $366.49 million (see Exhibit 22). This estimate was based on a sampling methodology with a 95% confidence level, which equated to a 4.76% (+/- 0.37) improper payment rate and an estimated proper processing rate of 95.24%.

The primary root cause of improper payments in this program was attributed to Insufficient Documentation to Determine, which accounted for $179.98 million (49.11%) of the program's improper payments. The second major root cause of improper payments was Program Design or Structural Issue, which accounted for $110.80 million (30.23%) of the program's improper payments.

Exhibit 22. FY 2019 Travel Pay Estimated Improper Payments by OMB Root Cause Category



The errors resulted from invalid or incorrect receipts for expenses, unsigned vouchers or claims for Reimbursement for Expenditures on Official Business, no receipts provided for expenses, meal rates paid incorrectly, and incorrect payments of Permanent Change of Station-related expenses.

Exhibit 23. DoD Travel Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Insufficient Documentation to Determine Improper payments resulted from the following types of inability to verify the accuracy of payments: ▪ Invalid and/or inadequate documentation (i.e., receipts) to verify travel related expenses reimburses ▪ Lack of supporting documentation provided to determine if travel expenses are allowable based on established policies ▪ Lack of sampling plan and/or execution of sampling plan for Army Outside the Continental United States (OCONUS) disbursement offices to accurately evaluate, monitor, and measure improper payments.	▪ The Navy DTS project management office updated the current AO checklist to include specific checks to ensure valid receipts are submitted for specific expense types (airfare, lodging, and car). The AO checklist was made available on the Navy Supply Systems Command website and distributed to all Navy Defense Travel Administrators and AOs.	Completed March 2019
	▪ Draft a standard sampling plan for use by Army OCONUS paying offices for inclusion of site-specific details.	November 2019
	▪ The Defense Travel Management Office will make modifications to DTS to include additional capabilities for receipt verification. DTS will be able to detect when support documentation (e.g., receipt) is required for an expense and, if not included, will prevent the user from submitting the voucher or the AO from approving the voucher. This additional capability is anticipated to greatly reduce the majority of improper payments due to missing supporting documentation.	March 2020
Program Design or Structural Issue & Administrative or Process Errors Made by: Federal Agency Improper payments resulted from the following errors: ▪ Inaccurate Permanent Change of Station (PCS)-related expense reimbursement ▪ Voucher errors and incomplete data provided by the traveler ▪ Traveler and/or Approving Official (AO) did not sign travel related documentation (e.g., Travel Voucher)	▪ DFAS updated the post pay database to consolidate the Travel Pay reviews with corresponding results to provide DoD leadership with timely information on payments errors identified, root causes, and recovery of funds.	Completed September 2019
	▪ DFAS established a review forum for post payment reviewers and Travel Pay operations personnel to discuss and implement a common policy in computing, establishing policy, or conducting reviews.	Completed September 2019
	▪ The Air Force implemented a Defense Travel System (DTS) and Reserve Travel System root cause analysis process focusing on payment errors identified during post pay reviews to determine needed governance changes, training requirements, performance evaluations, and possible pecuniary liability actions for AOs.	Completed September 2019
	▪ Complete the Travel Pay improper payment remediation plans that account for approximately 95% of the Department's travel pay disbursements processed in the DTS. This includes establishing milestones, monitoring progress, and holding DoD Components accountable for their completion.	December 2019
	▪ Implement continuous training programs for PCS that include performance assessments of various disbursement locations to identify travel payment errors and root causes for known improper payments. The training program will emphasize accuracy, timeliness, and effective travel voucher review procedures (i.e., preventive measures) for the traveler, Command Pay/Personnel Administrator, and AO to incorporate prior to submitting the voucher for processing.	April 2020

Results of Corrective Actions

In FY 2019, the Department's corrective actions resulted in the calculation of the Travel Pay improper payment estimate using a complete population, to include travel payments made by the Army 266th Financial Management Support Center (FMSC). In FY 2018, the Army 266th FMSC did not complete their travel improper payment reviews because a rotational policy in Europe resulted in high turnover and limited personnel resources. Moreover, DoD remediation efforts continue to reduce improper travel payments (i.e., approximately 2.5% since FY 2016), and this program met its improper payment goal rates of 6.0% in FY 2018 and 5.75% in FY 2019.

II. Recapture of Improper Payments Reporting

When IPERA was passed in 2010, the Department awarded several contracts to identify and recover improper payments. Recovery auditors would be paid only on a contingency basis and only after funds were recovered. However, in most cases the private sector firms were not able to establish an adequate profit margin; consequently, the firms asked that the contracts be terminated. Based on historical experience with the use of contingency contracts to recover outstanding overpayments, the Department determined this type of effort was not cost effective.

The Department performs three separate and distinct activities that can result in the collection of amounts improperly paid to the recipient. Collection of these amounts is often referred to as "payment recapture." The three activities performed by the Department are:

1. Testing payments selected in statistical samples under OMB Circular No. A-123, Appendix C (IPERA Testing);
2. Testing under the requirements of OMB *Circular No. A-123* (Enterprise Risk Management and Internal Control Program (ERM/ICP) Control Activities); and
3. Payment Recapture Audits as defined under OMB Circular No. A-123, Appendix C (Payment Recapture Audit).

A U.S. Air Force F-16C Fighting Falcon fires flares over the Atlantic Ocean after performing a flyover for the 2019 Atlantic City Airshow, "A Salute To Those That Serve," on Aug. 21, 2019.

U.S. Air National Guard photo illustration by Senior Master Sgt. Andrew J. Moseley

IPERA Testing

Under IPERA Testing, sampled items are tested to identify overpayments or underpayments to eligible recipients, payments to ineligible recipients, payments for ineligible goods or services, and payments for goods or services not received. Tests include review of supporting documentation and other test procedures as applicable. When a review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, the payment is considered to be improper.

As part of the Department's overall system of internal control, individual overpayments identified in sampled items are reported to the DoD Component where the transaction originated. For example, if DFAS were performing the IPERA testing for the DoD Travel Pay program and identified an overpayment involving an Army employee, DFAS would report the overpayment to the Army. The Army would then contact the impacted employee and agree upon a repayment method consistent with the Army's debt management program. In most situations, the repayment would occur through payroll deduction or direct reimbursement by the employee to the Department for the overpayment.

ERM/ICP Control Activities

The framework of internal controls has five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. Within this framework, Control Activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the system of internal control.

Execution of Control Activities can result in the identification of an overpayment. For example, an overpayment in the Commercial Pay program may be identified through Control Activities at the DoD Component level. These overpayments would be subject to collection efforts coordinated between DFAS and the DoD Component offices responsible for originating the transactions. These collection efforts may include direct collection from the contractor or offset against the same contract with that contractor.

Payment Recapture Audit

A Payment Recapture Audit is a review and analysis of a program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments, and is specifically designed to identify overpayments. It is not an audit in the traditional sense covered by Generally Accepted Government Auditing Standards.

As part of their internal controls over payments, federal agencies are required to conduct Payment Recapture Audits for all programs that expend more than $1 million in a fiscal year if conducting such audits is cost effective. However, federal agencies may exclude program payments from Payment Recapture Audits if the agency determines that Payment Recapture Audits are not a cost-effective method for identifying and recapturing payments. The Department has determined that Payment Recapture Audits are not a cost-effective repayment capture method for its programs, with the exception of a portion of the DoD Travel Pay program administered by the Defense Travel Management Office (*DTMO*).

Currently, the only DoD payment recapture audit is conducted by DTMO as part of the DoD Travel Pay program. DTMO reviews all travel vouchers for Temporary Duty personnel processed through DTS using a set of 14 predefined queries designed to identify the most common improper payments.

Individual overpayments identified by DTMO through its *Travel Policy Compliance Tool* are reported through automated notifications to locally based Compliance Tool Administrators at the DoD Component where the travel transaction originated. The DoD Component then contacts the impacted employee and agrees upon a repayment method consistent with the DoD Component's debt management program. In most situations, the repayment occurs through payroll deduction or direct reimbursement by the employee to the Department for the overpayment.

After donning gas masks, U.S. Army paratroopers assigned to Dog Company, 3rd Battalion, 509th Parachute Infantry Regiment, 4th Infantry Brigade Combat Team (Airborne), 25th Infantry Division, U.S. Army Alaska, engage a target with a M2A1 machine gun during mounted night live-fire training at Joint Base Elmendorf-Richardson, Alaska, Nov. 16, 2018.

U.S. Air Force photo by Alejandro Peña

Overpayment Capture Reporting

Exhibit 24 reports the results of overpayments recaptured as a result of IPERA Testing and ERM/ICP Control Activities as "Overpayments Recaptured Outside of Payment Recapture Audits." Overpayments recaptured as a result of the DTMO Payment Recapture Audit are reported as "Overpayments Recaptured Through Payment Recapture Audits."

Amounts reported as "Overpayments Recaptured Outside of Payment Recapture Audits" in Exhibit 24 may differ from those reported in Exhibit 12 as "FY 2019 Overpayments" due to timing differences in reporting, the fact that Exhibit 12 reflects estimates while Exhibit 24 reflects actuals, and differences in the manner of compilation. Additionally, note that overpayments identified in one fiscal year may be collected in that fiscal year or in a subsequent fiscal year.

Exhibit 24. FY 2019 Payment Recapture Audit Reporting

($ in millions)

		Overpayments Recaptured Through Payment Recapture Audits				Overpayments Recaptured Outside of Payment Recapture Audits	
Does This Include Funds Recaptured from a High-Priority Program (Y/N)[1]	Program or Activity	Amount Identified in FY 2019 ($M)	Amount Recaptured in FY 2019 ($M)	Recapture Rate in FY 2019 (%)	FY 2020 Recapture Rate Target (%)	Amount Identified in FY 2019 ($M)	Amount Recaptured in FY 2019 ($M)
N	Military Health Benefits[2,3,4]					$ 8.95	$ 827.47
Y	Military Pay[5]					279.39	249.98
N	Civilian Pay[5]					96.60	96.60
N	Military Retirement[6]					72.30	36.60
N	DoD Travel Pay[7,8,9]	$ 5.19	$ 2.51	48%	75%	0.21	0.07
N	Commercial Pay					-	-
N	USACE Travel Pay					0.45	0.45
N	USACE Commercial Pay					2.60	2.58
	TOTAL	**$5.19**	**$2.51**	**48%**	**75%**	**$460.49**	**$1,213.75**

Note: Amounts may not sum or calculate exactly due to rounding.

Exhibit 24 Footnotes:

[1] The OMB threshold for designation as a high-priority program for FY 2019 reporting is $2 billion in estimated improper payments reported by the federal agency, regardless of the improper payment rate estimate.

[2] "Amount Identified in FY 2019" represents the total overpayment dollars from sampled claims. These amounts include recoupments for overpayments identified in audits as well as refunds occurring in the course of routine claim adjustments. DHA has no way to distinguish overpayment recoupments from routine claim adjustments. "Amount Recaptured in FY 2019" represents negative TRICARE Encounter Data (*TED*) record adjustments for overpayments.

[3] These amounts include recoupments for overpayments identified in reviews conducted by an external independent contractor as well as contractor refunds (i.e., negative TED record adjustments) occurring in the course of routine claim adjustments (for claims initially paid in previous fiscal years). DHA has no way to distinguish overpayment recoupments from routine claim adjustments.

[4] The amount recaptured in FY 2019 for the Active Duty Dental Program (*ADDP*) represents refunds shown on contractor invoices to DHA. ADDP data is not included in the TED system, thus contractor invoices were used to calculate the amount recaptured because TED transactions are not available.

[5] The Military Pay program includes both in-service collections (i.e., collections from active employees) and out-of-service debts (i.e., collections from individuals not actively employed by the Department) in the Amount Recaptured. The Civilian Pay program includes only in-service collections in the Amount Recaptured.

[6] The amounts identified and recaptured for the Military Retirement program are based on a 100% review of deceased retired and deceased annuitant accounts.

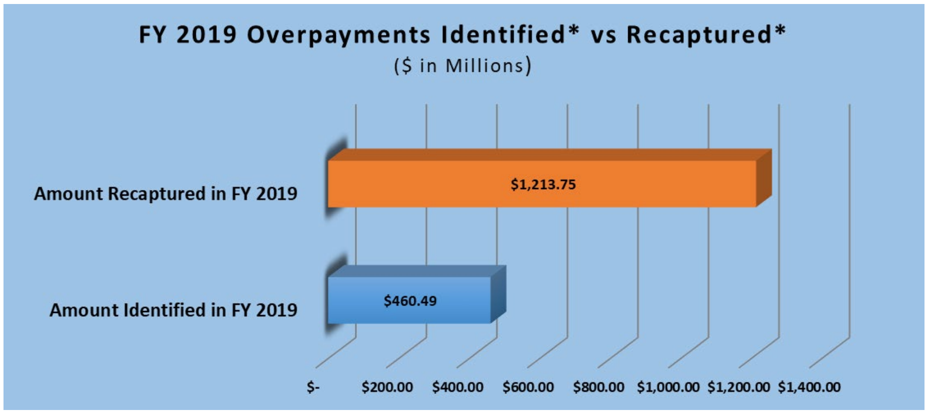
[7] "Overpayments Recaptured Outside of Payment Recapture Audits" for the DoD Travel Pay program are overpayments of paid DTS and Navy Windows Integrated Automated Travel System (WinIATS) vouchers that were identified by DFAS through their sampling and post-payment review process.

[8] The DoD Travel Policy Compliance Program is the only formal payment recapture audit program of the DoD Travel Pay program and its results are reported "through" payment recapture audits.

[9] "Amount Recaptured" includes debts that have been fully collected or are currently in the debt process, such as payroll deductions.

Exhibit 25 reports the actual amount (i.e., not estimated) of overpayments identified and recaptured outside of payment recapture audits in FY 2019. Note: not all overpayments will be collected in the same fiscal year that they were made and/or identified. The Department continues to work to improve its methods to identify, collect, and report improper payments.

Exhibit 25. FY 2019 Overpayments Identified and Recaptured Outside of Payment Recapture Audits



** Amounts do not include Overpayments Recaptured Through Payment Recapture Audits*

Exhibit 26 reports the disposition of funds recaptured as a result of payment recapture audits. In accordance with IPERA requirements, only funding which is expired at the time of collection can be reallocated.

Exhibit 26. FY 2019 Disposition of Funds Recaptured Through Payment Recapture Audits

($ in millions)

Program or Activity	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other
DoD Travel Pay	$ -	$ -	$ -	$ 2.51	$ -	$ -	$ -
TOTAL	**$ -**	**$ -**	**$ -**	**$ 2.51**	**$ -**	**$ -**	**$ -**

Note: Amounts may not sum or calculate exactly due to rounding.

Exhibit 27 reports an aging schedule of the amount of overpayments identified through payment recapture audits that are outstanding (i.e., overpayments that have been identified, but not recaptured). Identified overpayments were determined to be uncollectible for one of the following reasons: the amount of the debt is $10 or less; a waiver has been approved; or the amount is an out-of-service debt (i.e., debt from an individual not actively employed by the Department).

Exhibit 27. Aging of Outstanding Overpayments Identified Through Payment Recapture Audits

($ in millions)

Program or Activity	FY 2019 Remaining Unrecovered	Amount Outstanding (0 – 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable	Percent determined to not be collectable
DoD Travel Pay	2.68	0.98	$ 1.70	$ -	$ 0.01	0.26%
TOTAL	**2.68**	**0.98**	**1.70**	**$ -**	**0.01**	

Note: Amounts may not sum or calculate exactly due to rounding.

III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The Department of Treasury (*Treasury*) Do Not Pay (*DNP*) Portal is the legislatively mandated and OMB-designated source of centralized data analytics services to help federal agencies verify eligibility for payment. Federal agencies interface with Treasury's centralized data to achieve a higher degree of certainty that a payee is legitimate and eligible before making a payment. All payments that are identified to be potentially improper are then adjudicated and either paid or not paid. Improper payments, however, may still occur at some later point due to reasons that the DNP Portal cannot detect or prevent.

The Department uses the online search, payment integration, and batch matching features of DNP. Ninety nine percent of the flagged payees are based on the *Death Master File* and the name match results from the rest of the DNP databases (e.g., System for Award Management). The Department researches all payments that are identified to be potentially improper. Research has determined that the majority of these match results are false positives (e.g., a vendor's tax identification number being matched to a deceased individual's social security number). The remaining 1% are deemed proper based on established business rules related to contracts terms and vendor performance. The Department has adjudicated and deemed proper all potential improper payments identified using the DNP Portal. The DNP initiative has not reduced DoD improper payments.

A Bell UH-1 Iroquois Helicopter, nicknamed the "Huey", takes off amidst an explosion during a reenactment of a Vietnam era combat search and rescue mission performed by Cavanaugh Flight Museum at Joe Foss Field, South Dakota, August 18, 2019.

U.S. Air National Guard photo by Staff Sgt. Jorrie Hart

IV. Accountability

The Department recognizes the difficulty of any single official exercising direct personal control over all aspects of each business transaction. Therefore, the Department relies on automated systems, manual controls, and accountable officials to ensure accountability of government funds, including the accuracy, propriety, and legality of payments. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (*USD(C)/CFO*) is the Accountable Official for the Department and is responsible for ensuring that, to the greatest extent possible, all DoD payments are accurate.

The Department adheres to *10 U.S.C. §2773(a)*, which holds Departmental Accountable Officials (DAOs) and Certifying Officials (COs) accountable for government funds. DAOs and COs are subject to pecuniary liability for an illegal, improper, or incorrect payment. This law forms the basis of the DoD Financial Management Regulation (*DoD FMR*), *Volume 5, Chapter 5*, which addresses: the selection, appointment, responsibilities, and qualifications for certifying officers; certification of vouchers for payment; DAOs; random review of disbursement vouchers; and pecuniary liability. Moreover, the Department's efforts to recover overpayments are administered in accordance with the debt collection policy in DoD FMR, *Volume 16*.

The DoD FMR also contains chapters that specifically address improper payments (i.e., *Volume 4, Chapter 14*) and recovery auditing (i.e., *Volume 10, Chapter 22*). The Deputy Chief Financial Officer (*DCFO*) is the Executive Agent and Senior Accountable Official (SAO) for the DoD Payment Integrity Program. The DCFO, Director of Financial Management Policy and Reporting, and the Payment Integrity Program Manager provide oversight to the Payment Integrity Program and are each held accountable in their performance plans for reducing and recapturing improper payments as well as achieving compliance with IPERA.

The Department continues to take many proactive steps to hold individuals accountable for the prevention and reduction of improper payments. In FY 2013, following the DoD Travel Pay program's initial year of noncompliance, a Department-wide remediation plan was developed and implemented to assist the program in meeting its improper payment reduction target rates. By FY 2017, this plan evolved into an improper payments SAO steering committee, which is responsible for proactive oversight of the Payment Integrity program, implementing best practices, monitoring performance, and driving actions for achieving IPERA compliance. This committee, which is comprised of SAOs from across the Military Services and several other DoD Components[14], is held accountable for reducing and recapturing improper payments through corrective action plans and progress is monitored and measured through performance metrics. Moreover, the SAO steering committee helps ensure that improper payment estimates for all programs are complete and accurate and that program target rates are met.

[14] The SAO steering committee includes Senior Executive Service representatives from the following DoD Components and offices: OUSD(C); Department of the Army; Department of the Navy; Department of the Air Force; United States Marine Corps; USACE; United States Special Operations Command (*USSOCOM*); Defense Information Systems Agency (*DISA*); Defense Logistics Agency (*DLA*); Defense Contract Audit Agency (*DCAA*); Missile Defense Agency (*MDA*); DFAS; Defense Contract Management Agency (*DCMA*); DHA; and the Defense Human Resources Activity (*DHRA*)/DTMO.

Military Health Benefits

DHA continually strives to improve its payment accuracy performance for all its private sector contracts and ensure that the billions of dollars in federal funds it disburses annually reach intended recipients in the right amount and for the right purpose. Through responsible stewardship and accountability, DHA is committed to earning the trust and confidence of Congress and the American people.

TRICARE private sector contractors are monetarily incentivized or dis-incentivized through contract requirements and TRICARE claims processing performance standards. In addition to quarterly compliance reviews, MCSCs are subject to annual health care cost reviews. Overpayments identified during Annual Health Care Costs (AHCC) compliance reviews are extrapolated to the AHCC claims universe and the MCSC is liable for the extrapolated overpayment error amounts that must be reimbursed directly to the Government.

DHA-Contract Resource Management (CRM) Government Certifying Officers responsible for authorizing payments are held accountable as documented in their Performance Plans. Certifying officers must ensure vouchers prepared for disbursement are correct and comply with the terms of the assigned contract and the *Prompt Payment Act*. Certifying Officers are allowed no more than three errors resulting in an incorrect dollar amount or payee during a rating period. All payments on file must be certified in time to make scheduled Treasury payment cycles and DHA paying agents must maintain all standard operating procedures associated with these processes. Performance evaluations are performed annually by the Chief, CRM Finance Accounting Branch, who annotates and properly addresses any failure to meet performance requirements.

Military Pay

The Department is committed to ensuring that Military Service members are paid timely and accurately. To accomplish this important mission, individuals within the Military Pay hire-to-retire process are held accountable for their respective areas of responsibilities. Military Service members are held accountable to report their eligibility information as well as any qualifying change of life situations affecting their pay timely to their Personnel and/or Finance offices. Personnel and/or Finance offices are held accountable to process Military Service member payroll and benefit documentation accurately and timely and to ensure the documentation is correctly entered into entitlement systems. Personnel and/or Finance office employees are required to perform reconciliations on a regular basis and to make timely edits or updates to a Military Service member's pay in entitlement systems, as necessary. Management is held accountable for ensuring that controls are in place to properly capture, record, and approve Military Service members' pay and entitlement information. Additionally, management is responsible for reviewing finance reports, which reflect pay and entitlements paid to Military Service members, and for conducting monthly internal reviews to compare and reconcile pay and personnel records.

Military Retirement

The DFAS Director of Retired and Annuitant *(R&A) Pay* is held accountable in a performance plan for reducing and recapturing improper payments. The DFAS Director of R&A Pay is required, under a performance plan element of "Internal Controls and Audit Support," to actively support R&A work group efforts to reduce improper payments identified by the DFAS Post-pay Review & Analysis and the Reports & Analysis Enterprise Solutions & Standards – Compliance team. Moreover, executives at *DFAS Cleveland*, where R&A Pay is managed, are held accountable to meet established percentage goals for improper payments through annual performance plan criteria.

DoD Travel Pay

The Department is committed to ensuring that all employees, both Military Service members and civilians, are reimbursed timely and accurately for their travel-related expenses. To accomplish this mission, individuals within the travel management process are held accountable for their respective areas of responsibility.

DAOs involved in the travel management process serve as control points within the Department. Individuals officially appointed as DAOs for the travel process may include reviewing officials, approving officials, and authorizing officials. If appointed, DAOs are subject to pecuniary liability for illegal, improper, or incorrect payments resulting from information, data, or services they negligently provide to COs and upon which the COs relied to certify payment vouchers.

COs are subject to pecuniary liability under 10 U.S.C. §2773(a) and *31 U.S.C. §3528*. They are responsible for certifying travel claims for payment, forwarding certified claims to the supporting disbursing office, comparing pre-trip and post-trip estimates of expenses, reviewing all lodging receipts, and reviewing individual reimbursable expense receipts of $75 or more. Responsibilities for individuals appointed as COs are applicable to both DTS and non-DTS travel claims. COs must be appointed by an appropriate authority and they must acknowledge their appointment as a CO by signature.

Travelers are held accountable for preparing their vouchers after travel has been completed. Travelers must provide all supporting documentation including the original (or legible copies of) orders and receipts for all lodging expenses, as well as claimed reimbursable expenses of $75 or more, to their DAOs and/or COs. Moreover, travelers are liable under *18 U.S.C. §§287* and *1001* and the False Claims Act, *31 U.S.C. §§3729-3731*, if they knowingly submit false, fictitious, or fraudulent travel claims.

U.S. Army Soldiers assigned to the 10th Special Forces Group (Airborne) conduct an airborne operation near the island of Mont Saint Michel, Avranches Commune, France, May 18, 2019.

U.S. Army photo by Sgt. Avery Cunningham

V. Agency Information Systems and Other Infrastructure

Military Health Benefits

Internal Controls

DHA has internal controls in place to support the reduction of improper payments in the TRICARE purchased health care program to the levels the DHA has targeted. However, for the FY 2019 AFR reporting cycle, DHA identified a material weakness as a result of a private sector contractor's inadequate claims processing performance. Effective January 1, 2018, and in fulfillment of section 701 of the *National Defense Authorization Act for FY 2017*, the DHA implemented sweeping changes to the TRICARE health benefits structure and MCS contract management to synchronize these changes. As a result, the DHA transitioned its TRICARE-3 MCSCs (supported by three regional contracts/contractors) to the TRICARE 2017 contract and regional oversight model (supported by two regional contracts/contractors).

While the transition of MCSC contracts from three to two was considered a success, the transitioning of claims processing services under one of the two T2017 MCSC has been met with challenges. As a result of the contractor's claims processing performance, DHA's program and contracting offices have increased contract oversight and monitoring for this T2017 contractor. The DHA contracting office has issued a number of Contract Action Requests, while the program office has increased contract oversight and surveillance efforts. Although the material weakness has had an impact on the DHA Payment Integrity program, significant progress has been made by the DHA and the MCSC contractor to resolve this deficiency by the FY 2020 AFR reporting cycle.

Human Capital

Currently, DHA has the human capital it needs to reduce improper payments in the Military Health Benefits program to the level the Department has targeted. However, as the DHA Payment Integrity program evolves and as operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

Information Systems and Other Infrastructure

DHA has the information systems and other infrastructure it needs to reduce improper payments in the Military Health Benefits program to the levels the Department has targeted. The Agency Private Sector program (managed by the Contract Resource Management Division) includes an immense volume of healthcare claims processed by TRICARE private sector contractors into the TED Operational Data Store. To track programs, CRM uses the TRICARE Encounter Data Set (TEDS), a financial feeder system through which claims are processed to Oracle Federal Financials; the E-Commerce System (ECS); and the Oracle Federal Financials (OFF). The OFF system supports budget and accounting/financial functions and health care (TEDS) claims processing and contains TRICARE Claims Management, Accounts Receivable, Accounts Payable, Purchase Orders and General Ledger modules.

Military Pay

Internal Controls

The Department has internal controls in place that support the reduction of improper payments in the Military Pay program to the levels the Department has targeted. However, in FY 2019 there were three outstanding material weaknesses in the Military Pay hire-to-retire process. The material weaknesses were identified by the Army and the Navy in FY 2011. Although the material weaknesses have had an impact on the Payment Integrity Program, significant progress has been made by the Army and the Navy to remediate them. The Army plans to fully resolve the deficiencies by FY 2020. The Navy reassessed the material weakness and downgraded it to a significant deficiency, which is anticipated to be completely resolved in FY 2023. Moreover, OUSD(C) provides ongoing oversight to ensure material weaknesses are resolved by their target dates and coordination continues between the ERM/ICP and the Payment Integrity Program.

Human Capital

Currently, the Department has the human capital it needs to reduce improper payments in the Military Pay program to the levels the Department has targeted. However, as the Military Pay program evolves and DoD operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

Information Systems and Other Infrastructure

The Department has the information systems and other infrastructure it needs to reduce improper payments in the Military Pay program to the levels the Department has targeted. The primary system currently used by the Department to process Military Pay is the Defense Joint Military Pay System (DJMS). DJMS received an unmodified System and Organizational Control (SOC) 1 Type 2 report under Statement on Standards for Attestation Engagements *(SSAE) No. 18* in FY 2019. However, as technology advances, the Department continues to improve the accuracy and efficiency of Military Pay through implementation of new payroll and entitlement processing systems and enhancements to existing systems.

Navy Seaman Gabriel George uses his teeth to draw a bow during the archery finals at the 2019 Department of Defense Warrior Games in Tampa, Fla., June 25, 2019.

DoD photo by EJ Hersom

Military Retirement

Internal Controls

The Department has internal controls in place to support the reduction of improper payments in the Military Retirement program to the levels the Department has targeted. As part of the internal control framework for this program, the DFAS Director of R&A Pay has identified and documented known risks associated with the processes for providing pay services to the customers of the Military Retirement program. Along with identifying these risks by process, the Director of R&A Pay instituted key controls and control activities to mitigate the documented risks. The Director also tests the controls to ensure their effectiveness and documents the test results. In addition, OUSD(C) is committed to the coordination of activities between the ERM/ICP and the Payment Integrity Program to leverage best practices in internal controls.

Human Capital

Currently, the Department has the human capital it needs to reduce improper payments in the Military Retirement program to the levels the Department has targeted. However, as the Military Retirement program evolves and DoD operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

Information Systems and Other Infrastructure

The Department has the information systems and other infrastructure it needs to reduce improper payments in the Military Retirement program to the levels the Department has targeted. As technology advances, the Department continues to consider improving the accuracy and efficiency of Military Retirement through implementation of new retiree and annuitant pay systems and enhancements to existing systems.

U.S. Secretary of Defense Dr. Mark T. Esper presents a U.S. flag to WWII veteran Herman Zeitchik and his family at the Pentagon, Washington, D.C., Aug. 29, 2019.

DoD photo by U.S. Navy Petty Officer 2nd Class James K. Lee

DoD Travel Pay

Internal Controls

The Department has the internal controls in place to support the reduction of improper payments in the DoD Travel Pay program to the levels the Department has targeted. In addition, OUSD(C) is committed to the coordination of activities between the ERM/ICP and the Payment Integrity Program to leverage best practices in internal controls.

Human Capital

Currently, the Department has the human capital it needs to reduce improper payments in the DoD Travel Pay program to the levels the Department has targeted. However, as the DoD Travel Pay program evolves and DoD operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

Information Systems and Other Infrastructure

The Department has the information systems and other infrastructure it needs to reduce improper payments in the DoD Travel Pay program to the levels the Department has targeted. The primary system currently used by the Department to process travel payments is DTS. DTS received an unmodified SOC 1 Type 2 report under SSAE No. 18 in FY 2019. However, as technology advances, the Department continues to consider ways to improve the accuracy and efficiency of travel pay through implementation of new travel and entitlement processing systems and enhancements to existing systems.

U.S. Marine Corps Lance Cpl. Donovan Massieperez, a reproduction specialist with Headquarters Battalion, 3rd Marine Division, exits the training helicopter body during Underwater Egress Training (UET), at Camp Hansen, Okinawa, Japan, on March 14, 2019.

U.S. Marine Corps photo by Lance Cpl. Christine Phelps

VI. Sampling and Estimation

The primary disbursing DoD Components use statistically valid and rigorous methods that are designed to meet or exceed OMB's requirements of a 95% confidence level and a margin of error of +/- 3.0%. By using these methods, disbursing DoD Components are able to identify valid sample sizes and project improper payment percentages for the Department's Payment Integrity Program. The smaller disbursing DoD Components normally perform 100% post-payment reviews or a full review of payments above a specific dollar threshold, with random sampling for lower dollar payments.

Military Health Benefits

The DHA reports improper payment data one year in arrears, thus the FY 2019 Sampling Methodology represents FY 2018 Purchased Health Care Costs. The DHA followed OMB Circular No. A-123, Appendix C, dated October 20, 2014, when developing its sampling plan for FY 2018 disbursements. The Circular required sampling to be performed at the 90% confidence level with a margin of error of ±2.5%. The OMB approved DHA's sampling plan because it met these requirements.

On June 26, 2018, the OMB published a revised Appendix C to Circular A-123, which changed the parameters of a "statistically valid" sampling plan from a 90% to a 95% confidence level, stating that the change was effective starting in FY 2018. Since DHA's sampling activities were nearly completed by the time the updated guidance was released, the OMB provided approval and confirmation that DHA's sampling plan was still statistically valid under the revised Appendix C guidance. To clearly meet the updated OMB Circular No. A-123, Appendix C guidance, the DHA revised its sampling methodology for FY 2019 (to be reported in FY 2020) to reflect 95% confidence with a margin of error of ±2.5%.

DHA's FY 2018 payment integrity samples were designed as a post-payment review following stratified sampling on payment amounts, by contract. Strata boundaries were determined via the Cumulative Square Root Frequency method. Sample sizes were calculated to yield estimates with 90% confidence plus or minus 2.5% margin of error (if additional resources were available, these parameters were reduced to plus or minus as little as 1.0 percentage point to result in a larger sample size, to increase the likelihood that the samples met precision targets). Records within every stratum were selected with equal probability, and database software was utilized to randomly select records to be sampled.

On a quarterly basis, DHA sampled records for the managed care contracts (except for ADDP, which was sampled on a semi-annual basis). Records were stratified by contractor and paid amount for non-denied claims, and billed amount for denied claims. Additionally, an annual low-dollar review was performed on each contract to represent claims which were excluded from quarterly and semi-annual reviews due to low paid amounts. Results from all the reviews were combined to derive a complete fiscal year payment error rate for these contracts.

DHA's Administrative costs were reviewed for prepayment accuracy every year since FY 2009. DHA is in the process of implementing a post-payment review process (expected to be completed by FY 2021). The post-payment review will stratify these costs by payment type and amount.

Military Pay

DFAS designed the program samples using a dollar-stratified sampling plan and the Neyman Allocation method. The Neyman Allocation method stratifies financial data from DJMS and the Marine Corps Total Force System and allocates the data to defined strata. The overall variable sample size was calculated for the combined systems to produce a point estimate with a 95% confidence interval and a margin of error of +/- 2.5%. Samples were then randomly selected using statistical software from each system's population as a whole. Each payment within each stratum had an equal probability of selection.

On a monthly basis, DFAS statistically sampled Military Pay accounts stratified by Active Duty (i.e., Army, Navy, Air Force, and Marine Corps) and Reserve Components (i.e., Army Reserve, Army National Guard, Navy Reserve, Air Force Reserve, Air National Guard, and Marine Corps Reserve), and further stratified by the dollar amount of disbursements. The Defense Management Data Center provided the total universe of Military Pay accounts for each Military Service. DFAS reviewed the sampled pay accounts and calculated estimates of improper payments.

In FY 2019, based on a recommendation made by the Government Accountability Office (GAO) in Report No. *GAO-18-377*, the Department revised its post-payment review procedures for this program to include verification of Military Service members pay and allowances with sufficient supporting documentation.

Military Retirement

On a monthly basis, DFAS statistically sampled Military Retirement payments stratified by retired and annuitant pay accounts. The reviews contained samples of drilling Reserve units, retiree offsets, survivor benefit plans, transfers to/from the Temporary Disability Retired List to the Permanent List, and Veterans Affairs offsets. The overall variable sample size was calculated to produce a point estimate with a 95% confidence interval and a margin of error of +/- 2.5%.

DoD Travel Pay

DFAS designed the program samples using a dollar-stratified sampling plan and the Neyman Allocation method. The Neyman Allocation method stratifies financial data from DTS and WinIATS and allocates the data to defined strata. The overall variable sample size was calculated for the combined systems to produce a point estimate with a 95% confidence interval and a margin of error of +/- 2.5%. Samples were then randomly selected using statistical software from each system's population as a whole. Each payment within each stratum had an equal probability of selection.

On a monthly basis, DFAS sampled vouchers from DTS stratified by Component (i.e., Army, Navy, Marine Corps, Air Force, and other DoD Components) and vouchers from WinIATS stratified by travel type (i.e., Active, Reserve, Casualty, Contingency, Civilian Permanent Change of Station, other DoD Component, International Military Education and Training, Military Permanent Change of Station, Navy Reserve Officers' Training Corps, and Navy Travel). In addition, each population was further stratified by dollar amount.

DFAS statisticians selected a random sample and the Post-pay Review and Analysis team reviewed the samples and calculated estimates of improper payments. Furthermore, to form the overall DoD Travel Pay improper payments estimate, the DFAS DTS and WinIATS improper payment estimates were combined with the Army's WinIATS estimates of overseas travel, the Navy's WinIATS estimate, the Air Force's Reserve Travel System estimate, and the Marine Corps' WinIATS estimate.

VII. Risk Assessment

OMB Circular No. A-123, Appendix C requires agencies to review all programs and activities and assess their risk for improper payments. Agencies are required to institute a systematic method of reviewing all programs to determine whether the programs are or are not susceptible to significant improper payments[15]. Improper payment reviews or risk assessments may use qualitative or quantitative methods. If an agency determines that a program or activity is not susceptible to significant improper payments, the agency must re-assess that program's improper payment risk at least once every three years. Conversely, if an agency determines a program to be susceptible to significant improper payments, the agency is required to estimate and report improper payments for that program annually.

Programs already reporting an annual improper payment estimate in accordance with OMB Circular No. A-123, Appendix C requirements do not need to perform an additional improper payment risk assessment to comply with IPERA requirements, as the quantitative risk assessment method used for reporting the annual estimate fulfills the risk assessment requirement under IPERA. In FY 2019, the Department reported improper payment estimates for each of its eight programs. In addition, the Department performed risk assessments on three other programs: Academy Cadet Pay, Transportation of Things, and Government Purchase Card.

Academy Cadet Pay

In FY 2019, the Department conducted an improper payments risk assessment on payments made to academy cadets at U.S. service academies from the Military Personnel appropriation. Outlays for academy cadets are approximately $15 million per month (i.e., $180 million annually). These payments are fundamentally different from regular payroll payments to Military Service members; therefore, they are evaluated as a separate program from the Military Pay program for IPERA purposes. Based on the testing results, the Department concluded that payments to academy cadets did not meet the OMB thresholds for significant improper payments and are not required to be tested annually. The Academy Cadet Pay program will be reported as a separate program in FY 2020 and it will be tested and assessed for risk at least once every three years.

Transportation of Things

In FY 2019, the Department assessed the adequacy of the post-payment audits performed by the General Services Administration (*GSA*) on DoD Transportation of Things Payments. Title 31, United States Code, section 3726 (*31 U.S.C. §3726*) gives GSA the authority and responsibility to audit and settle all federal payments for transportation. The GSA *Transportation Audits Division* conducts post-payment audits on all transportation payments (and supporting documentation) related to freight service, foreign and domestic shipping of household goods, pipeline, rail, and ocean provided by the Department. GSA reviews DoD transportation payments for overcharges only. GSA finances their post-payment audit contract and audit-related functions with overpayments collected from the transportation payments previously paid by the Department and other federal agencies. GSA does not test for underpayments during their post-payment audits and they only conduct a limited review of DoD small parcel shipments. Based on the assessment of the GSA post-payment audits conducted by the GSA Transportation Audits Division, the Department, in coordination with the DoD Office of Inspector General,

[15] "Significant improper payments" are defined as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5% of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays).

concluded that the reviews adequately test DoD Transportation of Things payments for overcharges and can be relied upon for DoD IPERA reporting purposes. As a result, the Department will not perform additional testing on Transportation of Things payments. Beginning in FY 2020, the Department will report the improper payment testing results produced and supplied by GSA as a part of the Payment Integrity program. Additionally, the Department will work through the U.S. Transportation Command to assess the risk of underpayments and improper payments related to small parcel shipments[16].

Government Purchase Card

In FY 2019, the Department initiated an improper payments risk assessment on government purchase card payments. The risk assessment is ongoing and it will be concluded in FY 2020. As such, the results of the risk assessment will be reported in the DoD Agency Financial Report for FY 2020.

The amphibious dock landing ship USS Ashland (LSD 48) launches a Rolling Airframe Missile (RAM) during a missile exercise (MSLEX) in the Pacific Ocean, March 16, 2019.

U.S. Navy photo by Mass Communication Specialist 2nd Class Markus Castaneda

[16] Small parcel shipments typically weigh under 70 lbs. per shipment, are not shipped on pallets, and are not shipped with private courier companies.

Fraud Reduction Report

The Fraud Reduction and Data Analytics Act of 2015 (*FRDAA*) was enacted on June 30, 2016 to help improve federal agencies' financial and administrative controls, implement procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purposes of preventing, detecting, and responding to fraud. Each agency is required to report its progress in implementing: (1) the financial and administrative controls; (2) the fraud risk principle in the Government Accountability Office (*GAO*) Standards for Internal Control in the Federal Government ("*Green Book*"); and (3) management of fraud risk in accordance with OMB Circular No. A-123. Additionally, in July 2015, GAO issued Report No. *GAO-15-593SP*, *A Framework for Managing Fraud Risks in Federal Programs*, providing leading practices for mitigating fraud risks and enhancing program integrity.

In response to these requirements, the Office of the Under Secretary of Defense (Comptroller) (*OUSD(C)*) provided fraud expertise and expanded guidance to assist the DoD Components in performing their fraud risk assessment. OUSD(C) is responsible for the issuance of guidance and oversight of FRDAA compliance across the Department. In FY 2019, the Department led the following activities related to fraud risk management:

- Improved communication across the Department to increase awareness through the publication of a periodic newsletter. This is provided to all internal control and fraud coordinators across each Component and includes updates on fraud risk management initiatives, high-risk fraud areas, and communication platforms to report potential fraud.
- Leveraged the individual DoD Component fraud risk assessments to develop a consolidated Department-wide fraud risk register, which provides an inventory of fraud risks at the DoD Component level, as well as an opportunity to facilitate the identification of fraud risks that may be systemic across the Department. Through this effort, OUSD(C) has identified potential fraud risks across payroll, beneficiary payments, grants, large contracts, information technology and services, asset safeguards, and the purchase and travel card programs. The Department-wide fraud risk register serves as a baseline tool for managing risks and corresponding mitigation strategies.
- Piloted a data-driven approach that focused on government purchase card data and provided insights into potential fraudulent transactions for research by subject matter experts across the Department. As a result of the analysis performed, fraud indicators were applied to the data to develop views to show different key performance indicators and visualizations of merchant and cardholder information. The data-driven framework leveraged for this pilot can be scaled across the DoD enterprise and expanded to incorporate additional fraud schemes for high-risk areas.
- Identified Department-wide fraud control gaps to incorporate into FY 2020 guidance to help Components improve their fraud internal control environment.
- Participated in the FY 2019 GAO audit engagement related to risk factors associated with contractor ownership. As part of this audit, GAO reviewed the Department's fraud risk and control assessments that were piloted during FY 2018 and provided recommendations for improvement. The Department reviewed this final FY 2019 GAO report and has planned to expand current DoD risk assessment guidance to include additional fraud schemes. Going forward, the Department will continue to apply a risk-based approach in prioritizing high risk fraud areas for developing mitigation plans.

In addition, each of the DoD Components have a shared responsibility in preventing, detecting, and responding to potential fraud. The Components are the risk owners for their individual programs and must establish policies, procedures, and mechanisms to comply with risk management and internal control requirements to manage and respond to fraud risk. Examples of mechanisms used by the Components to manage fraud risk include:

- Monitoring and evaluating controls through the Enterprise Risk Management and Internal Controls program to provide assurance that Components are effectively preventing, detecting, and responding to potential fraud. To assist Components with this effort, the Department added an assertion statement to the Statement of Assurance Execution Handbook for the Components to confirm that they have conducted an assessment of entity-level controls, including fraud controls, in accordance with the Green Book, OMB Circular No. A-123, the FRDAA, and the GAO Fraud Risk Management Framework.

- Conducting individual fraud control and risk assessments to establish a baseline for their respective fraud risk management programs. Components are able to leverage the results of the fraud control and fraud risk assessments to develop a remediation plan to mitigate identified fraud control gaps and fraud risks.

Looking ahead, the Department will lead the coordination of all fraud risk efforts through the development of a Fraud Task Force. This Task Force will consist of enterprise-level fraud risk points of contact for each high-risk fraud area identified. The Department will continue to build its Fraud Risk Management Strategy to include leading practices, trends, fraud schemes and areas of opportunity to help mature the DoD-wide fraud risk program. Inputs obtained from the annual fraud risk assessments and fraud control assessments, as well as insights gained from the data-driven fraud activities will continue to inform focus areas and training topics that will influence the Fraud Risk Management Strategy. In addition, the Department will establish a communications channel to proactively monitor high-risk fraud areas as identified by key stakeholders including the DoD Office of the Inspector General and GAO. The Department aims to finalize and disseminate the Department-wide Fraud Risk Management Strategy in FY 2020.

U.S. Air Force A-10 Thunderbolt IIs fire flares while breaking away after aerial refueling from a KC-135 Stratotanker assigned to the 340th Expeditionary Aerial Refueling Squadron out of Kandahar Airfield, Afghanistan, Aug. 15, 2019.

U.S. Air Force photo by Staff Sgt. Keifer Bowes

Reduce the Footprint

Consistent with Section 3 of OMB *Memorandum M-12-12*, OMB Management Procedures *Memorandum No. 2015-01*, and the *National Strategy for the Efficient Use of Real Property*, the Department sets annual targets to reduce the total square footage of domestic office and warehouse inventory compared to the FY 2015 baseline as part of the annual Real Property Efficiency Plan submission to OMB and the General Services Administration. Exhibit 28 and Exhibit 29 present the Department's Reduce the Footprint comparisons of FY 2018 office and warehouse square footage and operations and maintenance costs to the FY 2015 baseline.

Exhibit 28. Reduce the Footprint Baseline Comparison

	FY 2015 Baseline	FY 2018	Change (FY 2018 - FY 2015 Baseline)
Square footage (in millions)	339.3	345.5	6.2

Through FY 2018, the Department's office and warehouse square footage increased slightly, primarily resulting from the Department's audit remediation efforts. Tests of existence and completeness over the Department's General Property, Plant and Equipment balances led to the discovery of assets (including offices and warehouses) that were not previously reported or not reported correctly in the Department's accounting records. While the correction of these errors resulted in increased asset account balances, it also provided DoD management with more accurate data for use in decision making. Additionally, the inclusion of several facility code categories in the calculation of office and warehouse square footage that were not previously included also contributed to the increase in reported square footage. Despite the reported increase, the Department disposed of over 1.2 million square feet of office and warehouse assets during FY 2018. The Department plans to achieve further reductions in square footage over the next five years through the construction of new, more efficient assets to eliminate excess space no longer needed to meet mission requirements.

Exhibit 29. Reporting of Estimated Operation and Maintenance Costs – Owned and Direct Lease Buildings

	FY 2018 Reported Costs	FY 2018	Change (FY 2018 - FY 2015 Baseline)
Operation and Maintenance Costs ($ in millions)	$ 829.5	$ 989.3	$ 159.8

Through FY 2018, the Department's estimated annual operation and maintenance costs of its owned and direct-leased facilities increased more than $159 million from the FY 2015 baseline. This is partially attributable to increases in General Property, Plant, and Equipment balances resulting from the Department's correction of existence and completeness errors. The Department's operation and maintenance costs are funded, managed, and disbursed at the base or installation level as opposed to the asset level (e.g., by facility). As a result, the Department is not currently able to trace the actual operations and maintenance costs associated with its office and warehouse inventory at the asset level and must rely on estimates mathematically derived from the allocation of base or installation level costs to all of the various facilities contained therein. As the Department's office and warehouse inventory represents less than 17% of the total DoD real property footprint, changes in the calculated allocation of operations and maintenance costs may potentially be driven by multiple factors other than office and warehouse square footage.

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (*the 2015 Act*), which amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (*Inflation Adjustment Act*, *28 U.S.C. § 2461, note*), requires federal agencies to annually adjust the level of civil monetary penalties for inflation to improve their effectiveness and maintain their deterrent effect. The implementation of this law helps deter violations of law; encourages corrective actions for existing violations; and helps prevent fraud, waste, and abuse within the Department.

The Department's civil monetary penalty adjustments are published as final rules in the *Federal Register* separately for adjustments pertaining to the U.S. Army Corps of Engineers (*USACE*) and those related to the remainder of the Department. Exhibit 30 provides the civil monetary penalties that the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the current penalty level. Additional supporting details about these penalties are available at Federal Register Volume 84, page 12098 (*84 FR 12098*), *84 FR 18979*, and *84 FR 31493*.

Exhibit 30. FY 2019 Civil Monetary Penalty Adjustments for Inflation

Penalty (Name or Description)	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty ($ amount or range)	Sub-Agency / Bureau / Unit	Location for Penalty Updates
Unauthorized Activities Directed at or Possession of Sunken Military Craft	National Defense Authorization Act for FY 2005, 10 U.S.C. § 113, note	2004	2019	$132,470	Department of the Navy	84 FR 12098 (April 1, 2019)
Unlawful Provision of Health Care	10 U.S.C. §1094(c)(1)	1985	2019	$11,632	Defense Health Agency	84 FR 12098 (April 1, 2019)
Wrongful Disclosure - Medical Records	10 U.S.C. §1102(k)	1986	2019	$6,878 (First Offense) $45,854 (Subsequent Offense)	Defense Health Agency	84 FR 12098 (April 1, 2019)
Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations	10 U.S.C. §2674(c)(2)	1990	2019	$1,895	Deputy Chief Information Officer	84 FR 12098 (April 1, 2019)
Violation Involving False Claim	31 U.S.C. §3802(a)(1)	1986	2019	$11,463	Office of the Inspector General	84 FR 12098 (April 1, 2019)
Violation Involving False Statement	31 U.S.C. §3802(a)(2)	1986	2019	$11,463	Office of the Inspector General	84 FR 12098 (April 1, 2019)
Class I Civil Administrative Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act, 33 U.S.C. §1319(g)(2)(A)	1987	2019	$21,934 per violation, with a maximum of $54,833	U.S. Army Corps of Engineers	84 FR 18979 (May 3, 2019)
Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act, 33 U.S.C. §1344(s)(4)	1987	2019	Maximum of $54,833 per day for each violation	U.S. Army Corps of Engineers	84 FR 18979 (May 3, 2019)
Civil Administrative Penalties for Violations of Section 205(e) of the National Fishing Enhancement Act	National Fishing Enhancement Act, 33 U.S.C. §2104(e)	1984	2019	Maximum of $24,017 per violation	U.S. Army Corps of Engineers	84 FR 18979 (May 3, 2019)
Violations of the Rivers and Harbors Appropriation Act of 1922	33 U.S.C. §555	1986	2019	Maximum of $5,732 per violation	U.S. Army Corps of Engineers	84 FR 31493 (July 2, 2019)

FY 2019

Appendices

Drill Sergeants Save Family From Burning Vehicle

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Appendix A – Reporting Entity

This appendix provides a list of the DoD Components that comprise the Department's reporting entity for the purposes of the consolidated/combined financial statements.

DoD Components Required to Prepare Financial Statements in Accordance with OMB Bulletin No. 19-03

DoD Component	Financial Statements
• Department of the Army, General Fund • Department of Army, Working Capital Fund	https://www.asafm.army.mil/Audit/
• U.S. Army Corps of Engineers Civil Works Program	https://www.publications.usace.army.mil/USACE-Publications/Miscellaneous/
• U.S. Navy, General Fund • Department of Navy, Working Capital Fund	https://www.secnav.navy.mil/fmc/fmo/Pages/Financial-Reports.aspx
• U.S. Marine Corps, General Fund	https://www.hqmc.marines.mil/pandr
• Department of Air Force, General Fund • Department of Air Force, Working Capital Fund	https://www.saffm.hq.af.mil/FM-Resources/Air-Force-Annual-Financial-Statement/
• Military Retirement Fund	https://comptroller.defense.gov/Portals/45/Documents/afr/fy2019/DoD_Components/2019_AFR_MRF.pdf

Additional Consolidated/Combined DoD Components

DoD Component
Agency-Wide Component
Chemical Biological Defense Program
Consolidated Defense Health Programs
Defense Advanced Research Projects Agency
Defense Commissary Agency, General Fund
Defense Commissary Agency, Working Capital Fund
Defense Contract Audit Agency
Defense Contract Management Agency
Defense Finance and Accounting Service, General Fund
Defense Finance and Accounting Service, Working Capital Fund
Defense Health Agency - Contract Resource Management
Defense Information Systems Agency, General Fund
Defense Information Systems Agency, Working Capital Fund
Defense Logistics Agency National Defense Stockpile Trust Fund
Defense Logistics Agency, General Fund
Defense Logistics Agency, Working Capital Fund
Defense Security Cooperation Agency
Defense Technical Information Center
Defense Threat Reduction Agency
Department of Defense Education Activity
Department of Defense Office of Inspector General
DoD Component Level Accounts
DoD Medicare-Eligible Retiree Health Care Fund
Joint Chiefs of Staff
Medicare - Eligible Retiree Health Care Fund Payment (Pass Through Account)
Military Retirement Fund Payment (Pass Through Account)

DoD Component
Missile Defense Agency
Other Defense Activities - Burden Sharing Account by Foreign Allies, Defense
Other Defense Activities - Business Transformation Agency
Other Defense Activities - Defense Acquisition University
Other Defense Activities - Defense Cooperation Account
Other Defense Activities - Defense Gift Fund
Other Defense Activities - Defense Human Resources Activity
Other Defense Activities - Defense Media Activity
Other Defense Activities - Defense Prisoner of War/Missing In Action Accounting Agency
Other Defense Activities - Defense Security Service
Other Defense Activities - Defense Technology Security Administration
Other Defense Activities - Department of Defense Education Benefits Fund
Other Defense Activities - Director, Operational Test and Evaluation
Other Defense Activities - Emergency Response Fund, Defense
Other Defense Activities - Homeowners Assistance Fund
Other Defense Activities - Host Nation Support for U.S. Relocation Activities, Defense
Other Defense Activities - Military Housing Privatization Initiative
Other Defense Activities - Mutually Beneficial Activities Defense Wide
Other Defense Activities - National Security Education Trust Fund
Other Defense Activities - Office of Economic Adjustment
Other Defense Activities - Support for U.S. Relocation to Guam Activities
Other Defense Activities - Voluntary Separation Incentive Trust Fund
Other Defense Activities Working Capital Funds (Pass Through Account)
Other TI-97 Funds Provided to the Air Force by the Office of the Secretary of Defense
Other TI-97 Funds Provided to the Army by the Office of the Secretary of Defense
Other TI-97 Funds Provided to the Navy by the Office of the Secretary of Defense
U.S. Special Operations Command
U.S. Transportation Command
Washington Headquarters Services

A U.S. Marine Corps assault amphibious vehicle (AAV), assigned to the 31st Marine Expeditionary Unit (MEU), approaches the well deck of the amphibious assault ship USS Wasp (LHD 1) in the Philippine Sea, Jan. 14, 2019.

U.S. Navy photo by Mass Communication Specialist 1st Class Daniel Barker

Appendix B – Acronyms and Abbreviations

Acronym	Definition
AC	Actual Cost
ACWA	Assembled Chemical Weapons Alternatives
ADA	Antideficiency Act
ADDP	Active Duty Dental Program
AF	Air Force
AFFF	Aqueous film-forming foam
AF-IPPS	Air Force Integrated Personnel and Pay System
AFR	Agency Financial Report
AO	Approving Official
APP	Annual Performance Plan
APSR	Accountable property system of record
ASD	Assistant Secretary of Defense
ASP	Agency Strategic Plan
ATSD	Assistant to the Secretary of Defense
ATSD(PA)	Assistant to the Secretary of Defense (Public Affairs)
AU	Assessable Unit
BD/DR	Building Demolition and Debris Removal
BEA	Business Enterprise Architecture
BRAC	Base Realignment and Closure
BRS	Blended Retirement System
CAP	Corrective Action Plan
CAP	Contractor-Acquired Property
CBY	Charge back year
CDO	Chief Data Officer
CDRL	Contract Data Requirements List
CE2T2	Combatant Commander Exercise and Engagement and Training Transformation
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CIO DoD	Chief Information Officer of the Department of Defense
CIP	Construction in Progress
CJCS	Chairman of the Joint Chiefs of Staff
CMC	Commandant of the Marine Corps
CMO	Chief Management Officer
CMR	Cash Management Report
CNGB	Chief of the National Guard Bureau
CNO	Chief of Naval Operations
CO	Certifying Official
COLA	Cost of living adjustment
CONOPS	Concept of Operations
COTS	Commercial Off-The-Shelf
CPI	Continuous Process Improvement
CPIM	Consumer Price Index Medical
CRM	Contract Resource Management
CSA	Combat Support Agency
CSA	Chief of Staff of the Army
CSAF	Chief of Staff of the Air Force
CSRS	Civil Service Retirement System
DAI	Defense Agencies Initiative
DAO	Departmental Accountable Official
DARPA	Defense Advanced Research Projects Agency
DATA Act	Digital Accountability and Transparency Act of 2014
DAWIA	Defense Acquisition Workforce Improvement Act
DBS	Defense Business Systems
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DEAMS	Defense Enterprise Accounting and Management System
DeCA	Defense Commissary Agency
DEOS	Defense Enterprise Office Solution
DERP	Defense Environmental Restoration Program
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DHRA	Defense Human Resources Activity
DIB	Defense Industrial Base
DISA	Defense Information Systems Agency
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency

Acronym	Definition
DM	Direct Method
DM&R	Deferred Maintenance and Repairs
DNP	Do Not Pay
DoD	Department of Defense
DOL	Department of Labor
DON	Department of the Navy
DSCA	Defense Security Cooperation Agency
DTD	Direct Treasury Disbursing
DTMO	Defense Travel Management Office
DTS	Defense Travel System
E2E	End-to-End
EBF	DoD Education Benefits Fund
EBS	Enterprise Business System
ECS	E-Commerce System
EIC	External Independent Contractor
EL	Environmental Liabilities
EOU	Excess, Obsolete, and Unservicable
ERM	Enterprise Risk Management
ERM/ICP	Enterprise Risk Management and Internal Control Program
ERP	Enterprise Resource Planning
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
FBwT	Fund Balance with Treasury
FCI	Facility Condition Index
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employees' Compensation Act
FEDVIP	Federal Employees Dental and Vision Insurance Program
FEGLI	Federal Employee Group Life Insurance
FEHB	Federal Employees Health Benefits
FERC	Federal Energy Regulatory Commission
FERS	Federal Employees Retirement System
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFMIA	Federal Financial Management Improvement Act of 1996
FFRDC	Federally Funded Research and Development Centers
FGB	Financial Improvement Audit Remediation Governance Board
FLTCIP	Federal Long Term Care Insurance Program
FM	Financial Management
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FMSC	Financial Management Support Center
FR	Financial Report of the U.S. Government
FRDAA	Fraud Reduction and Data Analytics Act of 2015
FRM	Fraud Risk Management
FUSRAP	Formerly Utilized Sites Remedial Action Program
FY	Fiscal Year
FYDP	Future Years Defense Program
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GC	General Counsel
GCSS-A	Global Combat Support System – Army
GCSS-MC	Global Combat Support System – Marine Corps
GE	General Equipment
GFEBS	General Fund Enterprise Business System
GFP	Government Furnished Property
GL	General Ledger
GMRA	Government Management Reform Act of 1994
GPP&E	General Property Plant & Equipment
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
GSA	General Services Administration
GT&C	General Terms and Conditions
HC	Historical Cost
HR	Human Resources
I&RP	Inventory and Related Property
ICP	Internal Control Program
IGT	Intragovernmental Transactions
IP	Improperly Paid

Acronym	Definition
IPA	Independent Public Accounting
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IPPS	Integrated Personnel Pay System
IPPS-A	Integrated Personnel Pay System – Army
IRP	Installation Restoration Program
ISIS	Islamic State of Iraq and Syria
IT	Information Technology
ITGC	Information Technology General Controls
IUS	Internal Use Software
JCS	Joint Chiefs of Staff
JV	Journal Voucher
KSD	Key Supporting Documentation
LAC	Latest Acquisition Cost
LCM	Lower of Cost or Market
LMP	Logistics Modernization Program
MAC	Moving Average Cost
MCSC	Managed Care Support Contracts
MDA	Missile Defense Agency
MERHCF	Medicare-Eligible Retiree Health Care Fund
MHPI	Military Housing Privatization Initiative
MHS	Military Health System
Mildeps	Military Departments
MMRP	Military Munitions Response Program
MPT&E	Manpower Personnel Training and Education
MRF	Military Retirement Fund
MRHB	Military Retirement Health Benefits
MTF	Military Treatment Facilities
MWR	Morale, Welfare, and Recreation
NAF	Nonappropriated Fund
NAFI	Nonappropriated Fund Instrumentality
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NDBOP	National Defense Business Operations Plan
NDS	National Defense Strategy
NFR	Notice of Findings and Recommendations
NIPR	Non-classified Internet Protocol Router
No.	Number
NOAA	National Oceanic and Atmospheric Administration
NP2	Navy Personnel and Pay System
NPV	Net present value
NRV	Net Realizable Value
NWI	Non-tactical Warehouse Integration
O&M	Operation and Maintenance
OACT	Office of the Actuary
OCMO	Office of the Chief Management Officer
OCO	Overseas Contingency Operations
OCONUS	Outside of the Continental United States
ODCFO	Office of the Deputy Chief Financial Officer
ODNI	Office of the Director of National Intelligence
OEP	Organizational Execution Plan
OFF	Oracle Federal Financials
OIG	Office of the Inspector General
OM&S	Operating Material and Supplies
OMB	Office of Management and Budget
OPEB	Other Post-employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OSD	Office of the Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
P2P	Procure-to-Pay
PCS	Permanent Change of Station
PFAS	Poly-and Per-Fluoronated Alkyl Substances
PFOA	Perfluorooctanoic Acid
PFOS	Perfluorooctane Sulfonate
PP	Proper Payment / Properly Paid
PP&E	Property, Plant and Equipment
PPA	Prompt Payment Act

Acronym	Definition
PPBE	Planning, Programming, Budgeting, and Execution
R&A	Retired and Annuitant
R&D	Research and Development
R2F	Readiness Recovery Framework
RCRA	Remedial Action Cost Engineering Requirements
RDT&E	Research, Development, Test and Evaluation
RFQ	Request for Quote
RMF	Risk Management Framework
RP	Replacement Price
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
RTS	Reserve Travel System
S/L	Straight Line Method
SAA	Security Assistance Accounts
SAMM	Security Assistance Management Manual
SAO	Senior Accountable Official
SARA	Superfund Amendments and Reauthorization Act of 1986
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SCR	System Change Request
SDP	Savings Deposit Program
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SIPR	Secret Internet Protocol Router
SLOA	Standard Line of Accounting
SMS	Sustainment Management System
SNC	Statement of Net Cost
SOC	System and Organizational Control
SOD	Statement of Differences
SOF	Special Operations Forces
SOP	Standard Operating Procedures
SP	Standard Price
SSAE	Statement of Standards for Attestation Engagements
STB	Standard Transaction Broker
TED	TRICARE Encounter Data
TFM	Treasury Financial Manual
TNC	Treasury Nominal Coupon
TSP	Thrift Savings Plan
TTH	Time to Hire
U.S.	United States
U.S.C.	United States Code
UoT	Universe of Transactions
USACE	United States Army Corps of Engineers
USD	Under Secretary of Defense
USD(A&S)	Under Secretary of Defense (Acquisition and Sustainment)
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer
USD(I)	Under Secretary of Defense (Intelligence)
USD(P&R)	Under Secretary of Defense (Personnel and Readiness)
USD(P)	Under Secretary of Defense (Policy)
USD(R&E)	Under Secretary of Defense (Research and Engineering)
USSGL	United States Standard General Ledger
USSOCOM	United States Special Operations Command
USSPACECOM	United States Space Command
VA	Department of Veterans Affairs’
VCJCS	Vice Chairman of the Joint Chiefs of Staff
VSI	Voluntary Separation Incentive
WCF	Working capital funds
WinIATS	Windows Integrated Automated Travel System

Appendix C – Index of Figures, Tables, and Exhibits

Management's Discussion and Analysis Figures

Financial Section Tables

Note: The title "Table 22" is not used, as the table titles in the Financial Section are aligned to the related Note to the Financial Statements and Note 22 does not contain a table.

Other Information Exhibits

A U.S. Soldier a takes part in a training event, showcasing for the secretary of the Army the skills Soldiers acquire and hone at Fort Benning, Georgia, Nov. 19, 2018.

U.S. Army photo by Patrick Albright

Acknowledgements

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