

**Defense Information Systems Agency
Annual Financial Report - WCF
Fiscal Year 2018**



Table of Contents

Management Discussion and Analysis	1
Principal Statements	32
Notes to the Principal Statements.....	38
DoD OIG Transmittal Letter	60
Independent Auditors' Report.....	62
Attachment 1 DISA Management's Comments on the Auditor's Report	82

Management's Discussion and Analysis (v4)

The Defense Information Systems Agency (DISA) is pleased to present a Management Discussion and Analysis (MD&A) to accompany the financial statements and footnotes for its fiscal year (FY) 2018 Consolidated Financial Statements. The key sections within this MD&A include the following:

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

1. Mission and Organizational Structure

History & Enabling Legislation: DISA is an operationally focused Department of Defense (DoD) combat support agency that delivers information technology to enhance the capabilities of the nation's warfighters and all who support them in defense of the nation. DISA's roots go back to 1959 when the Joint Chiefs of Staff (JCS) requested the Secretary of Defense (SECDEF) approve a concept for a joint military communications network to be formed by consolidation of the communications facilities of the Military Departments. This would ultimately lead to the formation of the Defense Communications Agency (DCA), established on 12 May 1960, with the primary mission of operational control and management of the Defense Communications System (DCS). On 25 June 1991, DCA underwent a major reorganization and was renamed the Defense Information Systems Agency to reflect its expanded role in implementing the DoD's Corporate Information Management (CIM) initiative, and to clearly identify DISA as a combat support agency. DISA established the Center for Information Management to provide technical and program execution assistance to the Assistant Secretary of Defense (C3I) and technical products and services to DoD and military components. DISA's role in DoD information management continued to expand with implementation, in September 1992, of several Defense Management Report Decisions (DMRD), most notably DMRD 918. DMRD 918 created the Defense Information Infrastructure (DII), and directed DISA to manage and consolidate the Services' and DoD's information processing centers into 15 megacenters. In FY 2018, the organization that came to be known as the Joint Service Provider (JSP) declared full operational capability and moved into its new place in the Defense Department's organizational chart as a subcomponent of DISA. It marked a major expansion of mission and budget authority for DISA, which now controls the funding and personnel that provide most IT services for the Pentagon and other DoD headquarters functions in the National Capital Region. DISA continues to offer DoD information systems support, taking data services to the forward deployed warfighter.

The DISA Vision: To be the trusted provider to connect and protect the warfighter in cyberspace.

The DISA Mission: To conduct DODIN operations for the joint warfighter to enable lethality across all warfighting domains in defense of our nation.

Organization: To fulfill its mission and meet strategic plan objectives, DISA operates under the direction of the DoD Chief Information Officer (CIO) who reports directly to the Secretary of Defense.

The Agency is budgeted to support the IT needs and requirements of the entire Defense Department, including the offices of the Secretary of Defense and of the Chairman and Vice Chairman of the Joint Chief of Staff, the Joint Staff, military services, combatant commands, and Defense agencies. DISA also provides support to the White House and many federal agencies through a number of capabilities and initiatives.

During FY 2015, DISA embarked on the most extensive reorganization in over ten years. The reorganization presented many challenges Agency-wide. In FY 2018, the Agency further enhanced the outcome of the initial reorganization, and as a result, optimized the organizational structure in order to more effectively execute strategy, optimize force posture into an agile cyber force, improve accountability, reduce duplication, and improve cost management.

DISA's Appropriated Budget

Through its appropriated budget, DISA is funded by Congress through the National Defense Authorization Act, the U.S. federal law specifying the budget and expenditures for DoD, and defense appropriations bills authorizing DoD to spend money. This budget enables the Agency to implement the White House's national security strategy, the secretary's planning and programming guidance, and the initiatives of the DoD CIO.

DISA aligns its program resource structure across six mission areas, which reflect DoD's goals and allows DISA to execute its core missions and functions:

1. "Transition to the Net-Centric Environment" funds capabilities and services that transform the way that DoD shares information by making data continuously available in a trusted environment. This mission area includes enterprise services, engineering services, and technical strategies developed by DISA's chief technology officer (CTO).
2. "Eliminate Bandwidth Constraints" focuses on capabilities and services that build and sustain the Global Information Grid (GIG) transport infrastructure, while eliminating bandwidth constraints and rapidly surging to meet demands. Capabilities funded in this category include the Pathways Program, DoD Teleport Program, Defense Spectrum Organization (DSO) activities, and Defense Information System Network (DISN) enterprise activities, such as non-recurring costs for commercial circuits, commercial satellites, and special communications requirements.
3. "GIG Network Operations and Defense" funds the operation, protection, defense, and sustainment of the enterprise infrastructure and information-sharing services, as well as enabling command and control. This mission area includes funding for network operations (NetOps); the information assurance/public key infrastructure (IA/PKI) program; cybersecurity initiatives; and budgets for DISA's field offices, which support

the combatant commands, and for the Joint Staff Support Center (JSSC), which supports the Chairman, Vice Chairman, and Joint Chiefs of Staff in the Pentagon.

4. "Exploit the GIG for Improved Decision Making" focuses on transitioning to DoD enterprise-wide capabilities for communities of interest, such as command and control, and combat support that exploit the GIG for improved decision-making. This mission area funds the Global Command and Control System – Joint (GCCS-J) program, Global Combat Support System – Joint (GCSS-J) program, and senior leader and coalition information-sharing activities.
5. "Deliver Capabilities Effectively/Efficiently" finances the means by which the Agency effectively, efficiently, and economically delivers capabilities based on established requirements. This area funds the command staff and the personnel costs for DISA's shared service units.
6. "Special Mission Areas" enables the Agency to execute special missions to provide the communications support required by the president as Commander-in-Chief, including day-to-day management, fielding, operation, and maintenance of communications and information technology. The White House Communications Agency (WHCA) and the Communications Management Control Activity (CMCA) in the Network Services Directorate are budgeted out of this mission area.

DISA's Defense Working Capital Fund (DWCF)

DISA also operates a DWCF budget. Unlike the appropriated budget, which is provided through direct congressional appropriations, the working capital fund relies on revenue earned from providing IT and telecommunications services and capabilities to finance specific operations. Mission partners order capabilities or services from DISA and make payment to the working capital fund when the capabilities or services are received.

A DWCF business unit is not profit-oriented and, therefore, only tries to break even, charging prices set using the full-cost-recovery principle, which accounts for all costs — both direct and indirect (or "overhead") costs. It is intended to generate adequate revenue to cover the full cost of its operations and to finance the fund's continuing operations without fiscal year limitation. DISA operates the information services activity within the DWCF. This activity consists of two main components. The first component includes two lines of service, telecommunications services and enterprise acquisition services. The second component includes computing services. The major element of the telecommunication services component is the DISN, which provides interoperable telecommunications connectivity and accompanying services that allow the Department to plan and operate both day-to-day business and operational missions through the dynamic routing of voice, data, text, still and full-motion imagery, and bandwidth services. Some DISN services are provided to mission partners in predefined packages and sold on a subscription basis via the DISN subscription service, while others are made available on a cost-reimbursable basis.

The line of service for enterprise acquisition services enables the Department to procure best value, commercially competitive IT services and capabilities through DISA's Defense IT Contracting Organization (DITCO). DITCO provides complete contracting support and services. The computing services component of DISA's DWCF activities comprises Computing Ecosystem, which provide mainframe and server-processing operations, data storage, production support, technical services, and end-user assistance for command and control, combat support, and enterprise applications across DoD. These facilities and functions provide a robust enterprise computing environment to more than four million users through 30 mainframes, more than 7,000 servers, 8,000 terabytes of data, and approximately 450,000 square feet of raised floor.

The organizational structure for DISA as of 30 September 2018 is depicted below with a detailed description of major offices outlined following the chart:

Defense Information Systems Agency

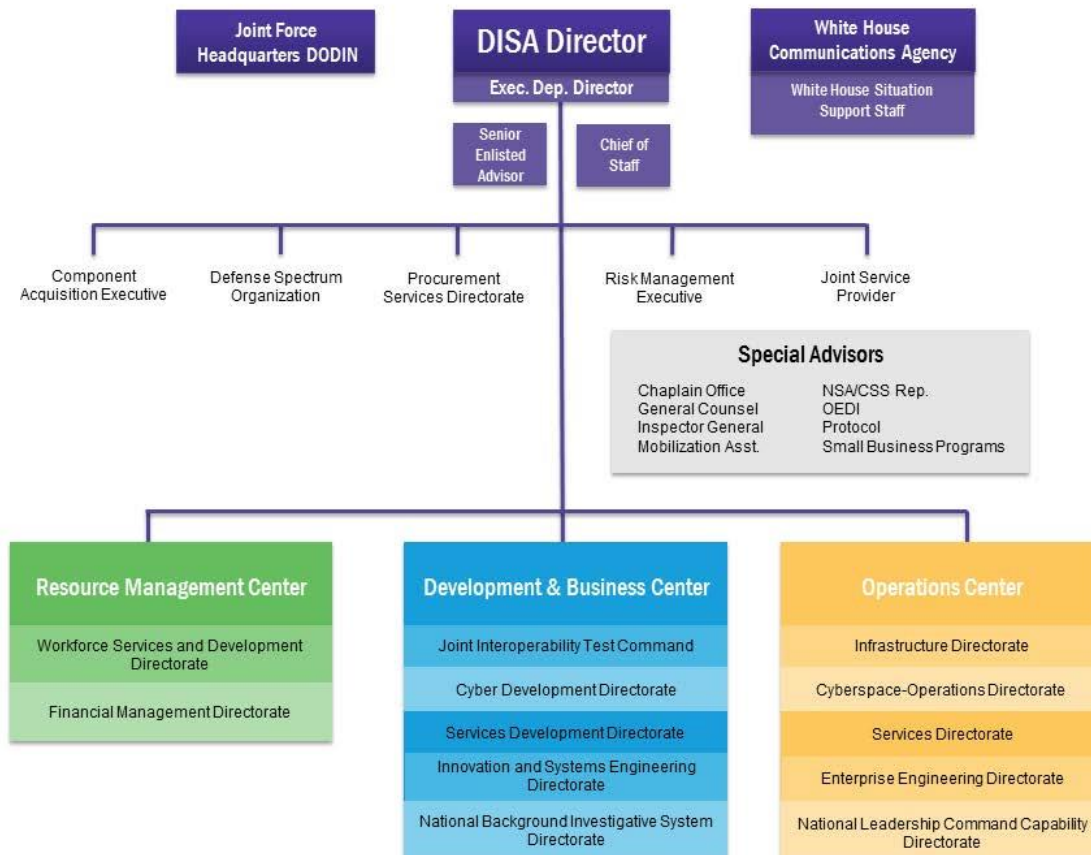


Figure 1 – Snapshot of DISA organization chart to include organizations directly or indirectly supporting DWCF missions

Command Staff – The DISA Director, with the assistance of a Vice Director, an Executive Deputy Director, their support staff, Fifth Estate Center (Special Missions), Special Advisors, a Resource Management Center, a Development and Business Center, and a Center for Operations that directly support DISA’s critical mission, and several other direct reports, leads a global organization of military and civilian personnel.

Fifth Estate Center – Comprised of Special Program Offices, Special Mission Organizations, Units and Offices that support a wide range of objectives within Department of Defense including Information Assurance, IT acquisition management, White House Communication Support, Joint Information Environment (JIE) Support, and other critical services for the Department. These programs and offices are primarily funded through Congressional appropriations at this time.

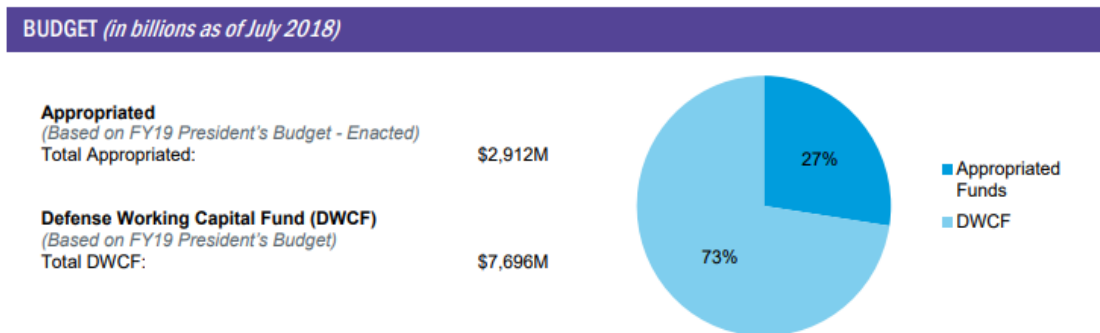
Special Advisors - These advisors ensure that DISA’s decision makers have accurate, timely, reliable, and useful information needed to make sound decisions, serve as the principle advisor to the DISA Director for their areas of expertise, and represents and defends the Agency’s position on all matters within their areas of expertise.

Development and Business Center – The Development and Business Center (DBC) provides the engineering and solution analysis, infrastructure development, testing and evaluation, assured communications of optimized cyber solutions for the rapid design, development, integration and transition of Business, Enterprise, and Command and Control systems, services and capabilities for our Agency, the DoD, other U.S. Government agencies, and our allies across the full spectrum of military operations.

Center for Operations – The Center for Operations (OC) coordinates and synchronizes DISA’s Operate and Assure Line of Operation in support of the full spectrum of military requirements and operations, and supports United States Cyber Command in its mission to provide secure, interoperable and reliable operation of the DoD net-centric Enterprise Infrastructure. The Center for Operations also provides available, reliable, and secure capabilities in support of the DoDIN such as enterprise services (voice, video, and collaboration), migration to cloud based services, application migration to core data centers, cyber services, and virtualization, standardization, and automations services in support of the DoDIN.

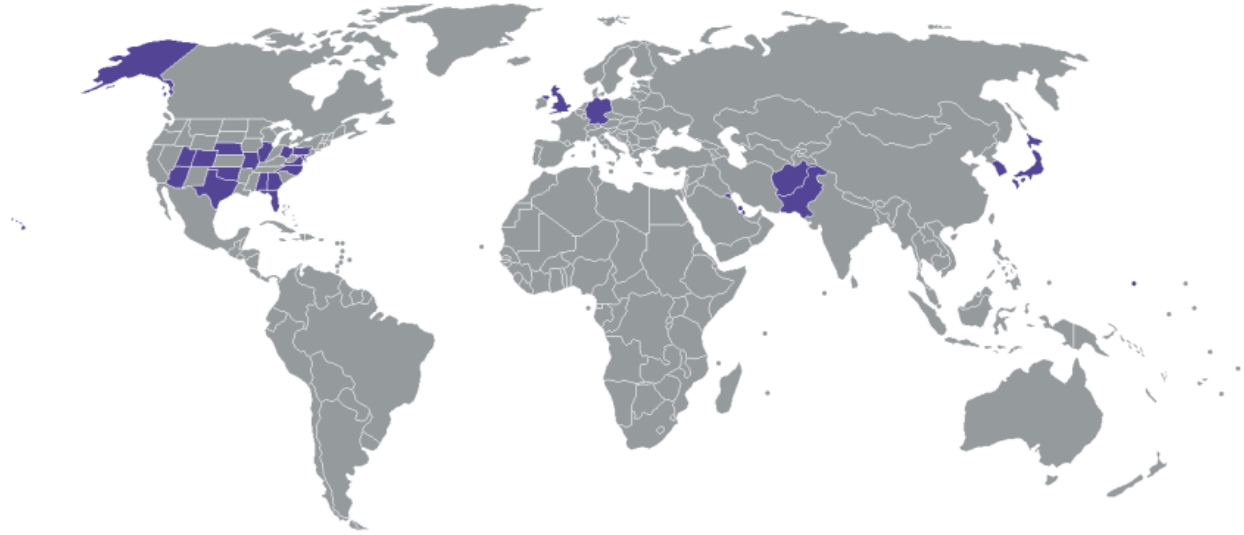
Resource Management Center/Comptroller – The Resource Management Center (RMC) serves as the principal financial advisor to the Agency’s Director; develops financial strategies; develops and controls the formulating budget submissions process; ensures financial controls; and conducts program and organizational assessments. It also represents and defends the Agency’s position on all financial matters and provides financial management guidance and oversight for the efficient and effective use of resources. The RMC establishes financial management policies for DISA including its component parts and ensures that decision makers have accurate, timely, reliable, and useful financial information needed to make sound decisions.

Resources: DISA is a combat support agency of the DoD with a 10.6 billion-dollar annual budget.



DISA is a global organization of approximately 6,000 civilian employees; approximately 1,300 active duty military personnel from the Army, Air Force, Navy, and Marine Corps, and approximately 10,000 defense contractors. With a presence in 22 states (and the District of Columbia) and seven countries and Guam (US territory), the Agency's mission is to conduct Department of Defense Information Network (DODIN) operations for the joint warfighter to enable lethality across all warfighting domains in defense of our Nation.

Global Presence: DISA's headquarters is at Fort Meade, MD with 55% of its people based at Fort Meade and the national capital region (NCR), and 45% based in field locations. In addition, the following organizations are a part of DISA: White House Communications Agency, White House Situation Support Staff, Joint Information Environment (JIE) Technical Synchronization Office, Defense Spectrum Organization, Defense Information Technology Contracting Organization, Joint Interoperability Test Command, and the Joint Force Headquarters DoDIN. DISA provides a core enterprise infrastructure of networks, Computing Ecosystem centers, and enterprise services (internet-like information services) that connect 4,300 locations reaching 90 nations supporting DoD and national interests. The following map portrays the global presence of DISA operations.



2. Performance Goals, Objectives & Results

DISA is charged with the responsibility for planning, engineering, acquiring, testing, fielding, and supporting global net-centric information and communications solutions to serve the needs of the President, the Vice President, the Secretary of Defense, and the DoD components under all conditions of peace and war. The challenges faced by the Department impact DISA directly in achieving success with respect to these responsibilities. DISA provides, operates, and assures command and control, information-sharing capabilities, and a globally accessible enterprise information infrastructure in direct support to joint warfighters, national-level leaders, and other mission and coalition partners across the full spectrum of operations. DISA's number one priority is enabling information superiority for the warfighter and those who support them. Warfighters on all fronts require DISA's continued support because immediate connection, sharing, and assured access to information capabilities are essential to our mission partners' operational success.

The JIE is designed to create an enterprise information environment that optimizes use of the DoD IT assets, converging communications, computing, and enterprise services into a single joint platform that can be leveraged for all Department missions. These efforts improve mission effectiveness, reduce total cost of ownership, reduce the attack surface of our networks, and enable DISA's mission partners to more efficiently access the information resources of the enterprise to perform their missions from any authorized IT device anywhere in the world. DISA continues its efforts towards realization of an integrated Department-wide implementation of the JIE through development, integration, and synchronization of JIE technical plans, programs, and capabilities.

DISA is uniquely positioned to provide the kind of streamlined, rationalized enterprise solutions the Department is looking for to effect IT transformation. The DISA owns/operates enterprise and cloud-capable DISA Data Centers, the world-wide Defense Information Systems Network

(DISN), and the Defense IT Contracting Organization (DITCO). DISA Data Centers routinely see workload increases – this trend will increase as major new initiatives begin to fully impact the Department. As part of the Department’s transition to the Joint Information Environment (JIE), DISA Data Centers have been identified as Continental United States (CONUS) Core Data Centers (CDCs), and Defense Enterprise Email (DEE) has been identified as a DoD Enterprise Service.

DISA also anticipates continuation of partnerships with other federal agencies. The DoD/VA Integrated Electronic Health Record (iEHR) agreement to host all medical records in the DISA Data Centers and the requirement for DoD to provide Public Key Infrastructure (PKI) services to other federal agencies on a reimbursable basis are examples. We continue to move forward on several new initiatives, including: accelerated implementation of multiprotocol label switching (MPLS) technology; deploying and sustaining Joint Regional Security Stacks (JRSS) to fundamentally change the way the DoD secures and protects its information networks; operating a Joint Enterprise License Agreement (JELA) line of business with a low fee of 0.25 percent, and a new management concept in Computing Services that aligns like-functions across a single computing enterprise to prioritize excellence in service delivery, process efficiency, and standardization.

DISA Strategic Goals as outlined in the 2015-2020 Strategic Plan include:

- **Provide Global Infrastructure** – DISA will develop, test, deploy, sustain, and maintain a global elastic infrastructure, spectrum, computing, and storage capabilities that will support full spectrum collaboration. The foundational elements of those services will be comprised of reusable components. All elements will be normalized, converged, and available at reduced cost, increased usability, and maximize portability to mobile platforms. DISA will expand delivery of enterprise services to the Services, agencies, and DoD and national-level leadership.
- **Provide Mission Partner and Leadership Support** – DISA will design, develop, implement, and maintain optimized, cost-efficient, interoperable decision support systems to be used by mission partners at all levels of senior leadership. DISA will ensure senior leadership has a modernized, reliable suite of services and capabilities that enhance the execution of crisis management, coalition, and deliberate planning activities.
- **Provide Command and Control (C2) and Enable Cyberspace Sovereignty** – DISA will execute synchronized DoD Information Network (DODIN) command, operations, and cyber defense missions to ensure freedom of maneuver for the warfighter and mission partners. DISA will establish, train, and implement cyber workforce elements, shape readiness through continuity programs, and execute synchronized operations that will offer more visibility and response to cyber threats.

Program Performance

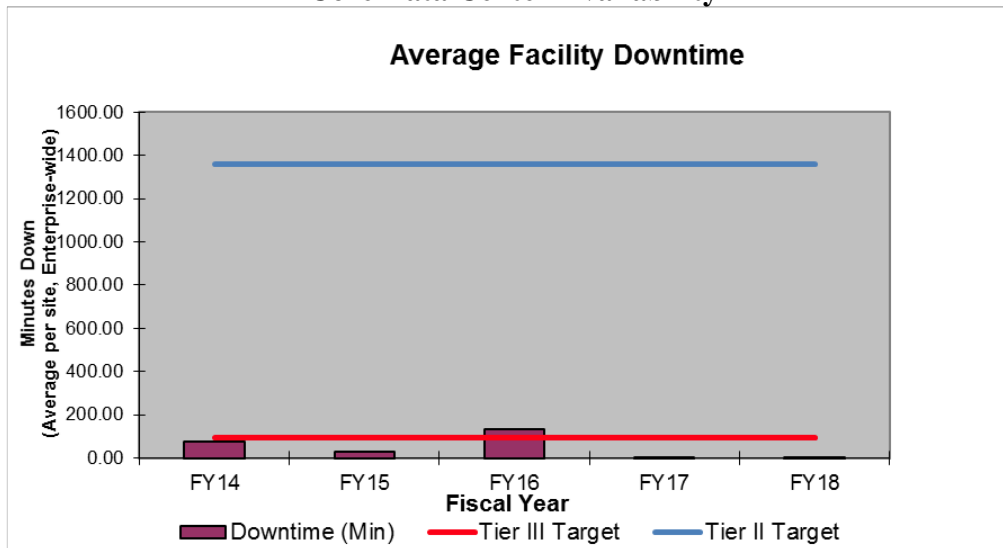
DISA’s information services play a key role in supporting the DoD’s operating forces. As a result, DISA is held to high performance standards. In many cases, performance measures are

detailed in Service Level Agreements (SLAs) with individual customers that exceed the general performance measures discussed in the following paragraphs.

Computing Services Performance Measures

The Computing Service business area tracks its performance and results through the Agency Director’s Quarterly Performance Reviews. There are two key operational metrics which are presented to the DISA Director in conjunction with regular, recurring Quarterly Program Reviews. These two metrics depicted in the table below, reflect the availability of critical applications in the Computing Centers. The first metric, “Core Data Center Availability,” expressed as a percentage of availability, represents application availability from the end user’s perspective and includes all outages or downtime regardless of root cause or problem ownership. Tier II requires achieving 99.75% availability, which results in about 1,361 minutes of downtime per year. Tier III, the standard for all DoD-designated Core Data Centers, requires achieving 99.98% availability, which results in about 95 minutes of downtime per year. A continuing series of electrical and mechanical investments in the DISA Computing Ecosystem facilities since 2008 have resulted in a steady decline in facility downtime. The second metric, “Capacity Service Contract Equipment Availability” represents DISA’s equipment availability by technology, i.e., how well DISA is executing its responsibilities exclusive of factors outside the Agency’s control such as last mile communications issues, base power outages or the like. The Threshold refers to system uptime and capacity availability for intended use; this is the level required by contract. The Objective is the value agreed on by the vendor and the government to be an ideal target, and Actual is reported by the vendor monthly.

Core Data Center Availability



Capacity Service Contract Equipment Availability

	Threshold	Objective	Actual
IBM System z Mainframe	99.95%	99.99%	100%
Unisys Mainframe	99.95%	99.99%	99.999%
P Series Server	99.95%	99.99%	100%
SPARC Server	99.95%	99.99%	100%
X86 Server	99.95%	99.99%	99.999%
Itanium	99.95%	>99.95%	99.994%
Storage	99.95%	>99.95%	99.999%
Communications Devices	99.95%	>99.95%	99.98%

Telecommunications Services Performance Measures

The DISN has operating metrics tied to the Department’s strategic goals of information dominance. These operational metrics include the cycle time for delivery of data and satellite services as well as service performance objectives such as availability, quality of service, and security measures. Additionally, the Information Technology Enterprise Services Roadmap sets a DISN performance target of 99.997% operational availability at all Joint Staff-validated locations. DISA is working to meet the intent of this guidance through the evolving JIE architecture and by building out the network as necessary to provide a growing number of enterprise services. These categories of metrics have guided the development of the Telecommunication Services budget submission. Shown below are major performance and performance improvement measures:

SERVICE OBJECTIVE	FY 2017 ACTUAL	FY 2018 ACTUAL	FY 2019 OPERATIONAL GOAL
Non-Secure Internet Protocol Router Network access circuit availability	99.60%	99.60%	98.50%
Secure Internet Protocol Router Network latency (measurement of network delay) in the continental United States	222.55 milliseconds	172.84 milliseconds	Not to exceed 350 milliseconds
Defense Red-Switch Network switch availability	99.80%	99.81%	99.50%

Enterprise Acquisition Services Performance Measures

Enterprise Acquisition Services provides contracting services for information technology and telecommunications acquisitions from the commercial sector and provides contracting support to the DISN programs, as well as to other DISA, DoD, and authorized non-Defense customers. These contracting services are provided through the DISA’s DITCO and include acquisition planning, procurement, tariff surveillance, cost and price analyses, and contract administration.

These services provide end-to-end support for the mission partner. The following performance measures apply for Enterprise Acquisition Services (EAS):

SERVICE OBJECTIVE	FY 2017 ACTUAL	FY 2018 ACTUAL	FY 2019 OPERATIONAL GOAL**
Percent of total eligible contract dollars competed	74.00%*	72.00%	73.00%
Percent of total eligible contract dollars awarded to small businesses	28.20%	28.00%	28.00%

**FY 2019 goal for percent of total eligible contract dollars competed are estimates based on the released FY 2018 goal. The goal has not yet been released by the Defense Procurement Acquisition Policy (DPAP).

In addition to the program performance measures outlined above, DISA has increased accountability of its assets by linking performance standards to internal control standards. Each Senior Executive Service member at DISA has included in their performance appraisal a standard to achieve accountability of property. This standard has filtered down to many of the managers across the Agency. This increased focus on accountability has had a significant impact on the focus these leaders have in the critical area of safeguarding assets.

3. Analysis of Entity’s Financial Statements

Background

DISA prepares annual financial statements in conformity with accounting principles generally accepted in the United States. The accompanying financial statements and footnotes are prepared in accordance with OMB Circular A-136, *Financial Reporting Requirements*. DISA records accounting transactions on both an accrual and budgetary basis of accounting. Under the accrual method, revenue is recognized when earned and costs/expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Since FY 2005, DISA has had an established Audit Committee to oversee progress towards financial management reform and audit readiness. DISA leadership participates in Audit Committee meetings to fully support the audit and in order to maintain senior leader tone-at-the-top. The DISA Audit Committee is comprised of three members not part of DISA. The current mission of the DISA Audit Committee is to serve in an advisory role to the DISA senior managers. The committee is tasked with developing, raising, and resolving matters of financial compliance and internal controls with the purpose of ensuring DISA’s consistent demonstration of accurate and supportable financial reports. The committee develops and enforces guidance established for this purpose. Amounts reflected as FY 2017 are unaudited.

DWCF Financial Highlights

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

Executive Summary – The DISA WCF reflects the results of budget execution that saw the fund decrease \$146.9 million (13%) for a total of \$979.2 million on its unobligated balance available, as compared to 4th Quarter, FY 2017. The Consolidated Statement of Net Cost reflect a loss, through 4th Quarter, FY 2018 of \$61.3 million and includes the non-recoverable depreciation expense for network equipment transferred into TSEAS (PE55).

- Obligations incurred increased by \$536.3 million (8%), in comparison to the 4th Quarter of last year partially driven by DISN IS Cybersecurity programs, and a \$50 million obligation for contracted support of the National Leadership Command Capabilities (NLCC) Center.
- The Consolidated Statement of Net Cost reflect a loss, through 4th Quarter, FY 2018 of \$61.3 million and includes the non-recoverable depreciation expense for network equipment transferred into TSEAS (PE55).
- Cash levels remained positive through the 4th Quarter, FY 2018 at 21.2 days of operating cash.

All general ledger subsidiary detail has been reconciled to the field level accounting system trial balances, and all journal vouchers posted to DDRS-B and DDRS-AFS have been reviewed, reconciled and approved by DISA RM333 to ensure that the DDRS-AFS trial balance is 100% supported by transaction detail.

Consolidated Balance Sheet

The balance sheet presents amounts available for use by DISA (assets) against amounts owed (liabilities) and amounts that comprise the difference (net position).

Assets

Total assets of \$1.9 billion are comprised primarily of Fund Balance with Treasury (\$538.9 million), intragovernmental accounts receivable (\$603.3 million), and Property, Plant & Equipment (PP&E) (\$756.6 million).

Fund Balance with Treasury - Fiscal year-to-date (FYTD) net cash flow from current year operations (collections less disbursements) reported to Treasury for FY 2018, along with the impact of the current year transfers in and out and the inception-to-date (ITD) balances are presented below:

	(\$ Thousands)			
	9/30/2018	9/30/2017	Inc./ (Dec.)	% Chg.
CS Beg	\$ 194,236	\$ 85,124	\$ 109,112	128%
CS YTD	\$ 68,776	\$ 12,212	\$ 56,564	-463%
Transfers	\$ -	\$ 96,900	\$ (96,900)	-100%
CS Total	\$ 263,013	\$ 97,336	\$ 56,564	-100%
TS Beg	\$ 439,660	\$ 341,754	\$ 97,905	29%
TS YTD	\$ (163,742)	\$ 194,805	\$ (358,547)	-184%
Transfers	\$ -	\$ (96,900)	\$ -	0%
TS Total	\$ 275,918	\$ 536,559	\$ (260,642)	-49%
Consolidated Beg. Balance	\$ 633,896	\$ 426,878	\$ 207,018	48%
Total From Operations - FYTD	\$ (94,966)	\$ 207,018	\$ (301,983)	-146%
CY Transfers	\$ -	\$ -	\$ -	0%
Consolidated ITD Balance	\$ 538,930	\$ 633,459	\$ (94,966)	-56%

- During FY 2017, \$96.9 million of prior year cash transferred from back to CS from TSEAS (zero impact at consolidated level).
- The \$538.9 million cash balance at 30 September 2018 is comprised of a \$633.9 million current year beginning balance and a FYTD \$95 million decrease from current year operations (includes capital outlays).
- All DISA WCF cash balances are reconciled monthly to Treasury via the Cash Management Report (CMR).

General Property, Plant and Equipment, Net – General Property, PP&E consists primarily of equipment used by DISA organizations to deliver computing services to customers in the DISA Computing Ecosystem and telecommunication services over the DISN. PP&E includes capital assets funded by DISA WCF operations to include one facility, capital assets supporting the infrastructure of the services offered by the WCF that are transferred in from the DISA GF, and capital assets associated with JRSS transferred in from the Army. The depreciation expense associated with the capital assets transferred into the DISA WCF is non-recoverable.

	(\$ Thousands)			
	9/30/2018	9/30/2017	Inc./ (Dec.)	% Chg.
CS	\$ 162,592	\$ 146,425	\$ 16,167	11%
TSEAS	\$ 593,982	\$ 539,362	\$ 54,620	10%
Consolidated	\$ 756,574	\$ 685,787	\$ 70,788	10%

Liabilities

As of 30 September 2018, DISA reported liabilities of \$743.4 million. Liabilities are probable and measurable future outflows of resources arising from past transactions or

events. The largest component of liabilities as of 30 September 2018 was \$659 million in accounts payable due to the public.

Accounts Payable - The table below compares current year to prior year intragovernmental and public accounts payable balances.

	(\$ Thousands)			
	9/30/2018	9/30/2017	Inc./ (Dec.)	% Chg.
CS				
Intragov.	\$ 119,037	\$ 97,760	\$ 21,277	22%
Public	\$ 3,350	\$ 721	\$ 2,629	364%
TSEAS				
Intragov.	\$ 17,463	\$ 35,958	\$ (18,495)	-51%
Public	\$ 659,973	\$ 858,191	\$ (198,218)	-23%
Component				
Intragov.	\$ (100,870)	\$ (89,563)	\$ (11,307)	13%
Public	\$ (4,372)	\$ 309	\$ (4,681)	-1517%
Consolidated				
Intragov.	\$ 35,630	\$ 44,155	\$ (8,525)	-19%
Public	\$ 658,951	\$ 859,221	\$ (200,269)	-23%
Total Cons.	\$ 694,581	\$ 903,376	\$ (208,795)	-23%

Accounts Payable decreased 23% from prior year:

- The largest portion of the Accounts Payable balance is comprised of TSEAS (PE56) public contract payables.
- From a customer funding perspective, the DISA General Fund and Army continue to provide the most customer funded contract requirements associated with the Public Accounts Payable balance.
- The decrease in Non-Federal Payables (to the Public) is primarily attributed to a drop in PE56 Other Reimbursable Orders from the DISA GF, Army, and Air Force customers.

Consolidated Statement of Net Cost

The Statement of Net Cost presents the cost of operating DISA programs. The goal of the revolving fund is to break even over the long term, thus driving toward an objective where the Statement of Net Cost does not produce a profit or loss over the long term, but rather nets zero.

Net Cost of Operations decreased 47% between fiscal years.

	(\$ Thousands)			
	9/30/2018	9/30/2017	Inc./.(Dec.)	% Chg.
CS	\$ (33,471)	\$ 1,762	\$ (35,233)	-2000%
TSEAS	\$ 94,807	\$ 113,423	\$ (18,616)	-16%
Consolidated	\$ 61,336	\$ 115,185	\$ (53,848)	-47%

WCF Net Cost of Operations includes non-recoverable costs such as depreciation expense, future funded FECA and imputed costs totaling 145.5 million. The Recoverable Net Operating Results is \$206.8 million for FY 2018.

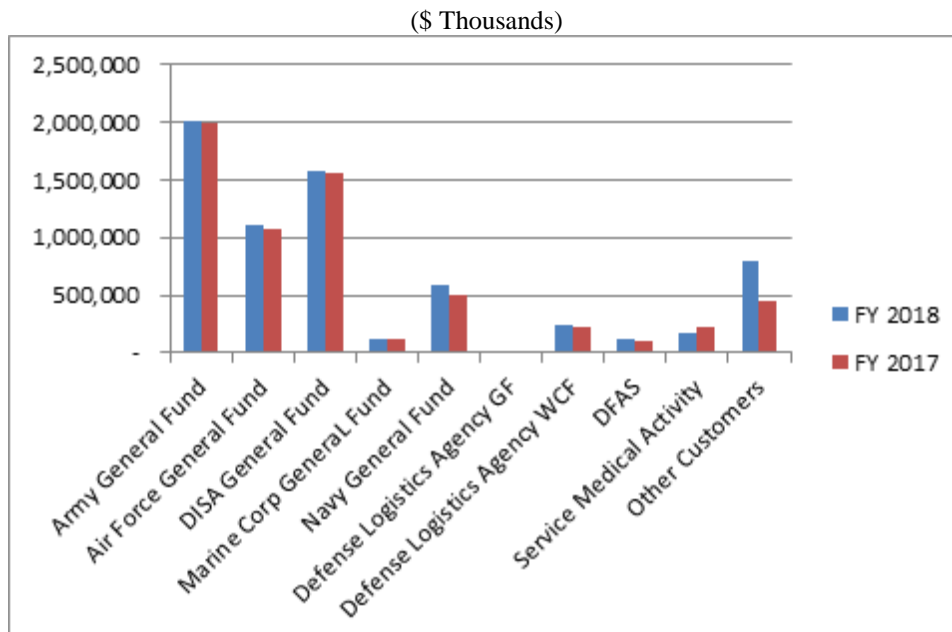
Gross Cost - Gross Cost for the DISA WCF increased 7% from the prior year. In accordance with regulations and guidance, this reflects the full cost of the DISA WCF to include recoverable and non-recoverable cost.

- The primary drivers contributing to the increase in gross costs are PE56 Information Technology Contracts and PE55 DISN Cyber Security Infrastructure Services and DISN Reimbursable Satellite Services.
- PE54 Computing Services had increases for Reimbursable Converged Solutions and Pass-Through Other Reimbursable Services.

Earned Revenue - Earned Revenue increased 8% from FY 2017.

- PE56 Information Technology Contract for Other Reimbursable Requirements had a significant increase of \$338 million.
- The Army and Air Force continue to be DISA WCF's biggest customers.

The bar chart below reflects earned revenue per customer for FY 2017 and FY 2018.



Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position (SCNP) presents the change in net position during the reporting period. The DISA WCF net position is affected by changes to its two components, Other Financing Sources (transfers in/out without reimbursement and imputed financing from costs absorbed by others), and Net Cost of Operations (Cumulative Results of Operations). The SCNP format displays both components of net position separately to enable the user to better understand the nature of changes to net position as a whole.

- Transfers in/out without reimbursement increased \$47.3 million primarily due to an increase in capital assets transferred into the DISA WCF.
- Imputed financing costs absorbed by others increased \$7 million primarily due to an increase in imputed cost related to employee benefits.
- Net Cost of Operations decreased \$53.8 million from FY 2017.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on the budgetary resources available to DISA as of 30 September 2018, and 30 September 2017, and the status of those budgetary resources. The results and variances of key amounts reported in the Statement of Budgetary Resources not described elsewhere are outlined below.

Obligations Incurred:

The major drivers for Obligations Incurred for the DISA WCF are as follows:

	(\$ Thousands)		
	9/30/2018	9/30/2017	Inc./ (Dec.)
Total Obligations Incurred	\$ 7,611,279	\$ 7,074,976	\$ 536,303
Less: PE56 Obligations Incurred	\$ 4,691,864	\$ 4,418,993	\$ 272,871
Total DISA WCF Funded Obligations	\$ 2,919,416	\$ 2,655,983	\$ 263,433
TSEAS (PE55)			
CSS-MIPR Process	\$ 565,446	\$ 422,956	\$ 142,490
CYBERSECURITY-Perimeter Defense-Other	\$ 65,913	\$ -	\$ 65,913
CYBERSECURITY-Public Key Infras-Other	\$ 45,077	\$ -	\$ 45,077
Info Assurance Net Ops Other	\$ 12,819	\$ 149,382	\$ (136,563)
CS (PE54)			
Reimbursable Pass Through Server Converged Solutions	\$ 59,938	\$ 40,052	\$ 19,886
Rate Based IBM Mainframe Processing	\$ 42,814	\$ 31,363	\$ 11,451
Reimbursable Pass-Through Other Reimbursable Services	\$ 15,978	\$ 5,829	\$ 10,150
Reimbursable Pass Through Server HW/SW Application Support	\$ 15,766	\$ 9,797	\$ 5,968
Reimbursable Pass Through Customer Management	\$ 18,575	\$ 14,205	\$ 4,370
Reimbursable Server Implementation	\$ 15,369	\$ 11,097	\$ 4,272
Rate Based GIG Content Delivery Service	\$ 32,864	\$ 29,217	\$ 3,647
Rate Based MilCloud 2	\$ 3,580	\$ -	\$ 3,580
Reimbursable Pass Through Server Reimbursable (w/o Comm)	\$ 20,537	\$ 17,080	\$ 3,457
All Other Programs Balances	\$ 2,004,742	\$ 1,925,006	\$ 79,736

30 September 2018 balances include a \$234.9 million downward adjustment for (PE56) and \$77.3 million for (PE55). This adjustment was done after a review of Undelivered Orders (UDOs) without activity was performed. It was determined that aged UDOs that are dormant (no activity within 12 months) should be considered to be invalid and adjusted for financial statement purposes; regardless of whether a contract closeout action has been processed and a source document is available to support the adjustment. The adjustment represents ledger detail at the project level that has not had activity within the last 12 months.

- PE56 30 September 2018 balance includes a \$50 million obligation for contracted support of the NLCC Center.
- Largest increases for TSEAS (PE55) were in the DISN Infrastructure Services business line programs to include Cybersecurity and CSS MIPR Process, offset by a decrease in Information Assurance Net Operations.
- Largest increases for CS (PE54) were in Reimbursable Pass through Server Converged Solutions, Reimbursable Pass through Other Reimbursable Services, HW/SW Application Support, and Customer Management. Also contributing to the increase is Rate Based Services for IBM Mainframe Processing, GIG Content Deliver Services and milCloud 2.0.

GF Financial Highlights

The DISA General Fund Financial Statements for the year ended 30 September 2018 reflect a fund that had a significant increase in overall appropriations in FY 2018 compared to FY 2017. See table below for comparative data for appropriations received between these two fiscal years.

	(in thousands)				
	9/30/2018	9/30/2017	Inc./Dec.	% Chg.	
O&M (0100)	\$ 2,059,810	\$ 1,498,556	\$ 561,254	37%	
PROC (0300)	\$ 719,245	\$ 988,419	\$ (269,174)	-27%	
RDT&E (0400)	\$ 270,820	\$ 250,275	\$ 20,545	8%	
MILCON (0500)	\$ 1,175	\$ 5,218	\$ (4,043)	-77%	
Consolidated	\$ 3,051,050	\$ 2,742,468	\$ 308,582	11%	

Consolidated Balance Sheet

The balance sheet presents amounts available for use by DISA (assets) against amounts owed (liabilities) and amounts that comprise the difference (net position).

Assets

Total assets of \$3.5 billion are comprised primarily of Fund Balance with Treasury (\$3 billion) and PP&E (\$500.4 million).

Fund Balance with Treasury - Amounts recorded in the general ledger for Fund Balance with Treasury (FBwT) have been 100% reconciled to amounts reported in the CMR, representing DISA General Fund's portion of the TI97 appropriated account balances reported by Department of Treasury. All reconciling differences (i.e., undistributed) have been identified at the voucher level.

	(in thousands)				
	9/30/2018	9/30/2017	Inc./Dec.	% Chg.	
O&M (0100)	\$ 951,680	\$ 743,155	\$ 208,525	28%	
PROC (0300)	\$ 1,725,382	\$ 1,635,560	\$ 89,822	5%	
RDT&E (0400)	\$ 269,622	\$ 247,990	\$ 21,632	9%	
MILCON (0500)	\$ 37,852	\$ 37,149	\$ 702	2%	
Consolidated	\$ 2,984,536	\$ 2,663,854	\$ 320,681	12%	

General PP&E Net – (PP&E) consists primarily of equipment used by DISA organizations achieve the Agency's missions. The table below reflects the net book value of PP&E recorded as of 30 September 2018 and 30 September 2017.

(in thousands)					
	9/30/2018	9/30/2017	Inc./ (Dec.)	% Chg.	
O&M (0100)	\$ 378,715	\$ 386,524	\$ (7,809)	-2%	
PROC (0300)	\$ 108,657	\$ 73,696	\$ 34,961	47%	
RDT&E (0400)	\$ 3,681	\$ 5,275	\$ (1,594)	-30%	
MILCON (0500)	\$ 9,382	\$ 9,857	\$ (475)	-5%	
Consolidated	\$ 500,436	\$ 475,352	\$ 25,083	5%	

Liabilities

As of 30 September 2018, DISA reported liabilities of \$263.8 million. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The largest component of Liabilities as of 30 September 2018 was \$189.9 million in federal accounts payable due to conducting business with intragovernmental trading partners.

Accounts Payable - Balances reported as of 30 September 2018 and 30 September 2017 consist of the following:

(in thousands)					
	9/30/2018	9/30/2017	Inc./ (Dec.)	% Chg.	
O&M (0100)					
Intragov.	\$ 118,602	\$ 137,457	\$ (18,855)	-14%	
Public	\$ (2,357)	\$ 15,802	\$ (18,158)	-115%	
PROC (0300)					
Intragov.	\$ 38,293	\$ 11,748	\$ 26,545	226%	
Public	\$ 3,648	\$ 23,508	\$ (19,860)	-84%	
RDT&E (0400)					
Intragov.	\$ 32,966	\$ 22,134	\$ 10,832	49%	
Public	\$ 8,870	\$ 8,686	\$ 184	2%	
MILCON (0500)					
Intragov.	\$ -	\$ 1	\$ (1)	-100%	
Public	\$ (4)	\$ 0	\$ (4)	0%	
Intragov.	\$ 189,861	\$ 171,340	\$ 18,521	11%	
Public	\$ 10,158	\$ 47,996	\$ (37,838)	-79%	
Total Cons.	\$ 200,019	\$ 219,336	\$ (19,318)	-9%	

Consolidated Statement of Net Cost

The Statement of Net Cost presents the cost of operating DISA programs. The GF consolidated net cost for the Agency in FY 2018 totaled \$2.5 billion and represented an overall increase of \$337 million from FY 2017.

Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position (SCNP) presents the change in net position during the reporting period. The DISA GF net position is affected by changes to its two components, Cumulative Results of Operations incorporating Net Cost of Operations to include Other Financing Sources (transfers in/out without reimbursement and imputed financing from costs absorbed by others) and Unexpended Appropriations consisting primarily of appropriations received. The SCNP format displays both components of net position separately to enable the user to better understand the nature of changes to net position as a whole.

- Appropriations received increased \$248.2 million primarily for O&M with an increase of \$553.3 million offset by a decrease of \$303.8 million in Procurement funding for FY 2018.
- Other Financing Sources, Transfers in/out without reimbursement decreased by a net \$56.4 million from prior year driven by the transfers-out of assets to the DISA Working Capital Fund.
- Other Financing Sources, Imputed financing from costs absorbed by others decreased \$140.8 million due to the DoD early implementation of SFFAS 55 “Amending Inter-Entity Cost Provisions” whereby the DISA GF was not required to record the imputed cost of military labor for FY 2018 as was done for FY 2017.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on the budgetary resources available to DISA as of 30 September 2018, and 30 September 2017, and the status of those budgetary resources. The results and variances of key amounts reported in the Statement of Budgetary Resources not described elsewhere are outlined below.

	(in thousands)			
	9/30/2018	9/30/2017	Inc./.(Dec.)	% Chg.
(O&M 0100)				
Obligations Incurred	\$ 2,231,058	\$ 1,618,184	\$ 612,874	38%
Unobligated Balances	\$ 83,331	\$ 82,159	\$ 1,172	1%
Undelivered Orders	\$ 844,888	\$ 586,927	\$ 257,961	419%
Unfilled Customer Orders	\$ 101,052	\$ 61,494	\$ 39,558	64%
(PROC 0300)				
Obligations Incurred	\$ 934,353	\$ 1,008,161	\$ (73,808)	-7%
Unobligated Balances	\$ 295,934	\$ 443,449	\$ (147,515)	-33%
Undelivered Orders	\$ 1,400,555	\$ 1,166,400	\$ 234,155	20%
Unfilled Customer Orders	\$ 9,637	\$ 2,634	\$ 7,003	266%
(RDT&E 0400)				
Obligations Incurred	\$ 335,765	\$ 318,795	\$ 16,970	5%
Unobligated Balances	\$ 68,471	\$ 63,270	\$ 5,201	8%
Undelivered Orders	\$ 208,332	\$ 211,823	\$ (3,491)	-7%
Unfilled Customer Orders	\$ 51,805	\$ 50,631	\$ 1,174	2%
(MILCON 0500)				
Obligations Incurred	\$ 1,062	\$ 2,470	\$ (1,408)	-57%
Unobligated Balances	\$ 30,026	\$ 27,698	\$ 2,328	8%
Undelivered Orders	\$ 7,829	\$ 9,450	\$ (1,621)	-17%
(Combined)				
Obligations Incurred	\$ 3,502,238	\$ 2,947,610	\$ 554,628	19%
Unobligated Balances	\$ 477,762	\$ 616,576	\$ (138,814)	-23%
Undelivered Orders	\$ 2,461,604	\$ 1,974,600	\$ 487,004	25%
Unfilled Customer Orders	\$ 162,494	\$ 114,759	\$ 47,735	42%

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

Management Assurances

Our management structure, policies and procedures, and our Internal Control (IC) reviews of our key mission processes contribute to the reasonable assurance that our internal controls are operating as intended. Our Governance Board and Internal Control Structure along with the Managers' Internal Control Program (MICP) is managed through a three tiered approach, as described in subsequent paragraphs. The first tier is supported by the DISA Senior Assessment Team (SAT), which provides guidance and oversight to the MICP. The second tier is supported by subject-matter expert team, the IC team, and the third tier is supported by the Assessable Unit Managers (AUMs) who manage at the Program/Directorate level within the organization. The SAT and IC teams maintain a charter that is available on the DISA webpage. Each document outlines the mission, personnel, roles, and responsibilities of the team. AUMs are appointed in writing each year, and the appointment letter delineates the role and responsibilities that AUMs are charged with.

For FY 2018 reporting cycle, DISA identified 12 Assessable Units (AUs): RMC, Component Acquisition Executive (CAE), Development and Business Center (DBC), Chief of Staff (DDC),

Defense Spectrum Organization (DSO), Inspector General (IG), Joint Force Headquarters-DODIN (JFHQ-DODIN), JSP, Operations Center (OC), Procurement Services Directorate (PSD), Risk Management Executive (RME), and White House Communications Agency (WHCA). Each AU was led by at least one member of the Senior Executive Service (SES) or military flag officer, or carries a distinct mission within DISA, which in turn causes the AU to have unique operational risks that require evaluation. All organizations were also required to identify the functions performed within their area (outside of the required testing areas of Defense Travel System (DTS), Automated Time Attendance and Production System (ATAAPS), Records Management, and Property, Plant and Equipment (PP&E)), identify the level of process documentation available, and determine the associated risk of those functions. Additionally, the AUM was responsible for identifying and documenting the key controls within their AU. RMC documented processes and key controls for all ICOFR functions. Each AU documented its key processes and risk on the Mission Processes Spreadsheet. The RMC MICP team advised the AUMs to test, at a minimum, those key processes that were self-identified as high risk, as well as Safety, Security (if applicable), and the required testing areas.

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

The DISA IG maintains a hotline for the anonymous reporting of ethics and integrity issues that is available to employees 24 hours a day, 7 days a week. Additionally, the DISA IG conducts reviews and inspections to identify or prevent instances of fraud, waste, and abuse.

The RMC/Comptroller conducts the testing and reports on the overall Internal Controls Over Financial Reporting (ICOFR) for the Agency. The DISA Chief Information Officer (CIO) conducts the testing and reports results of the Internal Controls Over Financial Systems (ICOFS) for the Agency. Agency AUMs perform testing and report results of the Internal Controls over Non-Financial Operations (ICONO).

DISA's senior management evaluated the system of internal control in effect during the fiscal year as of the date of this memorandum, according to the guidance in OMB Circular No. A-123 and the Government Accountability Office (GAO) Green Book. Included is the Agency's evaluation of whether the system of internal controls for DISA is in compliance with standards prescribed by the Comptroller General.

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

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations; and
- Financial information systems are compliant with the FFMIA of 1996 (Public Law 104-208).

The evaluation of internal controls extends to every responsibility and activity undertaken by DISA and applies to program, administrative, and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

DISA management evaluated the system of internal controls in accordance with the guidelines identified above. The results indicate that the system of internal controls of DISA, in effect as of the date of this MD&A, taken as a whole, complies with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

Using the following process, DISA evaluated its system of internal controls and maintains sufficient documentation/audit trail to support its evaluation and level of assurance.

As previously discussed, DISA manages MICP through a three-tiered approach. The first tier is supported by the DISA SAT, which provides guidance and oversight to the MICP. The SAT met multiple times during this cycle; initially to discuss Enterprise Risk Management (ERM) and finally to summarize results for the Agency Statement of Assurance (SOA). In FY 2018, the DISA Director signed a “Tone-at-the-Top” memo that defines management’s leadership and commitment towards an effective MICP: openness, honesty, integrity, and ethical behavior. The memo directed the Agency to ensure a risk-based and results-oriented program in alignment with the Government Accountability Office (GAO) Green Book and OMB A-123. The tone at the top is set by all levels of management and has a trickle-down effect to all employees. The second tier, supported by a subject matter expert (SME) team, coordinates requirements with OSD Comptroller regarding the MICP, in addition to providing guidance, oversight, and validation in accordance with OSD Directives to the AUMs. DISA provided internal control training for the AUMs in January 2018 and conducted additional workshops in February 2018. The MICP team compiles AU submissions for the Agency’s SOA, communicates OSD requirements to leadership, facilitates information sharing between AUMs, and consolidates results.

Internal Controls over Financial Systems - DISA performed the FY 2018 review of the core financial systems for the three financial reporting units: 1) Working Capital Fund (WCF), Financial Accounting Management Information System (FAMIS), Telecommunications Services and Enterprise Acquisition Services (TSEAS), 2) WCF FAMIS Computing Services (CS) Mod, and 3) Washington Headquarters Services Allotment Accounting System (WAAS) for the General Fund (GF). Using independent tests, OMB Circular A-123, Appendix D, and the Implementation Guidance for FFMIA, the DISA CIO Director of OC, and the Director of RMC jointly assessed DISA’s core financial systems. Two of the three core financial systems, FAMIS TSEAS and WAAS, are legacy systems that have certain limitations. DISA relies on several

interfaces to the legacy financial systems to achieve certain requirements of FFMIA compliance. The FY 2018 assessment considered the risks associated with relying on external systems for core requirements and the necessity to implement manual control activities to mitigate the risk. There were control deficiencies addressed in the FY 2016 Independent Public Accountant (IPA) report. To the extent appropriate, the issues identified have been corrected. DISA's core financial management systems routinely provide reliable and timely information for managing day-to-day operations, as well as providing information used to prepare financial statements and maintain effective internal controls. All of these factors are key indicators of FFMIA compliance. Additionally, DISA provides application hosting services for the Department's service providers (Defense Finance and Accounting Service; Defense Logistics Agency; Defense Contract Management Agency; Defense Human Resource Activity (DHRA); Military Services, and Other Defense Organizations). As a result, DISA is responsible for most of the IT general controls over the computing environment in which many financial, personnel, and logistics applications reside. In order for service providers and components to rely on automated controls and documentation within these applications, controls must be appropriately and effectively designed.

In FY 2018, DISA embarked on two Statement on Standards for Attestation Engagement (SSAE) 18 efforts and received unmodified opinions on both; application hosting services (sixth consecutive year) and ATAAPS (second consecutive year). These unmodified opinions provide DISA's Mission Partners and their auditors the confidence that they can rely on for the automated controls and documentation within these applications. DISA's core financial accounting systems are also covered in this attestation. The WAAS replacement by the Defense Agencies Initiative (DAI) and FAMIS-TSEAS Enterprise Resource Planning (ERP) replacement by FAMIS Enterprise Acquisition Services (EAS) Modernization were implemented in October 2018. The implementation of these ERP approved systems will facilitate resolution of compliance issues associated with the legacy systems. Finally, DISA considered the FFMIA compliance Determination Framework to determine whether the Agency complies with the Section 803(a) requirements of FFMIA. Some of these key indicators include the fact that DISA consistently provides timely and reliable financial statements to OMB within 21 calendar days at the end of the first through third quarters and unaudited financial statements to OMB, GAO, and Congress by 15 November each year. DISA has not reported anti-deficiency violations in more than a decade, and the Agency continues to demonstrate compliance with laws and regulations. In addition, Information Assurance (IA) policies and procedures were converted from Department of Defense Information Assurance Certification and Accreditation Process (DIACAP) to the Risk Management Framework (RMF) as of March 2018.

Internal Controls over Financial Reporting - The RMC/Comptroller documented end-to-end business processes and identified key internal control activities supporting key business processes for ICOFR. DISA conducted an internal risk assessment that evaluated the results of prior year audits, internal analysis of the results of financial operations, and known upcoming business events. An internal control assessment was conducted within DISA for mission specific key processes.

Based on the results of the internal risk analysis, internal testing was conducted to evaluate the significance of potential deficiencies identified. Specific areas of testing included the following:

- Year End Obligations (GF)
- Revenue/Collections (GF and WCF)
- Expense/Disbursements (GF and WCF)
- Accounts Payable (WCF)
- Accounts Receivable (WCF)
- Integrated Defense Enterprise Acquisition System (IDEAS) Telecommunication (TELCOM) initial contracting actions (WCF)
- Undelivered Orders (UDOs) (GF)
- Year-End Roll Forward (GF and WCF)
- PP&E Disposals (GF)
- PP&E Non-DISA Sites (GF)
- Employee Debt Review (WCF)
- Unfilled Customer Orders (UCOs) (WCF)

The details of these internal control reviews and the supporting documentation are kept on file for reference. No material weaknesses were found.

DISA is currently undergoing an FY 2018 full financial statement audit for both the WCF and GF. Because DISA's FY 2016 audit was out-of-cycle and not completed until July 2017, a decision was made to forego the audit of FY 2017 financial statements.

DISA is one of the few DoD agencies to navigate the rigors of a full financial statement audit. This success is a culmination of the DISA efforts in support of the Department-wide initiatives to achieve audit readiness. DISA is recognized for best practices for building a foundation through compliant processes, establishing a seasoned audit support team, standardizing reconciliations and analyses, building a staging library of key supporting documents, and establishing an overall culture of readiness. DISA was able to successfully provide universe of transaction details, monthly Fund Balance with Treasury (FBwT) reconciliations, capital property existence, completeness and valuation requirements and support, aging schedules for accounts receivable and accounts payable (AP), journal voucher coordination with the Defense Finance and Accounting Service (DFAS), and elimination reconciliations with DISA's trading partners. These have all been identified as issues that, in the past, have prevented other DoD agencies from achieving an audit opinion. To ensure quick responses to the auditors' demands, RM3 prepositioned key artifacts in DISA's Financial Reporting library.

Internal Controls over Operations - During DoD IG Audit 2017-113, a potential material weakness was identified with regard to payments made on 1,077 expired Communication Services Authorizations (CSAs). DISA concurred with the DoD IG recommendation to determine whether payments on expired CSAs were improper, in accordance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA). The research identified approximately \$205M in payments made on CSAs and related noncompliant contract actions. The contract actions were noncompliant because DISA did not follow the Federal Acquisition Regulations (FAR) when DISA continued a contractual relationship with a vendor without re-competing the requirement or preparing a justification and approval.

While the payments for these noncompliant contract actions meet the definition of improper payments under OMB A-123 guidance, the government cannot pursue recovery actions because the government received value for the services rendered.

Accounting for Service Providers' Internal Controls - DISA fully supports the Department's goal to achieve auditable financial statements and as a service provider, demonstrates this commitment through annual examinations by the IPA. For the seventh consecutive year, DISA received an unmodified opinion on the hosting services platform Statement of Standard for Attestation Engagements (SSAE) No. 18. The Agency continually works to improve processes, enhance controls, and validate information. Additionally, DISA undertook an independent application examination of the ATAAPS, for which the Agency received an unmodified opinion for the second consecutive year. Even though DISA as a reporting agency has migrated to Defense Agencies Initiative (DAI) Oracle Time and Labor module as of June 2018, the SSAE 18 process for ATAAPS will continue on behalf of DISA's customers.

DISA hosts more than 100 financial systems throughout the DoD. DISA's sustained clean opinion on hosting services provides mission partners and their auditor the confidence that they can rely on the automated controls and documentation within these applications.

In 2017, OSD Financial Improvement and Audit Readiness (FIAR) led Department-wide discussions regarding SSAE 18s and the impact to component financial statements. DISA participated in these discussions from both a service provider and reporting entity perspective. As a result, 275 Complementary User Entity Controls (CUECs) were identified that had impact to the financial statements. In addition to continued participation in multiple Service Provider CUEC discussions in 2018, DISA has analyzed the 275 identified CUECs and determined the Agency's level of risk, and identified control descriptions and control attributes for each. For those CUECs determined to be common across all the identified systems, testing was conducted for areas of high risk.

Conclusion on Overall Assessment of Internal Control

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

Overall Evaluation of a System of Internal Control	
Overall Evaluation	Operating Effectively (Yes/No)
Is the overall system of internal control effective? Yes.	



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MEMORANDUM FOR SECRETARY OF DEFENSE

03 OCT 2018

THROUGH: Department of Defense Chief Information Officer

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2018

As Director of the Defense Information Systems Agency (DISA), I recognize that DISA is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. DISA conducted its assessment of risk and internal control in accordance with the OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* and the Green Book, GAO-14-704G, *Standards for Internal Control in the Federal Government*. Based on the results of the assessment, DISA can provide reasonable assurance internal controls over operations, reporting, and compliance were operating effectively, as of 30 September 2018.

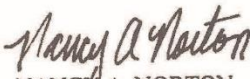
DISA conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The "Internal Control Evaluation" section provides specific information on how DISA conducted this assessment. Based on the results of the assessment, DISA can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of 30 September 2018.

DISA conducted its assessment of the effectiveness of internal controls over reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. The "*Internal Control Evaluation*" section provides specific information on how DISA conducted this assessment. Based on the results of the assessment, DISA can provide reasonable assurance that internal controls over operations, reporting (including internal and external reporting, as of 30 September 2018), and compliance were operating effectively, as of 30 September 2018.

DISA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208) and OMB Circular No. A-123, Appendix D. The "*Internal Control Evaluation*" section provides specific information on how DISA conducted this assessment. Based on the results of this assessment, DISA can provide reasonable assurance, except for the two non-conformances reported in the "Significant Deficiencies/Material Weaknesses and Corrective Action Plans Template" that the internal controls over the financial systems are in compliance with the FFMIA and OMB Circular No. A-123, Appendix D, as of 30 September 2018.

DISA Memo, Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2018

My point of contact is Ms. Barbara Crawford at barbara.c.crawford.civ@mail.mil, or (614) 692-0688, if there are any questions regarding this Statement of Assurance for Fiscal Year 2018.


NANCY A. NORTON
Vice Admiral, USN
Director

Attachment:
As stated

In addition to FMFIA, DISA reports its compliance with the Federal Financial Management Improvement Act (FFMIA). FFMIA requires an assessment of adherence to financial management system requirements, accounting standards, and U.S. Standard General Ledger transaction level reporting. For FY 2018, DISA is reporting overall substantial compliance. The following is a comprehensive list of laws and regulations which were assessed for compliance by the DISA WCF in context of the FY 2018 audit.

Acronym	Laws & Regulations (Supplement Number)
ADA	Antideficiency Act, 31 U.S.C. 1341 and 1517, January 7, 2011 and OMB A-11, Preparation, Submission and Execution of the Budget, July 2010. FAM 803
DCIA	Provisions Governing Claims of the U.S. Government as provided primarily in 31 U.S.C. 3711-3720E (Including the Debt Collection Improvement Act of 1996) (DCIA). FAM 809
PPA	Prompt Payment Act, 5 CFR 1315, September 29, 1999. FAM 810
CSRA	Civil Service Retirement Act FAM 813
FEHB	Federal Employees Health Benefits Act FAM 814
FECA	Federal Employees' Compensation Act FAM 816
FERS	Federal Employees' Retirement System Act of 1986 FAM 817
PAS for CEs	Pay and Allowance System for Civilian Employees as Provided Primarily in Chapters 51-59 of Title 5, U.S. Code FAM 812
CFO Act, A-123	Chief Financial Officers (CFO) Act of 1990 and OMB Circular A-136, Financial Reporting Requirements, September 29, 2010.
FFMIA	Federal Financial Management Improvement Act (FFMIA) of 1996; OMB Circular A-127, Financial Management Systems, January 9, 2009; OMB Circular A-130, Transmittal Memorandum #4, Management of Federal Information Resources, November 28, 2000.
FMFIA and A-123	Federal Managers Financial Integrity Act (FMFIA) of 1982 and OMB Circular A-123, Appendix A, August 1, 2005.
FISMA	Federal Information Security Management Act (FISMA) of 2002.
DoD FMR	Department of Defense (DoD), Financial Management Regulation 7000.14-R, August 26, 2011.
IPERA	Improper Payments Elimination and Recovery Act of 2010 (IPERA) and OMB Circular A-123, Appendix C, Parts I and II, April 14, 2011 and Part III, March 22, 2010.

Financial Management Systems Framework, Goals, and Strategies

DISA's WCF financial related system implementations have been planned and designed within the framework of the Business Enterprise Architecture (BEA) established within the Department of Defense, which facilitates to the extent possible a more standardized framework for systems in the Department. Financial system related initiatives target implementation of a standardized financial information structure that will be compliant with FFMIA and BEA requirements, and provide DISA with cost accounting data and timely accounting information that enables enhanced decision-making.

The WAAS replacement by the Defense Agencies Initiative (DAI) and FAMIS-TSEAS Enterprise Resource Planning (ERP) replacement by FAMIS Enterprise Acquisition Services (EAS) Modernization were implemented in October 2018. The implementation of these ERP approved systems will facilitate resolution of compliance issues associated with the legacy systems. Finally, DISA considered the FFMIA compliance Determination Framework to determine whether the Agency complies with the Section 803(a) requirements of FFMIA. Some of these key indicators include the fact that DISA consistently provides timely and reliable financial statements to OMB within 21 calendar days at the end of the first through third quarters and unaudited financial statements to OMB, GAO, and Congress by 15 November each year. DISA has not reported anti-deficiency violations in more than a decade, and the Agency continues to demonstrate compliance with laws and regulations. In addition, Information Assurance (IA) policies and procedures were converted from Department of Defense Information Assurance Certification and Accreditation Process (DIACAP) to the Risk Management Framework (RMF) as of March 2018.

DISA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law I 04-208) and OMB Circular No. A-123, Appendix D. The "Internal Control Evaluation" section provides specific information on how DISA conducted this assessment. Based on the results of this assessment, DISA can provide reasonable assurance, except for the two non-conformances reported in the "Significant Deficiencies/Material Weaknesses and Corrective Action Plans Template" that the internal controls over the financial systems are in compliance with the FFMIA and OMB Circular No. A-123, Appendix D, as of 30 September 2018.

5. Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the DISA WCF and GF, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from books and records of the DISA WCF and GF in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a Defense Agency of the U.S. Government, a sovereign entity.

Principal Statements

Defense Information Systems Agency

DISA Working Capital Fund

Principal Statements

4th Quarter Fiscal Year 2018, ending September 30, 2018

Department of Defense
 Defense Information Systems Agency Working Capital Fund - Defense Information Systems Agency

CONSOLIDATED BALANCE SHEET

As of September 30, 2018 and 2017

(\$ in Thousands)

	<u>2018 Consolidated (Unaudited)</u>	<u>2017 Consolidated (Unaudited)</u>
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 538,931	\$ 633,895
Accounts Receivable (Note 4) Total	603,297	600,557
Intragovernmental Assets	<u>\$ 1,142,228</u>	<u>\$ 1,234,452</u>
Accounts Receivable, Net (Note 4)	1,049	440
General Property, Plant and Equipment, Net (Note 5)	756,574	685,787
Other Assets (Note 6)	32,559	11,185
TOTAL ASSETS	<u><u>\$ 1,932,410</u></u>	<u><u>\$ 1,931,864</u></u>
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (N/A)		
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts Payable (Note 8)	\$ 35,629	\$ 44,155
Other Liabilities (Notes 9 & 11)	3,390	3,643
Total Intragovernmental Liabilities	<u>\$ 39,019</u>	<u>\$ 47,798</u>
Accounts Payable (Note 8)	\$ 658,951	\$ 859,221
Military Retirement and Other Federal Employment Benefits (Note 10)	5,103	5,240
Other Liabilities (Note 9 and Note 11)	40,365	37,282
TOTAL LIABILITIES	<u><u>\$ 743,438</u></u>	<u><u>\$ 949,541</u></u>
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
NET POSITION		
Cumulative Results of Operations - Other Funds	1,188,972	982,323
TOTAL NET POSITION	<u><u>\$ 1,188,972</u></u>	<u><u>\$ 982,323</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 1,932,410</u></u>	<u><u>\$ 1,931,864</u></u>

Department of Defense

Defense Information Systems Agency Working Capital Fund - Defense Information Systems Agency

CONSOLIDATED STATEMENT OF NET COST

For the periods ended September 30, 2018 and 2017

(\$ in Thousands)

	<u>2018 Consolidated (Unaudited)</u>	<u>2017 Consolidated (Unaudited)</u>
Program Costs		
Gross Costs	\$ 6,790,939	\$ 6,366,732
(Less: Earned Revenue)	(6,729,603)	(6,251,547)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<u>61,336</u>	<u>115,185</u>
Net Program Costs Including Assumption Changes	61,336	115,185
Net Cost of Operations	<u>\$ 61,336</u>	<u>\$ 115,185</u>

Department of Defense
Defense Information Systems Agency Working Capital Fund - Defense Information Systems Agency
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the periods ended September 30, 2018 and 2017

(\$ in Thousands)

	<u>2018 Consolidated (Unaudited)</u>	<u>2017 Consolidated (Unaudited)</u>
UNEXPENDED APPROPRIATIONS		
Collections - (N/A)		
Dedicated Collections - (N/A)		
Dedicated Collections - (N/A)		
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 982,322	\$ 883,808
Beginning balances, as adjusted (Includes Funds from	982,322	883,808
Dedicated Collections - (N/A)		
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	215,323	168,006
Imputed financing from costs absorbed by others	52,663	45,693
Other (+/-)	0	1
Total Financing Sources	<u>\$ 267,986</u>	<u>\$ 213,700</u>
Net Cost of Operations (+/-)	61,336	115,185
Net Change	<u>206,650</u>	<u>98,515</u>
Cumulative Results of Operations	<u>\$ 1,188,972</u>	<u>\$ 982,323</u>
Net Position	<u><u>\$ 1,188,972</u></u>	<u><u>\$ 982,323</u></u>

**Department of Defense
 Defense Information Systems Agency Working Capital Fund - Defense Information Systems Agency**

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the periods ended September 30, 2018 and 2017

(\$ in Thousands)

	<u>2018 Combined (Unaudited)</u>	<u>2017 Combined (Unaudited)</u>
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 1,126,114	\$ 793,332
Contract Authority (discretionary and mandatory)	64,375	60,569
Spending Authority from offsetting collections (discretionary and mandatory)	7,399,977	7,347,189
Total Budgetary Resources	<u>\$ 8,590,466</u>	<u>\$ 8,201,090</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 7,611,279	\$ 7,074,976
Unobligated balance, end of year:		
Apportioned, unexpired accounts	979,187	1,126,114
Unexpired unobligated balance, end of year	979,187	1,126,114
Unobligated balance, end of year (total)	<u>979,187</u>	<u>1,126,114</u>
Total Budgetary Resources	<u>\$ 8,590,466</u>	<u>\$ 8,201,090</u>
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	94,966	(207,017)
Agency Outlays, net (discretionary and mandatory)	<u>\$ 94,966</u>	<u>\$ (207,017)</u>

Defense Information Systems Agency

DISA Working Capital Fund

Notes to the Principal Statements

4th Quarter Fiscal Year 2018, ending September 30, 2018

DEFENSE INFORMATION SYSTEMS AGENCY WORKING CAPITAL FUND

Notes to the Principal Statements 4th Quarter Fiscal Year 2018, ending September 30, 2018

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the results of operations of the Defense Information Systems Agency (DISA), a Combat Support Agency within the Department of Defense. DISA provides, operates, and assures command and control, information-sharing capabilities, and a globally accessible enterprise information infrastructure in direct support to joint warfighters, national level leaders, and other mission and coalition partners across the full spectrum of operations, provided from cost-effective infrastructure and computing.

The history of DISA is traceable to the Defense Reorganization Act of 1958, which authorized the creation of a joint military communications network to be formed by consolidation of the communications facilities of the Military Departments. This would ultimately lead to the formation of the Defense Communications Agency (DCA). Over the next several years, DCA expanded its mission and underwent a number of mergers with other agencies to enhance the interoperability of command, control, and communications (C3). On June 25, 1991, DCA was renamed DISA to reflect its expanded role in implementing the Department of Defense's (DoD) information initiatives, and to clearly identify DISA as a combat support agency. Currently, DISA is the premier Information Technology Combat Support Agency that provides and assures command, control, communications, computing, intelligence, surveillance, and reconnaissance (C4ISR) to the warfighter, and delivers enterprise services and data at the user point of need. In addition, with the standup of the new Joint Force Headquarters-DoD Information Network (JFHQ-DoDIN) organization on January 15, 2015, DISA now serves as the joint operational arm of defense cyberspace operations for the DoD. The JFHQ-DoDIN exercises command and control of DoDIN operations and defensive cyber operations-internal defense measures globally in order to synchronize the protection of DoD component capabilities and to enable power projection and freedom of action across all warfighting domains. The DISA operates under the direction, authority, and control of the DoD Chief Information Officer (CIO) who reports directly to the Secretary of Defense.

The DISA receives funding through both congressional appropriations, referred to as the DISA General Fund (GF), and by operating the information services activity within the Defense-Wide Working Capital Fund (DWCF). The DISA working capital fund (WCF) consists of two main components. The first component includes two lines of service: telecommunication services and enterprise acquisition services (TSEAS). The second component includes computing services (CS). The DISA WCF is a revolving fund established by law to finance a continuing cycle of operations for the information services activity with receipts derived from such operations. The DISA GF is a separate reporting entity and not included herein.

The DISA continues to optimize mission capabilities and efficiencies through multiple means including the transfer of specific mission functions to the DISA WCF.

Working capital fund entities provide goods and services to customers on a reimbursable basis. Customers' reimbursements are based on approved stabilized rates and unit prices established to fund ongoing computing, telecommunication services, and contracting services for DISA WCF operations, and are generally available in their entirety for use without further congressional action.

B. Basis of Presentation and Accounting

The accompanying financial statements and footnotes have been prepared to report the financial position and results of operations of the DISA WCF, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of DISA in accordance with, and to the extent possible, U.S. generally

accepted accounting principles (U.S. GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB), Office of Management and Budget (OMB) Circular A-136 “Financial Reporting Requirements”, and DoD Financial Management Regulation (FMR). The American Institute of Certified Public Accountants' (AICPA) Statement on Auditing Standards No. 91, Federal GAAP Hierarchy, established a hierarchy of GAAP for federal financial statements, which recognizes the FASAB as the standard setting body.

The DISA WCF accomplished a milestone achievement by successfully completing a full fiscal year (FY) 2016 financial statement audit, conducted by and an independent public accounting firm (IPA) under the oversight of the Department of Defense Inspector General (DoD IG), receiving an unmodified opinion. As stated in the opinion of the financial statements, the IPA found that the DISA WCF’s financial statements as of and for the year ended September 30, 2016, are presented fairly, in all material respects, and in conformity with accounting principles generally accepted in the United States of America.

For financial statements and footnotes displaying comparative fiscal year amounts, the FY 2018 and FY 2017 amounts are to be considered “Unaudited”.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed to prevent the disclosure of classified information.

Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The DISA presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis that is the summation of the Components less the Eliminations. The Statement of Budgetary Resources is presented on a combined basis that is the summation of the Components. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use Federal funds.

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

C. Use Of Estimates

The DISA WCF management makes assumptions and reasonable estimates in the preparations of the financial statements based on current conditions that may affect the reported amounts. Actual results could differ from the estimated amounts. Significant estimates include such items as year-end accruals of accounts payable for payroll expenses and contract expenses (federal and nonfederal), and actuarial liabilities related to workers’ compensation. Payroll estimates pertain to the number of remaining workdays in the current period for which actual payroll expenses have not been received from the Defense Civilian Payroll System. The estimate is based on the cost per day using the past two pay period actual expenses available multiplied by the number of days remaining in the period. Contractual estimates pertain to the value of services and/or goods received but not invoiced. The estimates are based on the period of performance and values identified in the contract and/or historical data and actual or estimated usage. Actual results may differ from those estimates, therefore estimates are adjusted (trued-up) to reflect actuals during the period they become available.

D. Recognition of Revenue

In accordance with DoD FMR Volume 11B, Chapter 11, Paragraph 110202.G, DISA WCF recognizes exchange revenue using the service-type revenue recognition policy. Under this method, revenue is considered earned and recognized, along with associated costs, at the time the service is rendered or performed, and not less frequently than monthly. These exchange revenues reduce the cost of operations. DISA WCF pricing policy for reimbursable agreements is to recover full cost and should result in no profit or loss (breakeven) within planned timeframes based on budget and planning projections.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 7 “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,” the DISA WCF recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. Typically, the DISA WCF nonexchange revenue is comprised of immaterial amounts of public interest receivable, and accumulated penalties and administrative fees as reported in the Monthly Debt Management Report Contract Debt System.

E. Recognition of Expenses

In accordance with DoD FMR Volume 4, Chapter 17, Paragraph 170401, DISA WCF commonly reports expenses at their gross amount at the time that the expense is incurred. Expenses are recognized in the period that services are rendered, not when invoices are received. Estimates are made for major items such as payroll expenses and accounts payable

F. Accounting for DISA Intra-Entity Working Capital Fund Transactions

The preparation of financial statements in accordance with U.S. GAAP requires special treatment of revenues earned and costs incurred within the DISA WCF reporting entity. These “intra-entity” transactions between programs and suborganizations within the DISA WCF are recorded then eliminated as part of the financial statement consolidation and preparation process to prevent overstatement of business with itself. Prior to consolidating, TSEAS balances are reconciled to validated CS balances with any resulting adjustments made to the appropriate balances based on the most current supporting documentation to complete the elimination process. All DISA intra-WCF balances have been eliminated in the accompanying consolidated balance sheet and associated statements.

G. Accounting and Reconciliation for Intragovernmental Activities

The Treasury Financial Manual Part 2 – Chapter 4700, Appendix 10, “Agency Reporting Requirements for the Financial Report of the United States Government, Intragovernmental Transaction (IGT) Guide” provides guidance for reporting and reconciling intragovernmental balances.

The DISA WCF was granted a waiver, by the DoD Deputy CFO, from the Department of Defense Financial Management Regulation, Volume 6B, Chapter 13, requirement to report buyer side elimination adjustments when preparing financial statements. Waivers are granted to reporting entities that have demonstrated their buyer-side data is more complete, accurate, and supported than their trading partners or reporting entities that reconcile with their trading partners on a continual basis and work together to resolve differences.

The DISA WCF employs a trading partner reconciliation process throughout the year to validate DISA WCF buyer-side and seller-side balances and collaborates with its major DoD partners to identify and resolve material differences. The DISA WCF also reconciles their buyer-side data with several tier one federal agencies including balances pertaining to Federal Employees’ Compensation Act (FECA) transactions with the Department of Labor (DOL) and benefit program transactions with the Office of Personnel Management (OPM). No adjustments are made for tier one agencies.

Imputed financing represents the cost paid on behalf of the DISA WCF by another Federal entity without reimbursement. The DISA WCF recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees’ Compensation Act; (3) losses in litigation proceedings; and (4) real property owned by other Federal entities but used/occupied by DISA WCF without reimbursement.

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

H. Appropriations and Funds

Upon inception, the DISA WCF received funding to establish an initial cash corpus through an appropriation and transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis to maintain the corpus, execute its mission and subsequently report on resource usage. 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 with the corpus.

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

Treasury and trial balance amounts include inception to date balances and are used for Treasury baselines and reconciliations. Beginning in fiscal year FY 2005, transaction level detail reconciliations were automated through the DISA Cash Management System and continue with use of supporting systems. Methodology incorporates comparison of Treasury and trial balance transactions to reconcile, identify, and explain the differences between account balances. The DoD policy is to allocate and apply supported differences (undistributed disbursements and collections) to reduce accounts payable and receivable accordingly. Differences, or reconciling items, may be caused by the timing of transactions, an invalid line of accounting, or insufficient detail.

The DISA WCF balance is reconciled monthly to the amounts reported in the Cash Management Report, which represents the DISA WCF portion of the DWCF balance reported by Department of Treasury. The reconciliation incorporates a baseline reconciliation that was performed in FY 2005. In that baseline reconciliation of activity that dated back to the inception of the revolving fund in FY 1994, DISA reconciled balances where transaction detail was not available from legacy accounting systems that had been purged during migration to replacement accounting systems. Therefore, alternative reconciliation methods were performed to reconcile amounts reported by Treasury in those fiscal years to official accounting reports. Baseline adjustments were recorded to establish beginning balances that reconciled to the amounts reported by Department of Treasury. Since FY 2005, FBWT detail has been reconciled to amounts reported by Treasury at the transaction level on a monthly basis and no reconciling items that predate the baseline reconciliation have surfaced.

The U.S. Treasury maintains and reports the DWCF fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, including DISA WCF, are reported at the TI 97 DWCF appropriation sub-numbered level, an aggregate level at which Treasury does not identify separate Defense Agencies.

I. Accounts Receivable

Accounts receivable from other federal entities or the public include earned accounts 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 DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies, as receivables from other federal agencies are considered inherently collectible. Intragovernmental debt within the DoD is resolved in accordance with the DoD FMR Volume 4, Chapter 3, Paragraph 030506.A, and for Intragovernmental debt outside of the DoD paragraph 030506.B. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial Manual.

J. General Property, Plant and Equipment

The DISA WCF capitalizes all Property, Plant and Equipment (PP&E) used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other category.

The DISA WCF PP&E consists of telecommunications equipment, computer equipment, computer software, assets under capital lease, construction in progress and leasehold improvements whereby the acquisition cost falls within

prescribed thresholds and the estimated useful life is two or more years. The DISA WCF PP&E capitalization threshold is \$250 thousand for asset acquisitions and modifications/improvements placed into service after September 30, 2013. PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels (\$100 thousand for equipment and \$20 thousand for real property). PP&E with an acquisition cost of less than the capitalization threshold is expensed when purchased. Property and equipment meeting the capitalization threshold is depreciated using the straight-line method over the initial or remaining useful life as appropriate, that range from three to 25 years.

The DISA WCF capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. Leasehold improvements are amortized over the lesser of their useful life, generally five years, or the unexpired lease term.

A subset of DISA assets do not lend themselves to a single activation date. Statement of Federal Financial Accounting Standard 6 directs that depreciation is calculated through a systematic and rational allocation of cost; and that a composite methodology for a heterogeneous set of assets may be permissible. DISA applies a mid-year type approach to commencing depreciation expense for these assets because it provides the most systematic and rational approach to applying an asset activation date, one that addresses the standards and achieves the objectives of matching expense to the period in which the benefit is derived. The date chosen is not the actual mid-year point of the fiscal year, but rather June 30 of each year because the third and fourth quarters of the fiscal year consistently represent the periods of highest activity for receipt of goods.

The DISA WCF provides government property to contractors to complete contract work and the contractors are responsible for the control and accountability of these. The DISA WCF either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E exceeds DoD capitalization threshold, it is reported on DISA WCF's balance sheet in accordance with USGAAP. There are no restrictions on the use or convertibility of DISA WCF's property and equipment, and all values are based on acquisition cost.

K. Advances, Prepayments, and Other Assets

The DISA WCF's other assets are primarily comprised of advances and prepayments. However, other assets may include military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on DISA WCF's balance sheet.

Payments made in advance of the receipt of goods and services are reported as an asset on the balance sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. The DISA WCF has implemented this policy.

L. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, DISA WCF records the applicable asset as though purchased, with an offsetting liability, and depreciates it.

An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable. Office space leases entered into by DISA WCF are the largest component of operating leases and are based on costs obtained from existing leases. Payments for operating leases are expensed over the lease term as they become payable.

M. Accounts Payable

Accounts Payable includes amounts owed to federal and nonfederal entities for goods and services received. The DISA WCF recognizes accounts payable during the period that the goods, services, or benefit is received. Accounts payable balances are reviewed periodically for validity by accounting personnel during the performance of daily duties, through internal reviews such as the required triannual reviews, other internal quality assurance reviews, and as part of contract closeout procedures.

N. Accrued Payroll and Benefits

Accrued payroll and benefits includes the portion of employee compensation earned, but not paid, at the end of the period along with DISA WCF's share of associated taxes, benefits, and retirement plan contributions.

O. Accrued Leave

The DISA WCF reports liabilities for accrued compensatory and annual leave for civilians as it is earned. The accrual is reduced for actual leave taken and increased for leave earned. Sick and holiday leave for civilians is expensed as taken. The liabilities are based on current pay rates.

P. Imputed Costs and Sources of Financing

The OPM is the administrative entity for post-retirement pension, life insurance, and medical benefits provided to DISA WCF retirees. As such, benefits will be paid from OPM appropriations rather than from DISA WCF. The portion paid by OPM represents an imputed financing source to DISA WCF. The present value of the cost of future retirement benefits attributable to employees' service during the current year is an associated imputed cost of equal value. Both imputed financing sources and imputed cost are recognized in the current period and are calculated using cost factors developed by OPM actuaries.

The DISA WCF also receives an imputed financing source for office space provided by DoD entities at no charge to DISA WCF. In compliance with Interpretation 6, *Accounting for Imputed Intra-Departmental Costs: An Interpretation of SFFAS No. 4*, DISA WCF recognizes an associated imputed cost for the office space. The imputed cost to DISA WCF is based on General Services Administration (GSA) rates charged for comparable office space.

Q. Contingencies and Other Liabilities

The SFFAS No. 5, "*Accounting for Liabilities of the Federal Government*", as amended by SFFAS No. 12, "*Recognition of Contingent Liabilities Arising from Litigation*", defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur to fail to occur. The DISA WCF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss. The DISA WCF's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due primarily to contract disputes.

R. Net Position

Net Position consists of cumulative results of operations. Cumulative results of operations represent the net difference between gross costs and losses and financing sources (including appropriations, earned revenue, and gains), since inception. Cumulative results of operations also include donations and transfers-in/out of assets that were not reimbursed.

S. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections have corroborating documentation for the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the DISA WCF accounts payable and receivable trial balances prior to validating underlying transactions.

Note 2. Nonentity Assets

Nonentity assets are assets for which the DISA WCF maintains stewardship accountability and reporting responsibility but are not available for DISA WCF normal operations.

The DISA WCF nonentity assets are comprised of immaterial amounts (rounded to zero \$000) of accumulated interest receivable, and accumulated penalties and administrative fees receivable as reported in the Monthly Debt Management Report Contract Debt System. The DFAS initiates collection actions and transfers collected funds to the U.S. Treasury after receipt of payment.

Nonentity Assets			
(000)			
	<u>2018</u>	<u>2017</u>	
Intragovernmental:			
Fund balance with Treasury.....	\$ -	\$ -	
Investments.....	\$ -	\$ -	
Accounts receivable.....	\$ -	\$ -	
Other Assets.....	<u>\$ -</u>	<u>\$ -</u>	
Total intragovernmental.....	\$ -	\$ -	
Nonfederal Assets:			
Cash and other monetary assets.....	\$ -	\$ -	
Accounts receivable.....	\$ 0	\$ 0	
Other Assets.....	\$ -	\$ -	
Total Nonfederal Assets.....	\$ 0	\$ 0	
Total non-entity assets.....	\$ 0	\$ 0	
Total entity assets.....	<u>\$ 1,932,410</u>	<u>\$ 1,931,864</u>	
Total assets.....	<u>\$ 1,932,410</u>	<u>\$ 1,931,864</u>	

Note 3. Fund Balance with Treasury

Fund Balance:

DISA’s WCF Consolidated Balance Sheet reflects a Fund Balance with Treasury (FBWT) in the amount of \$538.9 million. Amounts recorded in the general ledger for Fund Balance with Treasury (FBWT) have been 100% reconciled to amounts reported in the DFAS Cash Management Report (CMR), representing DISA WCF’s portion of the TI97 .005 account balances reported by Department of Treasury. All reconciling differences and adjustments (i.e., undistributed) have been identified at the voucher level, therefore all adjustments are supported.

The DISA WCF reported FBWT as of September 30, 2018 includes adjustments for supported undistributed collections in the amount of \$2.4 thousand and supported undistributed disbursements in the amount of \$515 thousand. The undistributed amounts are the result of timing for month-end transactions in transit (details not received in time for matching and clearing associated balances) and are identified in the following FBWT USSGL point accounts:

- 101000.0140 Fund Balance with Treasury – Funds Collected – Undistributed
- 101000.0150 Fund Balance with Treasury – Funds Disbursed – Undistributed

Status of Fund Balance with Treasury:

The Status of FBWT reflects the budgetary resources to support FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

The unobligated balance available amount of \$979.2 million represents the cumulative amount of budgetary authority that has been set aside to cover future obligations and is not restricted for future use.

The obligated balance not yet disbursed in the amount of \$3.8 billion represents funds that have been obligated for goods and services not yet received, and those received but not paid.

The Non-FBWT budgetary accounts in the amount of \$4.2 billion reduces the status of FBWT and is primarily comprised of unfilled customer orders without advance from customers in the amount of \$3.4 billion.

	Fund Balance with Treasury	
	(000)	
	<u>2018</u>	<u>2017</u>
Status of Fund Balance with Treasury		
Unobligated Balance		
Available.....	\$ 979,187	\$ 1,126,114
Unavailable.....	\$ -	\$ -
Obligated Balance not yet Disbursed..	\$ 3,796,704	\$ 3,743,879
Non-Budgetary FBWT	\$ -	\$ -
NonFBWT Budgetary Accounts.....	\$ <u>(4,236,960)</u>	\$ <u>(4,236,098)</u>
Total.....	\$ <u>538,931</u>	\$ <u>633,895</u>

Note 4. Accounts Receivable

The accounts receivable represent DISA WCF's claim for payment from other entities. The DISA WCF recognizes an allowance for uncollectible amounts from the public when material balances exist. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

The allowance for uncollectible accounts of nonfederal receivables amount is determined by using a systematic methodology that includes performing an analysis of the applicable receivable accounts utilizing three years of accounts receivable historical data.

As of September 30, 2018, DISA WCF has 15 intragovernmental aged accounts receivable over 2 years old for a value of \$120.4 thousand. In accordance with DoD FMR Volume 4, Chapter 3, paragraph 030506.A.1, intragovernmental debt cannot be reduced, i.e., an allowance for doubtful accounts is not allowed. Additionally, intragovernmental debt cannot be referred to a debt collection activity. Disputed bills will be resolved between the buyer and seller resulting in either the payment of the bill or an adjustment to revenue (earnings) by the seller to liquidate the debt.

**Accounts Receivable
(000)**

	<u>2018</u>		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables.....	\$ 603,297	N/A	\$ 603,297
Nonfederal Receivables (from the Public).....	<u>\$ 1,049</u>	<u>\$ (0)</u>	<u>\$ 1,049</u>
Total	<u>\$ 604,346</u>	<u>\$ (0)</u>	<u>\$ 604,346</u>

	<u>2017</u>		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables.....	\$ 600,557	\$ -	\$ 600,557
Nonfederal Receivables (from the Public).....	<u>\$ 440</u>	<u>\$ -</u>	<u>\$ 440</u>
Total	<u>\$ 600,997</u>	<u>\$ -</u>	<u>\$ 600,997</u>

Intragovernmental Receivables Over 2 Years Old

<u>Age Category (Within DOD)</u>	<u>2018</u>		<u>2017</u>	
	No. of Receivables	Amount (000)	No. of Receivables	Amount (000)
Greater Than 2 Years & Less Than or Equal To 6 Years.....	0	\$ -	0	\$ -
Greater Than 6 Years & Less Than or Equal To 10 Years.....	0	\$ -	0	\$ -
Age Over 10 Years.....	0	\$ -	0	\$ -
Total Aged Over 2 Years.....	0	\$ -	0	\$ -

<u>Age Category (Non DOD)</u>	<u>2018</u>		<u>2017</u>	
	No. of Receivables	Amount (000)	No. of Receivables	Amount (000)
Greater Than 2 Years & Less Than or Equal To 6 Years.....	14	\$ 62	91	\$ 227
Greater Than 6 Years & Less Than or Equal To 10 Years.....	1	\$ 58	0	\$ -
Age Over 10 Years.....	0	\$ -	0	\$ -
Total Aged Over 2 Years.....	15	\$ 120	91	\$ 227

Note 5. General Property, Plant and Equipment, Net

The DISA WCF General PP&E is comprised of telecommunications services and computing services related equipment, software, leasehold improvements, construction-in-progress, and assets under capital lease with a net book value (NBV) of \$756.6 million.

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

The DISA WCF does not possess any Stewardship PP&E (Federal Mission PP&E, Heritage Assets, or Stewardship Land).

General Property, Plant, and Equipment, Net (000)

	Depreciation/ Amoritzation		2018		Net Book Value		
			Method	Service Life		Acquisition Value	(Accumulated
							Depreciation/ Amoritzation)
<u>Major Asset Classes</u>							
Buildings, Structures, and Facilities.....	S/L	20 or 40	\$ 1,041	\$ (13)	\$ 1,028		
Leasehold Improvements.....	S/L	Lease Term	\$ 13,272	\$ (8,289)	\$ 4,983		
Software.....	S/L	2-5 or 10	\$ 76,460	\$ (42,037)	\$ 34,423		
General Equipment.....	S/L	5 or 10	\$ 1,893,778	\$ (1,317,011)	\$ 576,767		
Assets Under Captial Lease.....	S/L	Lease Term	\$ 353,058	\$ (257,153)	\$ 95,905		
Construction-in-Progress (Excludes Military Equipment).	N/A	N/A	\$ 43,468	N/A	\$ 43,468		
Total General PP&E.....			<u>\$ 2,381,077</u>	<u>\$ (1,624,503)</u>	<u>\$ 756,574</u>		

	Depreciation/ Amoritzation		2017		Net Book Value		
			Method	Service Life		Acquisition Value	(Accumulated
							Depreciation/ Amoritzation)
<u>Major Asset Classes</u>							
Buildings, Structures, and Facilities.....	S/L	20 or 40	\$ -	\$ -	\$ -		
Leasehold Improvements.....	S/L	Lease Term	\$ 52,738	\$ (37,235)	\$ 15,503		
Software.....	S/L	2-5 or 10	\$ 48,764	\$ (28,525)	\$ 20,239		
General Equipment.....	S/L	5 or 10	\$ 1,658,853	\$ (1,165,288)	\$ 493,565		
Assets Under Captial Lease.....	S/L	Lease Term	\$ 353,058	\$ (242,354)	\$ 110,704		
Construction-in-Progress (Excludes Military Equipment).	N/A	N/A	\$ 45,776	N/A	\$ 45,776		
Total General PP&E.....			<u>\$ 2,159,189</u>	<u>\$ (1,473,402)</u>	<u>\$ 685,787</u>		

**Assets Under Capital Lease
(000)**

	<u>2018</u>	<u>2017</u>
<u>Entity as Lessee, Assets Under Capital Lease</u>		
Land and Buildings.....	\$ -	\$ -
Equipment.....	\$ 353,058	\$ 353,058
Accumulated Amortization.....	<u>\$ (257,153)</u>	<u>\$ (242,354)</u>
Total Capital Lease.....	<u>\$ 95,905</u>	<u>\$ 110,704</u>

The DISA WCF records assets that meet the capital lease criteria defined by FASAB Statements of Federal Financial Accounting Standard No. 6. These assets represent agreements for the exclusive use of certain transoceanic cables in support of network communications as part of the optical transport network.

In prior fiscal years, DISA WCF transferred in DISN Core Program capital leases and accumulated amortization from DISA GF. However, these leases were paid in full at the inception of the lease and therefore, future lease payments are not made, nor is an associated lease liability recognized.

Note 6. Other Assets

The DISA WCF Other Assets in the amount of \$32.6 million is comprised of prepaid contracts for software licenses and maintenance contract services reported by TSEAS in support of Network Services (PE55) and CS (PE54) mission requirements. Decisions to prepay large service contracts are based on contract terms and influenced by the discount offered and availability of authority (funds).

**Other Assets
(000)**

	<u>2018</u>	<u>2017</u>
Intragovernmental Advances and Prepayments.....	<u>\$ -</u>	<u>\$ -</u>
Total Intragovernmental	\$ -	\$ -
Nonfederal Advances and Prepayments.....	\$ 32,559	\$ 11,185
Total Nonfederal.....	<u>\$ 32,559</u>	<u>\$ 11,185</u>
Total Other Assets.....	<u>\$ 32,559</u>	<u>\$ 11,185</u>

Note 7. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided.

Intragovernmental Liabilities-Other is comprised of DISA WCF's unfunded FECA liability in the amount of \$1.1 million. These liabilities will be funded in future periods.

Nonfederal Military Retirement and Other Federal Employment Benefits consist of various employee actuarial liabilities not due and payable during the current fiscal year. As of September 30, 2018, DISA WCF's liabilities consist of actuarial FECA liability for Workers Compensation benefits in the amount of \$5.1 million. Nonfederal other liabilities consist of for a contingent liability-probable future outflow as identified by DISA General Counsel in the amount of \$2.3 million. These liabilities will be funded in future periods.

**Liabilities Not Covered by Budgetary Resources
(000)**

	<u>2018</u>	<u>2017</u>
Intragovernmental Unfunded FECA Liabilities.....	\$ -	\$ -
Intragovernmental Liabilities- Other.....	<u>\$ 1,149</u>	<u>\$ 1,415</u>
Total Intragovernmental	\$ 1,149	\$ 1,415
Military Retirement and Other Federal Employment Benefits...	\$ 5,103	\$ 5,241
Other Liabilities.....	<u>\$ 2,274</u>	<u>\$ 901</u>
Total Nonfederal.....	\$ 7,377	\$ 6,142
Total liabilities not covered by budgetary resources.....	<u>\$ 8,526</u>	<u>\$ 7,557</u>
Total liabilities covered by budetary resources.....	<u>\$ 734,912</u>	<u>\$ 941,984</u>
Total liabilities.....	<u>\$ 743,438</u>	<u>\$ 949,541</u>

Note 8. Accounts Payable

The DISA WCF accounts payable includes amounts owed to federal and nonfederal entities for goods and services received. The DISA WCF employs a trading partner reconciliation process throughout the year to validate DISA WCF's buyer-side and seller-side balances, and collaborates with its major DoD partners to identify and resolve material differences. As disclosed in Note 1.G., DISA WCF has been granted a waiver from the DoD FMR, Volume 6B, Chapter 13, Paragraph 130201 requirement of making buyer side elimination adjustments to agree with intra-agency seller-side accounts receivable balances.

**Accounts Payable
(000)**

	<u>2018</u>		
	Accounts Payable	Penalties, and Administrative Fees	Total
Intragovernmental Payables.....	\$ 35,629	N/A	\$ 35,629
Nonfederal Payables (to the Public).....	<u>\$ 658,951</u>	<u>\$ -</u>	<u>\$ 658,951</u>
Total	<u>\$ 694,580</u>	<u>\$ -</u>	<u>\$ 694,580</u>
	<u>2017</u>		
	Accounts Payable	Penalties, and Administrative Fees	Total
Intragovernmental Payables.....	\$ 44,155	N/A	\$ 44,155
Nonfederal Payables (to the Public).....	<u>\$ 859,221</u>	<u>\$ -</u>	<u>\$ 859,221</u>
Total	<u>\$ 903,376</u>	<u>\$ -</u>	<u>\$ 903,376</u>

Note 9. Other Liabilities

Intragovernmental

FECA Reimbursements to the DOL - \$1.1 million: The FECA Program provides benefits to employees injured on the job and their beneficiaries. The program is administered by the DOL which pays claim amounts then seeks reimbursement from DISA WCF. The amount owed by DISA WCF for FECA liabilities has two components. The first component is the reimbursement due to DOL for amounts actually paid on behalf of DISA WCF. The second component is an actuarial liability which is an estimate of future payments to be made by DOL. The actuarial liability is based on historical patterns, assessed level of risk and medical and wage inflation factors. Both liabilities are unfunded until budgetary resources become available for reimbursement.

Employer Contribution and Payroll Taxes - \$2.2 million: The DISA WCF pays a portion of employee medical and life insurance premiums, and makes contributions to employee pension plans. The DISA WCF employees are generally covered under the Civil Service Retirement System or the Federal Employee Retirement Systems.

Non-Federal

Accrued Funded Payroll and Benefits – \$37.7 million: The DISA WCF reports as other liabilities, the unpaid portion of accrued funded civilian payroll and employee’s annual leave as it is earned, and subsequently reduces the leave liability when it is used. Unused leave is an unfunded liability which will be paid from future resources when taken or when the employee retires or separates. The liability reported at the end of the accounting period reflects the current pay rates. When sick leave is earned, a liability is not recognized for unused amounts because employees do not vest in this benefit; sick and holiday leave is expensed when taken.

Employer Contribution and Payroll Taxes - \$344 thousand: The other liabilities non-federal Employer Contribution and Payroll Taxes is comprised of the DISA WCF employer contributions to the Thrift Savings Plan (TSP).

Contingent Liabilities - \$2.3 million consist of for a contingent liability for a probable future outflow of a known amount as identified by DISA General Counsel.

	Other Liabilities					
	(000)					
	<u>2018</u>		<u>2018</u>		<u>2017</u>	
	Current	Non-Current	Total	Current	Non-Current	Total
<u>Intragovernmental</u>						
Advances from Others.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Judgement Fund Liabilities.....	\$ -	\$ -	\$ -	\$ 290	\$ -	\$ 290
FECA Reimbursement to DOL.....	\$ 502	\$ 647	\$ 1,149	\$ 498	\$ 628	\$ 1,126
Custodial Liabilities.....	\$ 0	\$ -	\$ 0	\$ -	\$ -	\$ -
Employer Contribution & Payroll Taxes Payable..	<u>\$ 2,241</u>	<u>\$ -</u>	<u>\$ 2,241</u>	<u>\$ 2,227</u>	<u>\$ -</u>	<u>\$ 2,227</u>
Total Intragovernmental Other Liabilities.....	<u>2,743</u>	<u>\$ 647</u>	<u>\$ 3,390</u>	<u>\$ 3,015</u>	<u>\$ 628</u>	<u>\$ 3,643</u>
<u>Nonfederal</u>						
Accrued Funded Payroll and Benefits.....	\$ 37,723	\$ -	\$ 37,723	\$ 36,035	\$ -	\$ 36,035
Advances from Others.....	\$ 24	\$ -	\$ 24	\$ 15	\$ -	\$ 15
Employer Contribution & Payroll Taxes Payable..	\$ 344	\$ -	\$ 344	\$ 331	\$ -	\$ 331
Contigent Liabilities.....	<u>\$ 2,274</u>	<u>\$ -</u>	<u>\$ 2,274</u>	<u>\$ 901</u>	<u>\$ -</u>	<u>\$ 901</u>
Total Nonfederal Other Liabilities.....	<u>\$ 40,365</u>	<u>\$ -</u>	<u>\$ 40,365</u>	<u>\$ 37,282</u>	<u>\$ -</u>	<u>\$ 37,282</u>
Total Other Liabilities.....	<u>\$ 43,108</u>	<u>\$ 647</u>	<u>\$ 43,755</u>	<u>\$ 40,297</u>	<u>\$ 628</u>	<u>\$ 40,925</u>

Note 10. Military Retirement Benefits and Other Federal Employment Benefits

Actuarial Cost Method Used and Assumptions:

The Department of Labor (DOL) estimates actuarial liability only at the end of each fiscal year. The DOL selected the COLA factors, CPIM factors, and interest rates for the current and prior four years for FY 2018 and FY 2017, respectively, using averaging renders estimates that reflect historical trends over five years. DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2018 and FY 2017, respectively. Interest rate assumptions utilized for FY 2017 discounting were as follows:

Discount Rates

For wage benefits:
2.716% in Year 1 and years thereafter;
For medical benefits:
2.379% in Year 1 and years thereafter.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2018 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 CBY were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2018	N/A	N/A
2019	1.31%	3.21%
2020	1.51%	3.48%
2021	1.89%	3.68%
2022	1.16%	3.71%
2023 and thereafter	2.21%	4.09%

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

Expense Components

For FY 2018, the only expense component pertaining to other actuarial benefits for DISA WCF is the FECA expense. The DOL provides the expense data to DISA. The staffing ratio data from DISA Headquarters determines the allocation of the expense to DISA WCF and DISA GF.

The DOL provided an estimate for DISA's future workers' compensation benefits of \$10.9 million. The DISA distributed \$5.1 million to DISA WCF and \$5.8 million to DISA GF based upon staffing ratios. The DISA made the distribution using DISA's normal methodology of apportioning FECA liability to WCF and GF based upon relative staffing levels. The DISA used the same apportionment methodology in FY 2017 and prior years.

Changes in Actuarial Liability

Fluctuations in the total liability amount charged to DISA by DOL will cause changes in FECA liability. The Other Actuarial Benefits, FECA liability decreased \$137.7 thousand due to a decrease in COLA and CPIM inflation factors that in turn increased the actuarial liability estimate provided by DOL (<http://www.dol.gov/ocfo/publications.html>).

Military Retirement and Other Federal Employment Benefits
(000)

	<u>2018</u>		
	<u>Liabilities</u>	<u>(Less: Assets Available to Pay Benefits)</u>	<u>Unfunded Liabilities</u>
Pension and Health Benefits			
Military Retirement Pensions.....	\$ -	\$ -	\$ -
Military Pre Medicare-Eligible Retiree Health Benefits.....	\$ -	\$ -	\$ -
Military Medicare-Eligible Retiree Health Benefits.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Pension and Health Benefits.....	\$ -	\$ -	\$ -
Other Benefits			
FECA.....	\$ 5,103	\$ -	\$ 5,103
Voluntary Separation Incentive Programs.....	\$ -	\$ -	\$ -
DoD Education Benefits Fund.....	\$ -	\$ -	\$ -
Other.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Other Benefits.....	<u>\$ 5,103</u>	<u>\$ -</u>	<u>\$ 5,103</u>
Total Military Retirement and Other Federal Employment Benefits...	<u><u>\$ 5,103</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,103</u></u>

	<u>2017</u>		
	<u>Liabilities</u>	<u>(Less: Assets Available to Pay Benefits)</u>	<u>Unfunded Liabilities</u>
Pension and Health Benefits			
Military Retirement Pensions.....	\$ -	\$ -	\$ -
Military Pre Medicare-Eligible Retiree Health Benefits.....	\$ -	\$ -	\$ -
Military Medicare-Eligible Retiree Health Benefits.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Pension and Health Benefits.....	\$ -	\$ -	\$ -
Other Benefits			
FECA.....	\$ 5,240	\$ -	\$ 5,240
Voluntary Separation Incentive Programs.....	\$ -	\$ -	\$ -
DoD Education Benefits Fund.....	\$ -	\$ -	\$ -
Other.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Other Benefits.....	<u>\$ 5,240</u>	<u>\$ -</u>	<u>\$ 5,240</u>
Total Military Retirement and Other Federal Employment Benefits....	<u><u>\$ 5,240</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,240</u></u>

Note 11. Commitments and Contingencies

The DISA WCF is a party in various administrative proceedings and legal actions related to contractual based disputes.

The DISA WCF has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision is probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The DISA WCF records contingent liabilities in Note 9, Other Liabilities.

The DISA WCF also has a contingent liability for unpaid monthly recurring charges for various contracted Communications Services Arrangements, identified by DISA OGC, for which at this time an estimate of the payment amount cannot be made. A detail review of all contract files and payment history is being made for determining the amount owed.

Note 12. Disclosures Related to the Statement of Net Cost

The Statement of Net Cost (SNC) represents the net cost of programs and organizations that are supported by DISA WCF. The intent of the SNC is to provide gross and net cost information related to the CS and TSEAS program elements of the DISA WCF.

Intragovernmental costs and revenue are related to transactions between two reporting entities within the Federal Government. Public costs and revenue are exchange transactions made between DISA WCF and a nonfederal entity.

The DISA WCF reports exchange revenues for inflows of resources that have been earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. Pricing policy for exchange revenue is derived from stabilized rates established to recover estimated operating expenses incurred for the applicable fiscal year and to provide sufficient working capital for the acquisition of fixed assets as approved by the Under Secretary of Defense (Comptroller). Stabilized rates and unit prices are established at levels intended to equate estimated revenues to estimated costs. When gains or losses occur in prior fiscal years resulting from under or over applied stabilized rates and/or prices, and those gains or losses are included in current year stabilized rates, the estimated revenues may not equal estimated costs.

The following schedule supports the summary information presented in the SNC and discloses separately intragovernmental activity (transactions with other federal agencies) from transactions with the public. Costs incurred through the procurement of goods and services from both public and other federal agency providers along with revenues earned from public and other federal customers is shown for each line of business. Also shown is the elimination of costs incurred and revenue earned for WCF programs that received and provided services to one another. The DISA WCF's services are priced to recover the full cost of resources consumed to produce the service.

**Consolidating Statement of Net Cost by Responsibility Segment Cost and Earned Revenues with the Public and Intragovernmental
(000)**

2018				
<u>Lines of Business</u>	<u>With the Public</u>	<u>Intra-governmental</u>	<u>Intra-WCF eliminations</u>	<u>Consolidated</u>
Computing Svcs				
Gross Costs	\$ 202,353	\$ 792,824	\$ (734,596)	\$ 260,581
Less earned revenues	<u>\$ (203)</u>	<u>\$ (1,028,446)</u>	<u>\$ -</u>	<u>\$ (1,028,648)</u>
Net Costs	\$ 202,151	\$ (235,621)	\$ (734,596)	\$ (768,067)
TSEAS				
Gross Costs	\$ 6,339,206	\$ 191,152	\$ -	\$ 6,530,358
Less earned revenues	<u>\$ (5,567)</u>	<u>\$ (6,429,984)</u>	<u>\$ 734,596</u>	<u>\$ (5,700,955)</u>
Net Costs	\$ 6,333,640	\$ (6,238,833)	\$ 734,596	\$ 829,403
Component Level *				
Gross Costs	\$ 29,110	\$ (29,110)	\$ -	\$ -
Less earned revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Costs	\$ 29,110	\$ (29,110)	\$ -	\$ -
Net Cost of Operations				
Gross Costs	\$ 6,570,669	\$ 954,866	\$ (734,596)	\$ 6,790,939
Less Total Revenues	<u>\$ (5,769)</u>	<u>\$ (7,458,430)</u>	<u>\$ 734,596</u>	<u>\$ (6,729,603)</u>
Total Net Costs	<u>\$ 6,564,900</u>	<u>\$ (6,503,564)</u>	<u>\$ -</u>	<u>\$ 61,336</u>

* Component level represents adjustments entered into Defense Departmental Reporting System (DDRS) at DISA WCF consolidated level such as elimination adjustments and intra-entity capitalized purchases.

2017				
<u>Lines of Business</u>	<u>With the Public</u>	<u>Intra-governmental</u>	<u>Intra-WCF eliminations</u>	<u>Consolidated</u>
Computing Svcs				
Gross Costs	\$ 193,430	\$ 750,782	\$ (700,015)	\$ 244,197
Less earned revenues	<u>\$ (249)</u>	<u>\$ (942,201)</u>	<u>\$ -</u>	<u>\$ (942,450)</u>
Net Costs	\$ 193,181	\$ (191,419)	\$ (700,015)	\$ (698,253)
TSEAS				
Gross Costs	\$ 5,947,786	\$ 174,748	\$ -	\$ 6,122,535
Less earned revenues	<u>\$ (2,702)</u>	<u>\$ (6,006,409)</u>	<u>\$ 700,015</u>	<u>\$ (5,309,097)</u>
Net Costs	\$ 5,945,084	\$ (5,831,661)	\$ 700,015	\$ 813,438
Component Level *				
Gross Costs	\$ (15,246)	\$ 15,246	\$ -	\$ -
Less earned revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Costs	\$ (15,246)	\$ 15,246	\$ -	\$ -
Net Cost of Operations				
Gross Costs	\$ 6,125,970	\$ 940,777	\$ (700,015)	\$ 6,366,732
Less Total Revenues	<u>\$ (2,951)</u>	<u>\$ (6,948,610)</u>	<u>\$ 700,015</u>	<u>\$ (6,251,547)</u>
Total Net Costs	<u>\$ 6,123,018</u>	<u>\$ (6,007,834)</u>	<u>\$ -</u>	<u>\$ 115,185</u>

* Component level represents adjustments entered into Defense Departmental Reporting System (DDRS) at DISA WCF consolidated level such as elimination adjustments and intra-entity capitalized purchases.

Note 13. Disclosures Related to the Statement of Budgetary Resources

As a revolving fund, DISA WCF budgetary resources are normally derived from customer reimbursements rather than direct appropriations. As such, obligated and unobligated amounts are generally not subject to cancellation which would affect the time period in which funds may be used.

As of September 30, 2018, DISA WCF incurred \$7.6 billion of obligations, all of which are reimbursable and none of which are exempt from apportionment.

The total unobligated balance available as of September 30, 2018 is \$979.2 million, and represents the cumulative amount of budgetary authority that has been set aside to cover future obligations for the current period.

The DISA WCF's SBR includes intra-entity transactions because the statements are presented as combined.

As of September 30, 2018, DISA WCF's Net Amount of Budgetary Resources Obligated for Undelivered Orders is \$3 billion.

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

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

The implementation of OMB Circular A-136 changes affecting the Statement of Budgetary Resources, new lines/breakouts displayed for FY 2018 will contain blank amounts for FY 2017 comparative column, as they did not exist at that time.

Disclosures to the Statement of Budgetary Resources (000)

	<u>2018</u>	<u>2017</u>
Intragovernmental Budgetary Resources Obligated for Undelivered Orders:		
A. Unpaid	\$ 520,738	\$ -
B. Prepaid/Advanced	<u>\$ 6,607</u>	<u>\$ -</u>
C. Total Intragovernmental	\$ 527,345	\$ -
Nonfederal Budgetary Resources Obligated for Undelivered Orders:		
A. Unpaid	\$ 2,435,834	\$ -
B. Prepaid/Advanced	<u>\$ 32,559</u>	<u>\$ -</u>
C. Total Nonfederal	\$ 2,468,393	\$ -
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 2,995,738	\$ 2,731,016
Available Borrowing and Contract Authority at the End of the Period	\$ -	\$ -

Note 14. Disclosures Related to the Reconciliation of Net Cost of Operations to Budget

The statement below reconciles the results of DISA WCF operations for the 4th Quarter, FY 2018, from the proprietary and budgetary accounting perspectives.

**Reconciliation of Net Cost of Operations to Budget
(000)**

	<u>2018</u>	<u>2017</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred.....	\$ 7,611,279	\$ 7,074,976
Less: Spending authority from offsetting collections and recoveries (-).....	<u>\$ (7,495,991)</u>	<u>\$ (7,406,047)</u>
Obligations net of offsetting collections and recoveries.....	\$ 115,288	\$ (331,071)
Less: Offsetting receipts (-).....	<u>\$ -</u>	<u>\$ -</u>
Net obligations.....	\$ 115,288	\$ (331,071)
Other Resources:		
Donations and forfeitures of property.....	\$ -	\$ -
Transfers in/out without reimbursement (+/-).....	\$ 215,323	\$ 168,006
Imputed financing from costs absorbed by others.....	\$ 52,663	\$ 45,693
Other (+/-).....	<u>\$ (0)</u>	<u>\$ 1</u>
Net other resources used to finance activities.....	<u>\$ 267,986</u>	<u>\$ 213,700</u>
Total resources used to finance activities.....	\$ 383,274	\$ (117,371)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders (-).....	\$ (264,722)	\$ (172,059)
Unfilled Customer Orders.....	\$ 13,201	\$ 449,621
Resources that fund expenses recognized in prior periods (-).....	\$ (138)	\$ (1,439)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations.....	\$ -	\$ -
Resources that finance the acquisition of assets (-).....	\$ (66,647)	\$ (67,681)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-).....	\$ -	\$ -
Other (+/-).....	<u>\$ (215,323)</u>	<u>\$ (168,006)</u>
Total resources used to finance items not part of the Net Cost of Operations.....	<u>\$ (533,629)</u>	<u>\$ 40,436</u>
Total resources used to finance the Net Cost of Operations.....	\$ (150,355)	\$ (76,935)
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		
Increase in annual leave liability.....	\$ -	\$ -
Increase in environmental and disposal liability.....	\$ -	\$ -
Upward/Downward reestimates of credit subsidy expense (+/-).....	\$ -	\$ -
Increase in exchange revenue receivable from the public (-).....	\$ 67	\$ 549
Other (+/-).....	<u>\$ 1,106</u>	<u>\$ -</u>
Total components of Net Cost of Operations that will Require or Generate Resources in future periods.....	\$ 1,173	\$ 549
Components not Requiring or Generating Resources:		
Depreciation and amortization.....	\$ 212,904	\$ 187,400
Revaluation of assets or liabilities (+/-).....	\$ (1,721)	\$ 4,557
Other (+/-)		
Trust Fund Exchange Revenue.....	\$ -	\$ -
Cost of Goods Sold.....	\$ 29,093	\$ -
Operating Material and Supplies Used.....	\$ -	\$ -
Other.....	<u>\$ (29,758)</u>	<u>\$ (386)</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources.....	\$ 210,518	\$ 191,571
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period.....	<u>\$ 211,691</u>	<u>\$ 192,120</u>
Net Cost of Operations.....	<u>\$ 61,336</u>	<u>\$ 115,185</u>

Due to financial reporting system limitations, budgetary data do not agree with proprietary expenses and capitalized assets. To bring the note schedule into balance with the Statement of Net Cost, Other Components Not Requiring or Generating Resources was adjusted by an absolute value of \$652.3 thousand.

"Other" Line Items:

Resources Used to Finance Activities "Other" represents the outstanding balances for Civilian Out-of-Service refunds receivable and associated Interest, Penalty, and Admin Fees for DISA WCF.

Other Resources or Adjustments to net obligated resources that do not affect Net Cost of Operations "Other" is comprised of the transfer-in of DISN general PP&E from DISA's GF without reimbursement.

Components not Requiring or Generating Resources "Other" consists of an adjustment to clear the internal trading partner capitalization (8802/8801) per USSGL Section III (alternative method of accumulated capitalized cost – offset by an expense adjustment), an entry to record the outstanding balances for Civilian Out-of-Service refunds receivable and associated Interest, Penalty, and Admin Fees, an entry for loss allowance for public receivables.

Note 15. Other Disclosures

Operating Leases

The DISA WCF has operating leases for land, buildings and equipment. Future lease payments due as of September 30, 2018, were as follows:

Operating Leases				
(000)				
<u>2018</u>				
	Land and Buildings	Equipment	Other	Total
Entity As LESSEE-Operating Leases				
Future Payments Due				
Fiscal Year				
2019.....	\$ 4,286	\$ 322	\$ -	\$ 4,609
2020.....	\$ 3,744	\$ 156	\$ -	\$ 3,900
2021.....	\$ 3,621	\$ 156	\$ -	\$ 3,777
2022.....	\$ 3,280	\$ -	\$ -	\$ 3,280
2023.....	\$ 1,271	\$ -	\$ -	\$ 1,271
After 5 years.....	\$ 5,986	\$ -	\$ -	\$ 5,986
Total Future Lease Payments Due.....	<u>\$ 22,188</u>	<u>\$ 634</u>	<u>\$ -</u>	<u>\$ 22,822</u>
<u>2017</u>				
	Land and Buildings	Equipment	Other	Total
Entity As LESSEE-Operating Leases				
Future Payments Due				
Fiscal Year				
2018.....	\$ 1,852	\$ 289	\$ -	\$ 2,141
2019.....	\$ 1,562	\$ -	\$ -	\$ 1,562
2020.....	\$ 995	\$ -	\$ -	\$ 995
2021.....	\$ 182	\$ -	\$ -	\$ 182
2022.....	\$ 182	\$ -	\$ -	\$ 182
After 5 years.....	\$ -	\$ -	\$ -	\$ -
Total Future Lease Payments Due.....	<u>\$ 4,773</u>	<u>\$ 289</u>	<u>\$ -</u>	<u>\$ 5,062</u>

Land and Building Leases

As of September 30, 2018, DISA WCF operates in 20 locations of which 17 of these sites are located on property (primarily military bases) where no rent is charged and only utilities are required. The 3 remaining sites are located on both commercial and government-owned properties and covered under long-term real estate leases expiring at various dates through 2028. The DISA WCF acquires space for government owned property through the GSA, which acquires and manages most commercial property leases on behalf of the federal government. These leases generally require DISA WCF to pay property tax, utilities, security, custodial services, parking, and operating expenses. Certain leases contain renewal options.

Equipment Leases

The equipment leases are operating leases for photocopiers, and vehicles. The DISA WCF currently leases 64 photocopiers and 23 vehicles located at various sites. The photocopiers are leased for three years, while the vehicles are leased for one year with annual renewal options.



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

January 18, 2019

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

SUBJECT: Transmittal of the Independent Auditor's Report on the Defense
Information Systems Agency Working Capital Fund Financial Statements
and Related Notes for FY 2018 (Project No. D2018-D000FL-0056.000,
Report No. DODIG-2019-045)

We contracted with the independent public accounting firm of Kearney & Company to audit the Defense Information Systems Agency (DISA) Working Capital Fund FY 2018 Financial Statements and related notes as of September 30, 2018, and for the year then ended, and to provide a report on internal control over financial reporting and compliance with laws and regulations. The contract required Kearney & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 2008.¹ Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in a disclaimer of opinion. Kearney & Company could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DISA Working Capital Fund financial statements. As a result, Kearney & Company could not conclude whether the financial statements and related

¹ In June 2018, the Government Accountability Office issued an updated Financial Audit Manual. Kearney & Company updated its audit procedures to be in accordance with the updates issued in the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2018.

notes were fairly presented in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney & Company did not express an opinion on the DISA Working Capital Fund FY 2018 Financial Statements and related notes.

Kearney & Company's separate report on "Internal Control over Financial Reporting" discusses four material weaknesses related to the DISA Working Capital Fund's internal controls over financial reporting. Specifically, Kearney & Company found material weaknesses including: Fund Balance With Treasury, Accounts Receivable and Accounts Payable, Budgetary Resources, and Information Technology. Kearney & Company's additional report on "Compliance with Laws, Regulations, Contracts, and Grant Agreements" discusses three instances of noncompliance with applicable laws and regulations.

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

Kearney & Company is responsible for the attached reports, dated January 18, 2019, and the conclusions expressed in these reports. However, our review disclosed no instances in which Kearney & Company did not comply, in all material respects, with GAGAS.

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



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

Attachments:
As stated

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We were engaged to audit the accompanying consolidated Working Capital Fund (WCF) financial statements of the Defense Information Systems Agency (DISA), which comprise the consolidated balance sheet as of September 30, 2018, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion that the financial statements are complete and free from material misstatements when taken as a whole. We identified a material amount of unreconciled transactions and unexplained variances that potentially impact the completeness and accuracy of DISA's financial statements. DISA utilizes a service organization, which supports multiple other Federal entities, to process disbursement and collection transactions. We identified a material amount of disbursements and collections which were processed; however, DISA and its service organization were unable to assign the transactions to a specific entity because of various transactional errors. We also identified unreconciled differences between the service organization's records and amounts reported by the U.S. Department of the Treasury. DISA and its service organization were unable

to provide evidential matter to validate that these unresolved and unreconciled items did not impact DISA's financial statements.

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

Disclaimer of Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, other Required Supplementary Information, and Required Supplementary Stewardship Information (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Management has omitted Deferred Maintenance information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by OMB and FASAB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, we have also issued reports, dated January 18, 2019, on our consideration of DISA's internal control over financial reporting and on our tests of DISA's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, and other matters for the year ended September 30, 2018. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 and should be considered in assessing the results of our audit.



Alexandria, Virginia
January 18, 2019

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, the Working Capital Fund (WCF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2018, and we have issued our report thereon dated January 18, 2019. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements, we considered DISA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DISA's internal control. Accordingly, we do not express an opinion on the effectiveness of DISA's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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

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

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

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

DISA's Response to Findings

DISA's response to the findings identified in our engagement is described in a separate memorandum attached to this report in Section 2, *Financial Section*, of the Agency Financial Report. DISA's response was not subjected to the auditing procedures applied in our engagement of the financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of DISA's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
January 18, 2019

Schedule of Findings

Material Weaknesses

Throughout the course of our audit work at the Defense Information Systems Agency (DISA), we identified internal control deficiencies which were considered for the purposes of reporting on internal control over financial reporting. The material weaknesses presented in this Schedule of Findings have been formulated based on our determination of how individual control deficiencies, in aggregate, affect internal controls over financial reporting. The table below presents the material weaknesses identified during our audit:

Material Weakness	Material Weakness Sub-Category
I. Fund Balance with Treasury	A. Suspense Accounts B. Statements of Differences C. Cash Management Report
II. Accounts Receivable and Accounts Payable	Accounts Receivable and Accounts Payable
III. Budgetary Resources	A. Unfilled Customer Orders and Undelivered Obligations B. New Obligations
IV. Information Technology	Information Technology

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

Deficiencies in three related areas define this material weakness:

- A. Suspense Accounts
- B. Statements of Differences
- C. Cash Management Report

A. Suspense Accounts

Background: DISA, in conjunction with its service organization (collectively referred to as “DISA” hereafter), manages, reports, and accounts for Fund Balance with Treasury (FBWT) clearing (suspense) account activities. Clearing accounts temporarily hold unidentifiable collections or disbursements that belong to the Federal Government. These funds are identified by an “F” preceding the last four digits of the Treasury Account Symbol (TAS). The U.S. Department of the Treasury (Treasury) allows entities with a justifiable business need, such as deposits from a specific program which are not authorized to be recorded in another deposit account, to use suspense accounts as a temporary holding place for transactions. However, the transactions should be cleared within 60 days. The Department of Defense (DoD) uses a number of clearing accounts in this manner.

DISA uses two core financial accounting systems for its Working Capital Fund (WCF): Financial Accounting Management Information System – Enterprise Acquisition Services (FAMIS-EAS) and Financial Accounting Management Information System – Computing

Services Modernization (FAMIS-CS). FAMIS-EAS and FAMIS-CS use several feeder systems to process collection and disbursement transactions. DISA shares these feeder systems with the Department of the Army (DA), Department of the Air Force (DAF), and the Department of the Navy (DON), as well as the Other Defense Organizations (ODO). Additionally, DISA uses numerous Defense Finance and Accounting Service (DFAS) Disbursing Stations, which are also shared with DA, DAF, DON, and the ODOs, to perform collection and disbursement activity.

During input to the feeder systems or interfaces between the feeder systems and FAMIS-EAS and FAMIS-CS at the various Disbursing Stations, it is possible for a transaction to be processed with an incomplete, inaccurate, or invalid Treasury Account Symbol (TAS), which includes information in the fields for Treasury Index (TI), budget fiscal year (BFY), and fund. When this occurs, the transactions are recorded in a suspense account. DFAS reports activity recorded to suspense accounts to Treasury monthly.

Amounts recorded in DoD suspense accounts are not reflected in the FBWT balance of any component DoD organization until it is determined to which organization the transaction pertains and the activity is “cleared” out of suspense to the appropriate agency’s TI and TAS. As such, the transactions in the suspense accounts represent a financial reporting completeness risk to all DoD organizations until they are researched and cleared.

Condition: DISA did not have established processes in place to develop a list of transactions in the suspense accounts, document how the items in suspense were resolved, or identify which suspense accounts were used for deposit activity in unusual accounts versus capturing processing exceptions.

Cause: DISA did not have effective processes and controls to ensure that suspense accounts were only used for valid or isolated reasons. Systems used by DISA to process disbursement and collection activity lacked sufficient edit checks to prevent processing of transactions for which TI and TAS cannot be reliably determined. This resulted in suspense accounts being used in high volumes.

Effect: Ineffective business processes and system controls result in a high volume of transactions in DoD suspense accounts. Ineffective procedures to research, clear, and document suspense activity impact DISA’s ability to support the completeness and accuracy of the agency’s FBWT. As a result, significant transactions to DISA may reside in suspense accounts and become omitted from DISA’s financial statements.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that DISA:

1. Strengthen system and process controls to ensure that disbursements and collections are processed with valid TI and TAS inputs.
2. Strengthen internal controls when suspense accounts must be used, including:
 - a. Develop and implement effective monthly reconciliation controls to support amounts reported to Treasury in all DoD suspense accounts at a transaction level.

- b. Develop and implement effective controls to ensure that transactions are cleared from suspense accounts on a timely basis and sufficient supporting documentation is maintained to demonstrate to which entity the transactions were cleared and that the entity to which it was cleared was appropriate.
- c. Develop and implement procedures to isolate and document instances where suspense accounts are being used for routine, valid purposes, rather than being used for transactions with edit errors.

B. Statements of Differences

Background: The FBWT account is increased and decreased by collections and disbursements, respectively. DISA's service organization reports its disbursing activity monthly under various Agency Location Codes (ALC), often referred to as Disbursing Symbol Station Numbers. Treasury compares data submitted by financial institutions and Treasury Regional Financial Centers to ensure the accuracy and completeness of the collection and disbursement activity submitted. Discrepancies are reported in Treasury's Central Accounting Reporting System (CARS) monthly for each ALC by accounting month (i.e., month the report is generated) and accomplished month (i.e., month the difference occurred). Reporting entities are required to research and resolve the Statements of Differences (SOD) monthly.

Condition: DISA did not resolve SODs in a timely manner, nor did it design and implement controls to clear SODs in a timely manner (prior to the next reporting period). DISA did not have formalized procedures in place to identify the actual or estimated impact of SODs to DISA's financial statements. The agency failed to provide historical records showing the resolution of SOD differences to allow them to assess or estimate the potential impact of current SOD differences.

Cause: DISA reports expenditure activity monthly to Treasury on behalf of DISA using reporting ALCs shared with other DoD agencies. Treasury's CARS only reports SODs at the ALC level and does not provide Line of Accounting (LOA) information to allow DISA to easily identify the agency responsible for the differences. The shared ALCs and lack of LOA information make it difficult for DISA to identify and resolve differences timely.

DISA did not have procedures requiring documentation and retention of SOD population details to support monthly reconciliations and variance resolution or have a methodology to determine the financial reporting impact of SODs to DISA's financial statements. Formalized communication procedures between DISA and its service organization were not established.

Effect: DISA cannot assess the financial reporting impact of FBWT differences that are not researched and resolved timely, nor can it assert that reported collections and disbursements are complete and accurate without properly designed and implemented control procedures around SOD balances. The DISA financial statements may be materially misstated, and these misstatements may not be detected and corrected timely.

Recommendations: Kearney recommends that DISA formally develop and implement the following:

1. Work with Treasury, the Office of the Secretary of Defense (OSD), its service organization, and other parties to transition away from using monthly reporting ALCs to daily reporting ALCs.
2. With the support of its service provide, develop and implement a methodology to identify the actual or estimated impact of SOD amounts that should be attributed to DISA's FBWT account.
3. Work with Treasury, OSD, and its service organization to establish an ALC that processes DISA's transactions exclusively.
4. Work with its service organization by providing supporting information to clear transactions timely.
5. Identify ALCs that primarily report collection and disbursement activity to Treasury on behalf of DISA.
6. Identify and retain the total unmatched items that reconcile to the SOD.
7. Develop a common approach and timeframe across DoD related to researching and resolving SODs monthly.
8. Monitor and track the resolution of SODs cleared to DISA to enable DISA to perform root cause analysis and create projections of potential outstanding unresolved balances.
9. Implement procedures to reduce the amounts reported on SODs using a root cause analysis.
10. Schedule recurring meetings with its service organization to help resolve outstanding differences.

C. Cash Management Report

Background: Treasury maintains and reports FBWT at the TAS level. DISA receives the Cash Management Report (CMR) from its service organization to provide its FBWT balance, as limit-level data is not available from Treasury's CARS. The CMR is prepared by gathering FBWT expenditure activity from approximately 335 disbursing ALCs throughout the DoD and transferred to FoxPro, a legacy off-the-shelf database program, to create the CMR. DISA then enters journal vouchers to agree its FBWT balance to the CMR.

The CMR contains several categories of transactions that cannot be identified to a specific agency. Until fully researched in subsequent months, these transactions were not reflected in any agency financial statements.

Condition: DISA failed to:

- Formalize procedures around the generation of the monthly CMR
- Document which source files are required from specific source systems
- Define how source files are validated prior to ingesting into Headquarters Accounting and Reporting System (HQARS)

- Document how the data is consolidated in HQARS and transferred to FoxPro to create the CMR
- Perform data validation procedures to ensure the source files used to create the CMR reconcile back to the original source systems
- Identify all transactions in the CMR to a specific agency.

FoxPro is an off-the-shelf legacy database that was created in the 1970s. It is not covered by a System and Organization Controls (SOC) report. Additionally, it does not have the ability to limit access, produce an audit log, or leverage other controls that would restrict the ability to edit data.

Cause: Treasury does not report FBWT below the TAS level, creating the need for the monthly CMR. DISA shares TI and basic symbols with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. As a result, DISA is dependent on its service organization to provide support for the FBWT amount reported in its financial statements. While DISA is able to explain the details and steps leading up to the creation of the CMR, it has not documented the procedures performed and internal control activities that support its assertions, nor adequately developed compensating controls to ensure that its FBWT is complete and accurate.

Effect: DISA is unable to support the completeness and accuracy of its FBWT without documented procedures and controls over the generation of the CMR. As a result, DISA's financial statements may contain significant misstatements that may not be detected and corrected in a timely manner.

DISA enters journal vouchers each month to bring its FBWT balance into agreement with the CMR. The entries are based solely on the amounts included in the CMR, rather than an in-depth reconciliation or analysis describing the transactions which compose the amounts. The offsets to these entries are to Accounts Payable (AP) and Accounts Receivable (AR). The entries also impact budgetary accounts, including Net Outlays.

Recommendations: Kearney recommends that DISA implement the following:

1. Work with Treasury to establish a subaccount under the basic symbol used by DISA that is unique to DISA so that it can obtain CARS reports to document its FBWT balance directly from Treasury and remove the need for the creation of the CMR.
2. Work with Treasury, OSD, its service organization, and other parties to transition away from using monthly non-CARS reporting ALCs to daily full CARS reporting ALCs.
3. Work with Treasury, OSD, and its service organization to establish an ALC that processes DISA's transactions exclusively.

Until the above recommendation can be implemented or determined not feasible, Kearney recommends that DISA work with its service organization to:

1. Document formalized procedures around the generation of the monthly CMR to provide an audit trail demonstrating the completeness and accuracy of the report. This should include documenting which source files are used and why those are the appropriate files to include.
2. Implement appropriate data validation controls of the source files used to create the CMR as they are gathered and transferred from system to system during the creation of the CMR process.
3. Create the CMR in a system with appropriate IT controls to prevent changes to the data without appropriate authorization.
4. Document formalized procedures around the timely resolution of the unidentified transactions in the CMR.
5. Document formalized procedures to identify the actual or estimated impact of CMR differences that should be attributed to DISA's FBWT account.
6. Document formalized procedures to resolve differences between the CMR and CARS monthly and identify the impact to DISA's FBWT account.
7. Work with its service organization to monitor and track the resolution of the various CMR difference categories cleared to DISA to allow DISA to perform root cause analysis and create projections of potential outstanding unresolved balances.

II. Accounts Receivable and Accounts Payable (*New Condition*)

Background: As a component of the DISA WCF, Telecommunication Services and Enterprise Acquisition Services (TSEAS) operates two main lines of business: telecommunications (telecom) and non-telecommunications (non-telecom). Telecom services consist of Defense Information Systems Network (DISN) subscription services, DISN non-subscription services, and pass-through services, whereas non-telecom services entails the procurement of materials and/or services for DISA activities, other DoD agencies, or other governmental activities. TSEAS management utilizes estimates and automated accruals to record payables due to vendor invoice delays, volume of transaction processing, and decentralized operations.

Telecom accruals for pass-through services are automatically posted at month-end to account for services received during the month but not yet billed. The corresponding payable is based on contractual terms, rather than actual invoices. After a valid invoice is received from the vendor, the subsequent vendor payment will liquidate the previous payable (or a portion thereof). Non-telecom accruals are automatically posted monthly based on a prorated figure calculated at 96% of the contractual obligation throughout the funding vehicle's period of performance. Like telecom, the accrued payable is liquidated, or partially liquidated, after a valid invoice is received from the vendor. The majority of DISA's AP related to accrued payables.

Condition: DISA's accounting records included a number of invalid or unsupported amounts, including:

- Payables that were aged over 12 months and did not represent a valid liability
- Amounts included in the accrual that were later reduced once invoices were received from the vendor

- Instances where DISA was unable to provide invoices to support the amount accrued
- Instances where the contract amount was reduced and DISA did not make a corresponding reduction in the accrual.

TSEAS' accrual methodology was applied to receivable balances as well. The accounting system automatically posts an account receivable at month-end, which is linked to the accrued payable. The receivable will be recorded based on the accrual calculation plus a processing fee.

Cause: DISA recorded accrual balances based on prorated calculations from contractual agreements with the assumption that their expenses would be the same monthly amount throughout the contract's period of performance, even if the contract was not firm-fixed price in nature. DISA did not have a process to adjust its prorated calculations when the scope of a contract was changed or when vendor invoices were submitted at lower value than the accrual calculated. In addition, DISA did not have an effective process to evaluate the validity of aged accrual balances without recent activity, including those pending contract close-out. Outside of the accrual methodology, DISA's controls to ensure that sufficient invoices were received and accurately processed by the Contracting Officer's Representative (COR) were not effectively designed.

Effect: DISA adjusted the amounts reported in AR and AP. Without a process to review account balances for validity, DISA's financial statements may contain misstatements associated with AR and AP on the Balance Sheet, as well as Gross Costs and Earned Revenue on the Statement of Net Costs that go undetected.

Recommendations: Kearney recommends that DISA design and implement improvements to its accrual methodologies and underlying assumptions. Specifically, Kearney recommends that DISA:

1. Validate and adjust the process used to establish accruals using prorated contractual terms.
2. Develop and implement a process to review potentially invalid or inaccurate accrual balances. This review should involve correspondence with program managers to confirm the status of potentially stale balances, identify significant changes in contract scope, and confirm the accuracy of key contract terms.
3. Develop and implement techniques to ensure that sufficient invoices are required from vendors and accurately processed. This may include training for CORs to convey the importance of the criteria for invoice acceptance.

III. Budgetary Resources (*New Condition*)

Deficiencies in two related areas define this material weakness:

- A. Unfilled Customer Orders and Undelivered Obligations
- B. New Obligations

A. Unfilled Customer Orders and Undelivered Obligations

Background: Unfilled Customer Orders (UCO) represent orders for goods and/or services to be furnished for other Federal Government agencies and for the public. Federal agencies record UCOs when they enter into an agreement, such as a Military Interdepartmental Purchase Request (MIPR), contract, or sales order, to provide goods and/or services when a customer cash advance is not received. These orders provide obligational budgetary authority for reimbursable programs.

Undelivered Orders (UDO) represent the amount of goods and/or services ordered, which have not been actually or constructively received and can be unpaid or prepaid. Federal agencies record UDOs when they enter into an agreement, such as a MIPR, contract, or sales order, to receive goods and/or services.

Condition: DISA did not reduce amounts recorded in UCO and UDO accounts once no longer likely that no additional orders would be received from a customer or vendor, respectively.

Cause: DISA did not have effective control procedures to ensure that invalid UCOs and UDOs were identified by fund holders and adjusted in a timely manner. Dormant balances remain open and reported in the financial statements due to the lack of effective reviews for validity by fund holders, delays in contract close-out processing by DISA's Procurement Services Directorate (PSD), and delays in Defense Contract Audit Agency (DCAA) audits. DISA did not have a process in place to estimate invalid UCOs and UDOs in order to record a year-end adjustment for financial reporting purposes.

Effect: DISA's financial statements may contain misstatements associated with Spending Authority from Offsetting Collections; New Obligations and Upward Adjustments; and Unexpired Unobligated Balance, End of Year on the Statement of Budgetary Resources.

Recommendations: Kearney recommends that DISA:

1. Strengthen procedures to review and monitor UCOs and UDOs for validity and conformation with Federal requirements.
2. Consider periodic reviews of transaction posting models to ensure account entries are in accordance with Treasury Financial Manual (TFM) Section III guidance.
3. Record accounting adjustments to remove invalid UCOs and UDOs from its accounting records.
4. Strengthen existing policies to ensure that fund holders are adequately assessing the validity of the open UCO and UDO balances and adjust when appropriate.
5. Implement policies, or strengthen existing policies, which require PSD to process contract actions timely once all goods and services have been provided to the customer or received from the vendor.
6. Develop and implement a process to estimate invalid UCOs and UDOs to determine whether a temporary adjustment is required for year-end financial reporting purposes to supplement the contract close-out accrual.

B. New Obligations

Background: An obligation is a legally binding agreement that will result in outlays, immediately or in the future. When an agency places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the Government to make payments to the public or from one Government account to another, it incurs an obligation. Agencies should maintain policies, procedures, and information systems to ensure that obligations represent required Federal outlays, comply with laws and regulations, and are appropriately approved.

Condition: DISA did not record customer orders and obligations in a timely manner after the execution of the customer order or obligating document.

Cause: DISA does not have effective transaction-level control procedures to ensure customer orders or obligations are recorded in the financial management system in a timely manner.

Effect: DISA's financial statements may contain misstatements associated with Spending Authority from Offsetting Collections; New Obligations and Upward Adjustments; and Unexpired Unobligated Balance, End of Year on the Statement of Budgetary Resources. DISA may provide or receive goods or services prior to an authorized customer order certifying the availability of funds or prior to an authorized contract or purchase order being established. If obligations are not recorded prior to the acquisition of goods and/or services, DISA could obligate funds in excess of its valid budget authority and potentially violate the Antideficiency Act.

Recommendations: Kearney recommends that DISA strengthen controls to ensure the timely creation, approval, and recording of customer orders and obligations. Specifically, Kearney recommends that DISA should:

1. Implement controls at the transaction level to ensure that customer orders and obligations are recorded in a timely manner to support funds control.
2. Develop and implement a process to monitor the execution of DISA policies and procedures related to establishing customer orders and obligations.

IV. Information Systems (*New Condition*)

Background: DISA operates in a complex information system environment to execute its mission and record transactions timely and accurately. DISA operates several key financial management systems, including two core accounting systems and multiple financial support systems for the DISA WCF. The FAMIS-CS is the core accounting system for WCF CS operations, and FAMIS-EAS is the core accounting system for WCF TSEAS operations. In addition to its key financial management systems, DISA utilizes several service organizations to support its operations and mission. Service organization systems are systems that organizations other than DISA own and operate but still affect the agency's business processes and financial statements.

DISA plans to retire two of its key financial management systems in the beginning of fiscal year 2019: FAMIS-EAS, and the DISA Cash Management System (DCMS), a key financial support system for FAMIS-EAS. DISA plans to replace the retiring systems and develop, document, and implement the appropriate controls to ensure the new systems are secure.

Because of the sensitive nature of DISA's information system environment, Kearney does not present specific details related to the systems, conditions, or criteria discussed within this material weakness. We provided those details separately to DISA management and relevant stakeholders through Notifications of Findings and Recommendations (NFR).

Condition: DISA has several deficiencies in the design and operating effectiveness of internal controls related to the core accounting systems, key financial support systems, and service organization systems. While no single control deficiency meets the level of a material weakness, in combination, these deficiencies elevate to a material weakness due to the pervasiveness of the weaknesses throughout the information system environment and DISA's reliance on these systems for financial reporting. Our testing disclosed deficiencies in the following areas:

- Security Management
 - Incomplete system security plans (SSP). Specifically, SSPs for select key financial management systems did not include information regarding DISA's implementation of National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 4 baseline security controls, as required by the NIST Risk Management Framework (RMF)
 - Inconsistent implementation of policies and procedures for ensuring complete and update-to-date Plans of Action and Milestones (POA&Ms) for all key financial management systems
- Access controls and segregation of duties
 - Incomplete or not fully implemented policies and procedures for managing and monitoring access to select key financial management applications and databases, including third-party systems
 - Incomplete or not fully implemented policies and procedures for the proper segregation of duties, including documented business justifications for existing segregation of duties conflicts, within a key financial management application
 - Inconsistent implementation of user account recertification to verify the propriety of access to select key financial management systems
 - Inconsistent logging and monitoring of activity for all key financial management systems
 - Lack of strong password configurations for a key financial management application and database

- Configuration management
 - Incomplete, inconsistent, or unmaintained documentation of configuration changes for a key financial management application, including an incomplete listing of changes implemented into the production environment

Cause: The deficiencies are a result of multiple circumstances, including DISA's ongoing transition from the DoD Information Assurance Certification and Accreditation Process (DIACAP) to the RMF for information system authorizations, incomplete or inconsistent implementation of policies and procedures, and ineffective quality control processes to ensure personnel responsible for key information system controls followed documented procedures.

Effect: Without robust controls throughout the information system environment, the risk of unauthorized access and information system changes increases, thereby increasing the risk to the systems and the data confidentiality, integrity, and availability.

Recommendations: Kearney recommends that DISA:

1. Fully transition all DISA systems to the NIST RMF, which provides a process that integrates security and risk management activities into the system development lifecycle.
2. Develop, update, and implement policies and procedures addressing the security controls required by NIST SP 800-53, Rev. 4.
3. Develop and implement a quality control review over the user authorization process, to include procedures to ensure the completeness and accuracy of the access request forms.
4. Update and implement configuration management procedures to include quality control reviews. These reviews should ensure that all changes follow a defined and controlled process, including maintaining appropriate supporting documentation from initial change request through implementation into the production environment.

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

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, the Working Capital Fund (WCF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2018, and we have issued our report thereon dated January 18, 2019. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DISA's financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the financial statements, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DISA. Providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in the FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-01 and are described in the accompanying Schedule of Findings.

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

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

DISA's Response to Findings

DISA's response to the findings identified in our engagement is described in a separate memorandum attached to this report. DISA's response was not subjected to the auditing procedures applied in our engagement to audit the financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
January 18, 2019

Schedule of Findings

Noncompliance and Other Matters

I. The Federal Financial Management Improvement Act of 1996 (*New Condition*)

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that an entity's overall financial management systems environment operate, process, and report data in a meaningful manner to support business decisions. FFMIA states that Federal agencies shall comply substantially with the requirements within Section 803(a). These requirements include:

- Federal financial management system requirements
- Applicable Federal accounting standards
- United States Standard General Ledger (USSGL) at the transaction level.

DISA's financial management systems do not substantially comply with the requirements within FFMIA, as discussed below.

Federal Financial Management Systems Requirements

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

FFMIA requires financial management system owners to implement and monitor Federal information system security controls to minimize the impact to the confidentiality, integrity, and availability of the systems and data. The primary means for Federal entities to provide these controls is the implementation and monitoring of controls defined in NIST Special Publication (SP) 800-53, Revision (Rev.) 4, *Security and Privacy Controls for Federal Information Systems and Organizations*. DISA deviated from recommended controls defined in NIST SP 800-53, Rev. 4, as discussed in Section IV, *Information Technology*, in our *Report on Internal Control over Financial Reporting*. These deviations related to security management, access controls, and configuration management, and they represent instances of noncompliance with information security requirements.

Federal Accounting Standards

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

financial statements. Because of the significance of this scope limitation, we were unable to determine whether DISA's financial statements contained material departures from GAAP.

United States Standard General Ledger at the Transaction Level

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

II. The Federal Information Security Modernization Act of 2014 (*New Condition*)

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 (NIST) publishes standards and guidelines for Federal entities to implement for non-national security systems. Deviations from NIST standards and guidelines represent departures from FISMA requirements. During our audit, we noted several deviations from NIST standards and guidelines that contributed to an overall material weakness related to information systems, as described in Section IV *Information Technology*, in our *Report on Internal Control over Financial Reporting*. These deviations represent DISA's noncompliance with FISMA. By not complying with FISMA, DISA's security controls may adversely affect the confidentiality, integrity, and availability of information and information systems. See Section IX, *Information Systems*, in the accompanying *Report on Internal Control over Financial Reporting* for additional details.

III. The Federal Managers' Financial Integrity Act of 1982 (*New Condition*)

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

DISA's FY 2018 Statement of Assurance stated that its internal controls were operating effectively as of September 30, 2018. In our *Report on Internal Control over Financial Reporting*, we noted four material weaknesses. Because these conditions were not reported in DISA's Statement of Assurance, DISA has not complied with the requirements of FMFIA.

Attachment 1 – DISA Comments

Message from the Defense Information Systems Agency

With the exception of the issue outlined below, the Defense Information Systems Agency (DISA) Fiscal Year (FY) 2018 Financial Statement Report provides a complete and reliable view of DISA's financial position and condition, revenues and costs, assets and liabilities, and other obligations and commitments.

DISA received a disclaimer of opinion on its FY18 financial statements based solely on a scope limitation surrounding DFAS processes and controls over Fund Balance with Treasury. While DISA is actively partnering with DFAS and other key stakeholders to resolve the scope limitation, DISA remains confident that the issues noted do not materially impact DISA's overall financial position.

DISA fully supports the Department's goal to achieve auditable financial statements. For the past 7 years, we have engaged independent public accountants to conduct examinations of our Hosting Services, which provide results to demonstrate the audit readiness of the more than 100 financial systems DISA hosts.

The Agency continuously strives to improve processes, enhance controls, and validate information. At DISA, audit is an enterprise-wide endeavor. DISA embraces the feedback received from the auditors, works with them to address the findings, and ensures continued communication with our service providers to develop correction action plans. The entire DISA workforce embraces the day-to-day challenges associated with audit readiness in order to sustain our audit posture. DISA is proud to continue to help lead the way within the Department in achieving audit readiness.



Nancy A. Norton

NANCY A. NORTON
Vice Admiral, USN
Director



DEFENSE INFORMATION SYSTEMS AGENCY

P. O. BOX 549
FORT MEADE, MARYLAND 20755-0549

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

Mr. Zavada:

Thank you for providing us a copy of Kearney's draft audit report for DISA's FY 2018 Working Capital Fund (WCF) financial statements. DISA appreciates Kearney's insights and feedback and will actively pursue clarification and/or corrective action where required.

Below outlines our comments and concerns regarding the draft conclusions presented.

I. Fund Balance with Treasury (FBwT)

A. Suspense Accounts

Condition: DISA did not have established processes in place to develop a list of transactions in the suspense accounts, document how the items in suspense were resolved, or identify which suspense accounts were used for deposit activity in unusual accounts versus capturing processing exceptions.

DISA Response: DISA will work with our service provider, DFAS as well as OSD Comptroller to address these Department-wide issues.

B. Statements of Differences

Condition: DISA did not resolve SODs in a timely manner. DISA did not design and implement controls to clear SODs in a timely manner (prior to the next reporting period). DISA did not have formalized procedures in place to identify the actual or estimated impact of SODs to DISA's financial statements. The agency failed to provide historical records showing the resolution of SOD differences to allow them to assess or estimate the potential impact of current SOD differences.

DISA Response: DISA will work with our service provider, DFAS as well as OSD Comptroller to address these Department-wide issues.

C. Cash Management Report

Condition: DISA failed to:

- Formalize procedures around the generation of the monthly CMR

- Document which source files are required from specific source systems
- Define how source files are validated prior to ingesting into HQARS
- Document how the data is consolidated in HQARS and transferred to FoxPro to create the CMR
- Perform data validation procedures to ensure the source files used to create the CMR reconcile back to the original source systems.
- Identify all transactions in the CMR to a specific agency.

FoxPro is an off-the-shelf legacy database that was created in the 1970s. It is not covered by a System and Organization Controls (SOC) report. Additionally, it not have the ability to limit access, produce an audit log, or have other controls that would restrict the ability to make changes to the data.

DISA Response: DISA will work with our service provider, DFAS as well as OSD Comptroller to address these Department-wide issues.

II. Accounts Receivable and Accounts Payable Accruals

Condition: DISA's accounting records included a number of invalid or unsupported amounts, including:

- Payables that were aged over twelve months and did not represent a valid liability
- Amounts included in the accrual that were later reduced once invoices were received from the vendor
- Instances where DISA was unable to provide invoices to support the amount accrued
- Instances where the contract amount was reduced and DISA did not make a corresponding reduction in the accrual.

TSEAS' accrual methodology was applied to receivable balances as well. The accounting system automatically posts an account receivable at month-end, which is linked to the accrued payable. The receivable will be recorded based on the accrual calculation plus a processing fee.

DISA Response: DISA partially concurs - Comment for the last recommendation, "Develop and implement techniques to ensure that sufficient invoices are required from vendors and accurately processed. This may include training for CORs to convey the importance of the criteria for invoice acceptance." DISA processed the recommended auditor adjustment and is reflected in the FY 2018 financial statements. DISA is accruing based on the contractual terms vice vendor invoices.

Vendors are already following the guidance in the FMR as well as submitting invoices in accordance with business rules in iRAPT/WAWF. DISA does not have authority to force vendors to submit invoices differently, however, we will work with PSD to include this recommendation for change in the COR training/guidance.

III. Budgetary Accounting

A. Unfilled Customer Orders and Undelivered Obligations

Condition: DISA did not reduce amounts recorded in UCO and UDO accounts once no longer likely that no additional orders would be received from a customer

or vendor, respectively.

DISA Response: DISA partially concurs – The auditor recommended adjustments were processed in the accounting systems and is reflected in the FY 2018 financial statements. DISA performs tri-annual reviews. DISA will continue coordination with the contract closeout process. DISA will revisit the aged accrual methodology to improve accuracy of financial statements.

B. New Obligations

Condition: DISA did not record customer orders and obligations in a timely manner after the execution of the customer order or obligating document.

DISA Response: DISA non concurs - The majority of the MIPRS are internal working capital fund orders for planning purposes to ensure the contracting office has enough lead time to plan for contract actions in the subsequent beginning year. The body of the MIPR has language identifying as a planning MIPR outlining the funds are available the beginning of the next FY.

V. Information Technology

Condition: DISA has several deficiencies in the design and operating effectiveness of internal controls related to the core accounting systems, key financial support systems, and service organization systems. While no single control deficiency meets the level of a material weakness, in combination, these deficiencies elevate to a material weakness due to the pervasiveness of the weaknesses throughout the information system environment and DISA's reliance on these systems for financial reporting. Our testing disclosed deficiencies in the following areas:

- Security Management
 - Incomplete system security plans (SSP). Specifically, SSPs for select key financial management systems did not include information regarding DISA's implementation of National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 4 baseline security controls, as required by the NIST Risk Management Framework (RMF)
 - Inconsistent implementation of policies and procedures for ensuring complete and update-to-date Plans of Action and Milestones (POA&Ms) for all key financial management systems
- Access controls and segregation of duties
 - Incomplete or not fully implemented policies and procedures for managing and monitoring access to select key financial management applications and databases, including third-party systems
 - Incomplete or not fully implemented policies and procedures for the proper segregation of duties, including documented business justifications for existing segregation of duties conflicts, within a key financial management application

- Inconsistent implementation of user account recertification to verify the propriety of access to select key financial management systems
- Inconsistent logging and monitoring of activity for all key financial management systems
- Lack of strong password configurations for a key financial management application and database
- Configuration management

Incomplete, inconsistent, or unmaintained documentation of configuration changes for a key financial management application, including an incomplete listing of changes implemented into the production environment

DISA Response: DISA concurs – Many of the recommendations were implemented in FY 2018. FAMIS-EAS and DCMS systems were retired at the end of FY 2018.

As stated above, DISA appreciates Kearney’s assessment and will collaborate with Kearney to resolve these issues in the upcoming period.



BARBARA C. CRAWFORD
Chief, Accounting
Operations/Compliance