DEFENSE LOGISTICS AGENCY
THE NATION'S COMBAT LOGISTICS SUPPORT AGENCY

Agency Financial REPORT

GENERAL FUND
(UNAUDITED)

Fiscal Year 2020

Tank Refueling

Marine Corps Pfc. Jackson Blackburn refuels an M1A1 Abrams tank during a refueling exercise at Camp Lejeune, N.C., March 10, 2020.

Photo By: Marine Corps Lance Cpl. Reine Whitaker

ABOUT THE AGENCY FINANCIAL REPORT

The Defense Logistics Agency (DLA) General Fund (GF) Agency Financial Report (AFR) provides financial and summary performance results enabling the President, Congress, and the American people to assess its accomplishments, and to understand its financial results and operational functions. The AFR consists of DLA GF financial statements and other reports. The principal financial statements[1] have been prepared to report the financial position and results of DLA GF's operations. The principal financial statements and accompanying notes have been prepared from the books and records of DLA GF using guidance from the following applicable laws and regulations for which DLA GF is unable to provide assurance:

- **Federal Managers' Financial Integrity Act (FMFIA) of 1982;**
- **Chief Financial Officers (CFO) Act of 1990;**
- **Government Management Reform Act (GMRA) of 1994;**
- **Federal Financial Management Improvement Act (FFMIA) of 1996;**
- **Government Performance and Results Act (GPRA) Modernization Act of 2010;**
- **Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012;**
- **Fraud Reduction and Data Analytics Act (FRDAA) of 2015;**
- **Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, as amended*;***
- **OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control; and***
- **OMB Circular A-11, *Preparation, Submission, and Execution of the Budget.***

All information within this report pertains to DLA GF unless specifically noted otherwise. DLA GF's financial results are unaudited because there are limitations to the underlying processes and internal controls that support the principal financial statements. DLA GF continues to implement processes and system improvements addressing these limitations. The AFR consists of three primary sections:

Management's Discussion and Analysis (Unaudited)

This section provides a high-level overview of DLA GF, including DLA's history at a glance, mission, and organizational structure; DLA GF's overall performance related to its strategic goals and primary objectives; financial analysis; management's assurance on internal controls; system analysis; compliance with laws and regulations; and forward-looking information.

Financial Section (Unaudited)

This section contains a message from the CFO; audit reports; management's response to the audit reports; financial statements and the accompanying notes; as well as Required Supplementary Information (RSI).

Other Information (Unaudited)

This section details DLA GF's compliance with, and commitment to, specific regulations. It includes performance and management analyses, recommendations, fraud reduction reporting, and payment integrity reporting.

[1] Refer to the Financial Section Introduction for definition of principal financial statements.

FY2020
General Fund
Agency Financial Report

MASS FORMATION

Two Air Force F-35A Lightning IIs, two F-16 Fighting Falcons and two F-22 Raptors fly alongside one another in Alaska, May 5, 2020, as part of a mass formation flight.

Photo Credit: Air Force Tech. Sgt. Jerilyn Quintanilla

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The AFR is available on the DLA website at:
www.dla.mil/HQ/Finance/Offers/FinancialReports/

MESSAGE FROM THE DIRECTOR

On behalf of the Defense Logistics Agency (DLA), I am pleased to present the Fiscal Year (FY) 2020 Agency Financial Report. This is DLA's 59th year of existence and throughout our proud history we have always successfully responded in support of the Nation's and the Department's end to end logistics requirements. In FY2020, DLA continued to support relief efforts for natural disasters, such as wildfires that destroyed 11 million acres of land and a record number of hurricanes and tropical storms. DLA also awarded 21,000 contract actions with obligations of over $2 billion to assist the Department's and other Federal Agencies response to the Coronavirus-19 (COVID-19) pandemic. This report provides a summary of our programs, accomplishments, challenges, and stewardship of the resources entrusted to us by the American Public and our partner Agencies. As responsible stewards of taxpayer dollars, DLA works relentlessly to efficiently and effectively serve the Warfighter and our partners as they accomplish their respective missions.

I am honored to be DLA's 20th Director, and my charge is to continue finding the right solutions to meet the needs of our combatant command, the Services and our Nation. We are postured to continuously learn and grow as an organization while we maintain our passion to find effective solutions. At DLA, our key mission is supporting the Warfighter and providing effective logistics support to the operating forces of our Military Services at the lowest possible cost to the taxpayer. To accomplish our goals of delivering world-class support to the Warfighter and maintaining accountability, the Agency has devoted itself to the following five Lines of Effort, two Critical Capabilities and three Cross-Cutting Efforts:

► LINES OF EFFORT

- » **Warfighter Always:** Strengthen Service and Combatant Command Readiness and Lethality
- » **Global Posture:** Prepared for Immediate Action
- » **Strong Partnerships:** Leverage the Joint Logistics Enterprise, Interagency, Industry, and Partner and Allied Nations
- » **Whole of Government:** Support to the Nation
- » **Always Accountable:** Assured Supply Chain, Financial and Process Excellence

► CRITICAL CAPABILITIES

- » **Enterprise Enablers:** Innovation, Data Management, Technology, and Cybersecurity
- » **People and Culture:** The heart of everything we do. If you take care of your people, the mission will happen

► CROSS-CUTTING EFFORTS

- » **Auditability:** Is everyone's responsibility
- » **DoD Reforms:** Gain efficiencies and maximize savings
- » **Supply Chain Security:** Strengthening operational resilience

AS WE LOOK FORWARD, DLA WILL CONTINUE TO COMMIT RESOURCES AND MANAGE THE GLOBAL SUPPLY CHAIN – FROM RAW MATERIALS TO END USER TO DISPOSITION – FOR THE ARMY, NAVY, AIR FORCE, MARINE CORPS, COAST GUARD, COMBATANT COMMANDS, OTHER FEDERAL AGENCIES, AND PARTNER AND ALLIED NATIONS.

This year, our Independent Public Accounting (IPA) firm, Ernst and Young, LLP, issued a Disclaimer of Opinion on DLA's General Fund (GF) Financial Statement. Information obtained through this effort will be extremely valuable in our on-going efforts to improve all aspects of DLA GF operations. The IPA reported material weaknesses in key areas involving policies and procedures, critical asset accounting procedures, financial information systems and reporting, and completeness of records. DLA also continues to identify material weaknesses in the same areas.

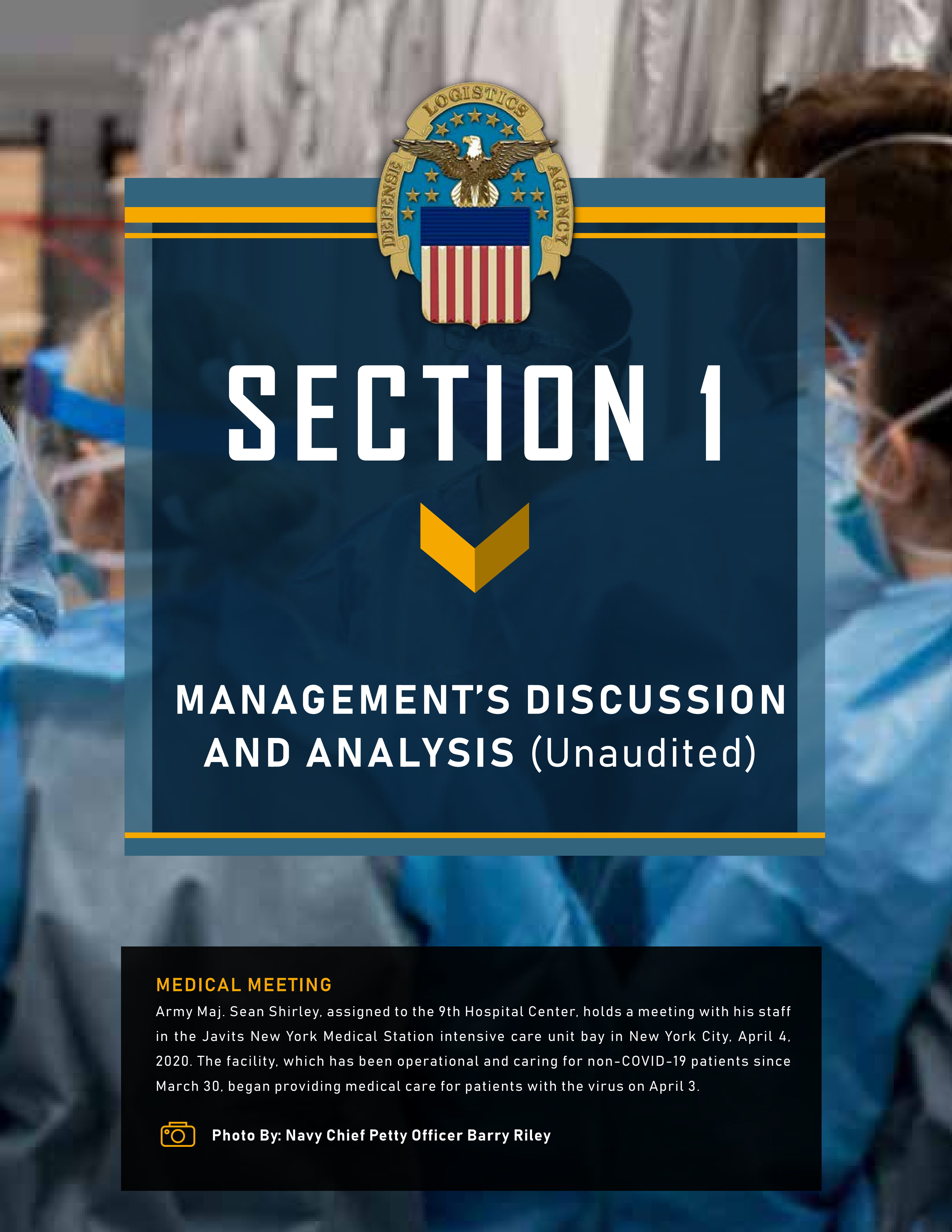
With the establishment of the DLA Enterprise Risk Management (ERM) Program Office in late FY2019 the Agency began implementation and execution of the Risk and Internal Control Program. In FY2020, the ERM Program Office focused their efforts across DLA in building the foundational tenets for managing risk and internal controls by developing an ERM framework, establishing DLA's Risk Appetite Statement and identifying the top critical risks for the Agency.

The DLA is focusing on reviewing the audit results, identifying root causes of conditions, prioritizing resources, and developing corrective action plans to fix the conditions associated with identified material weaknesses. As DLA looks toward the future, efforts will focus on reengineering end to end processes, identifying risks, designing and testing controls, and prioritizing remediation efforts. In addition, DLA is reviewing all aspects of OMB Circulars A-123, Management's Responsibility for Enterprise Risk Management and Internal Control and A-136, Financial Reporting Requirements to incorporate necessary Enterprise-wide operational and financial reporting process changes that will ensure that our financial statements are accurate and reliable.

In the future, DLA will continue to resource and manage the global supply chain – from raw materials to end user to disposition – for the Army, Navy, Air Force, Marine Corps, Coast Guard, combatant commands, other Federal Agencies, and partner and allied nations. With our agile and professional workforce as our foundation, we will continue to be the Nation's Combat Logistics Support Agency. WARFIGHTER ALWAYS!

M. C. SKUBIC
VADM, SC, USN
Director

SECTION 1 | MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)



SECTION 1

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

MEDICAL MEETING

Army Maj. Sean Shirley, assigned to the 9th Hospital Center, holds a meeting with his staff in the Javits New York Medical Station intensive care unit bay in New York City, April 4, 2020. The facility, which has been operational and caring for non-COVID-19 patients since March 30, began providing medical care for patients with the virus on April 3.

Photo By: Navy Chief Petty Officer Barry Riley

IN THIS SECTION

SECTION 1
Management's Discussion and Analysis (Unaudited)

Air Force Readiness Briefing

Brian Johnson, front left, deputy director, Propulsion Directorate, Air Force Life Cycle Management Center and Chris Davis, middle right, director, Strategic Acquisition Programs Directorate, DLA Aviation and their staffs, brief DLA Aviation's Deputy Commander Charlie Lili, head of table, and Acquisition Executive Cathy Contreras, right, Jan 28, 2020, at Defense Supply Center Richmond, Virginia. The briefing focused on progress toward DLA Aviation, Air Force, and General Electric's proposal to improve Air Force readiness by attempting to add an aircraft part that would be produced via additive manufacturing techniques as a subsumable contract under the existing DLA Aviation and GE Captions of Industry Contract and have it certified as airworthy. **Photo By: Jackie Roberts**

MISSION AND ORGANIZATIONAL STRUCTURE

DLA's History at a Glance

The origins of DLA date back to World War II when America's huge military buildup required the rapid procurement of vast amounts of munitions and supplies. After the war, a commission headed by former President Herbert Hoover recommended the central management of common military supplies and services. Integrated management began in 1958 with a joint Army-Navy-Air Force Support Center and continued a few years later when the Department of Defense (DoD) assigned the department-wide management of certain commodities to individual services. Thus, the Army became the military's sole buyer of food and clothing; the Navy managed medical supplies, petroleum, and industrial parts for all the services; and only the Air Force purchased electronic items.

Although centralizing wholesale stocks, this "single manager" system did not provide the uniform methods recommended by the Hoover Commission. Each single manager operated under the procedures of its parent service, and customers had to use as many sets of procedures as there were managers. On October 1, 1961, Secretary of Defense Robert McNamara eliminated this complexity by consolidating single-managers into one Agency. Called the Defense Supply Agency (DSA), this new organization began operations on January 1, 1962. Employing fewer people than the single managers and keeping less inventory in its warehouses, DSA immediately began to save the government money.

DSA grew substantially in 1965 when the Office of the Secretary of Defense (OSD) consolidated contract management functions under its Headquarters (HQ). Through its Defense Contract Administration Services (DCAS), DSA oversaw the performance of most of the Nation's defense contractors.

After its success in providing supplies to forces in Southeast Asia, DSA began receiving provisioning responsibilities Outside the Continental United States (OCONUS). In 1972, it assumed the responsibility for overseas property disposal and the worldwide procurement, management, and distribution of coal and bulk petroleum. In 1973, it began providing food for mess halls and commissaries.

The Federal government continued to recognize DSA's accomplishments by giving DSA new authorities and missions. On January 1, 1977, DoD changed DSA's name to the Defense Logistics Agency. Less than a decade later, Congress identified DLA as a Combat Support Agency in the Goldwater-Nichols Act of 1986. In 1988, DLA (also referred to as the Agency) assumed management of the Nation's strategic materials from the General Services Administration (GSA). Two years later, DoD consolidated virtually all contract administration functions within DLA. In response, the Agency elevated the DCAS to a command: the Defense Contract Management Command.

School Supplies

A soldier helps distribute school supplies to children in Kaedi, Mauritania, February 19, 2020, during Flintlock. The annual integrated military and law enforcement exercise is focused on strengthening key partner-nation forces throughout North and West Africa. **Photo By: Army Cpl. Kevin Payne**

The DLA continued to undergo major reorganizations in the 1990's. In April 1990, DoD gave DLA the mission of overseeing the services' distribution depots. Eventually, this mission became the responsibility of DLA Distribution. In March 1993, the Agency reengineered its HQ so that only six organizations, rather than 42, reported directly to the Director. As a result of Base Realignment and Closure (BRAC) 88, DLA moved its HQ from Cameron Station, VA, to Fort Belvoir, VA, in 1995. As a result of BRAC 93, it merged its Defense Electronic Supply Center in Dayton, OH, with its Defense Construction Supply Center in Columbus, OH. It called the consolidated center Defense Supply Center Columbus. As part of the same BRAC, the Defense Personnel Supply Center moved from southern Philadelphia to co-locate with the Defense Industrial Supply Center in northern Philadelphia. Finally, Defense Printing Services, renamed Defense Automated Printing Service, transferred to DLA in October 1996.

As the new millennium began, DLA rose to meet new challenges. In 2001, the Agency renamed its HQ for United States (U.S.) Army Lt. Gen. Andrew T. McNamara, its first director. DLA responded rapidly to the terrorist attacks on the U.S. homeland later that year, providing outstanding logistical support to multiple commands in Operation ENDURING FREEDOM. Beginning in 2001, DLA processed more than 6.8 million requisitions with a total value of more than $6.9 billion, provided $21.2 million in humanitarian support, and supplied more than 2.3 billion U.S. gallons of fuel to support that conflict. To support Operation IRAQI FREEDOM, DLA processed 6.4 million requisitions worth more than $6.89 billion, provided more than 180.5 million field meals, supplied nearly 2 million humanitarian daily rations, and sourced more than 3 billion U.S. gallons of fuel. During retrograde operations, the Agency continued to supply 100 percent of food, fuel, and medical supplies for the remaining forces, as well as most of their clothing, construction materials, and spare parts.

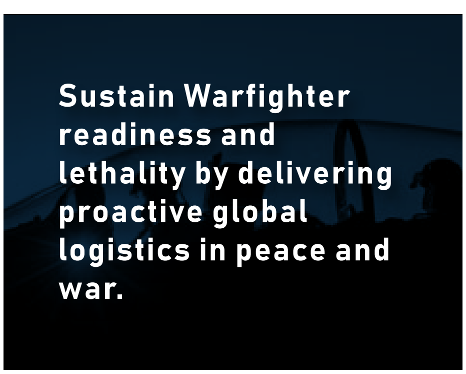
In addition to its operational support, DLA provided logistical aid for humanitarian and relief missions. In October-November 2012, it offered unprecedented support in the wake of Hurricane Sandy. In September 2014, it helped the U.S. Agency for International Development combat the deadly Ebola virus in West Africa. More recently, DLA delivered disaster relief to Haiti and the Southeastern U.S.; sustained Iraqi and Syrian refugees; helped the U.S. Forest Service fight fires; and provided resources to secure the Nation's southern border.

As DLA approaches its 60th anniversary, it continues to provide logistics, acquisition, and technical services to DoD components (including the U.S. Army, Navy, and Air Force), other Federal Agencies, and public entities. Wherever the U.S. goes, DLA is there.

Mission, Vision, and Values

The DLA's mission, vision, and values are integral parts of the Agency which are represented through its efforts and impact around the world.

MISSION



VISION

VALUES

What DLA Does

Vehicle Check

Marine Corps Lance Cpl. Haleigh Rankin, left, assigned to Headquarters Company, Headquarters Battalion, 3rd Marine Division, speaks to another Marine during final checks on vehicles at Camp Courtney, Okinawa, Japan, April 17, 2020. The 3rd Marine Division continues to maintain its readiness by implementing control measures to preserve the health of the force. **Photo By: Marine Corps Cpl. Savannah Mesimer**

The DLA reports to the Office of the Under Secretary of Defense (OUSD) for Acquisition and Sustainment through the Assistant Secretary of Defense for Sustainment. As the Nation's Combat Logistics Support Agency, DLA manages the global supply chain – from raw materials to end user to disposition – for the components of the DoD (including the U.S. Army, Navy, and Air Force), other Federal Agencies, and public entities. DLA sources and provides nearly all the consumable items America's military forces need to operate, from food, fuel and energy to uniforms, medical supplies, and construction material. DLA provides support around the clock and around the world to meet the needs of America's Armed Forces and other designated customers in times of peace, National Emergency, and war. DLA supports DoD objectives and missions with involvement in the full range of military operations from participation with multi-national forces engaged in large-scale combat operations, weapons and spares provisions, peacekeeping efforts, and emergency support to humanitarian assistance.

The DLA GF employs approximately 420 civilian personnel, whose labor is paid from DLA GF.

The National Defense Authorization Act (NDAA) is the U.S. Federal law specifying annual budget and expenditures of the DoD.

How DLA GF Accomplishes its Mission

There are five major activities within DLA GF. DLA GF receives appropriations under the Agency identifier code for the Office of the OUSD (Treasury Index (TI)-97), along with Other Defense Organizations (ODOs). OUSD (Comptroller) (OUSD(C)) uses a data element referred to as a 'limit' to identify the various ODOs under TI-97. Defense-wide (DW) appropriations allotted to DLA GF include: (1) Operation and Maintenance (O&M), (2) Procurement Defense-wide (PDW), (3) Research, Development, Test and Evaluation (RDT&E), (4) Military Construction (MILCON), and (5) Family Housing O&M. The appropriations provide the funding to incur obligations and to pay for goods and services. DLA GF sub-allots RDT&E and MILCON funding to other DoD organizations (i.e., Defense Microelectronics Activity (DMEA), U.S. Army Corps of Engineers (USACE) and U.S. Naval Facilities Engineering Command (NAVFAC). DLA GF is responsible for reporting sub-allottee balances in the DLA GF AFR.

Operation and Maintenance (O&M)

O&M funds have an availability period of one year. DLA GF uses appropriations to support the sustainment of ongoing mission support initiatives at the Agency level and department wide. The O&M appropriation continues the path to achieving full spectrum readiness and advances DoD's multi-pronged, multi-year approach to build a more lethal and ready force with targeted investments in training, equipment, industrial readiness, microcircuit emulation, soldier and family programs. In FY2020 and FY2019, O&M was appropriated a total of $416.0 million and $376.0 million, respectively.

Procurement Defense – Wide (PDW)

PDW funds have an availability period of three years. As the Nation's Combat Logistics Support Agency, DLA procures, manages, stores, and distributes items the components of the DoD (including the U.S. Army, Navy, and Air Force) needs to operate. Commodities include everything from maritime and land weapons systems support to medical supplies. DoD uses the appropriations to obtain various categories of material, such as, new military hardware, aircraft, armored vehicles, and other major equipment; upgrades to existing equipment, including extending service life or remanufacturing existing systems; weapons and ammunition, ranging from air-to-air missiles to rounds for individual rifles; and spare parts, particularly those that are centrally managed. In FY2020 and FY2019, PDW was appropriated a total of $8.5 million and $6.6 million, respectively.

Research, Development, Test & Evaluation (RDT&E)

RDT&E funds have an availability period of two years. To maintain technological superiority on the battlefield, DoD relies on scientific and technical knowledge developed in large measure through RDT&E. DLA's RDT&E funding is appropriated in Title IV Research, Development, Test and Evaluation. DLA's Research & Development (R&D) is a program funded by the RDT&E appropriation that enables supply-chain innovation that directly supports the Warfighter. The program's goal is to deliver innovative and responsive solutions to the Warfighters and other valued customers. In FY2020 and FY2019, RDT&E was appropriated a total of $318.0 million and $337.3 million, respectively.

Family Housing (O&M, Defense-Wide)

Family Housing funds have an availability period of one year. The Family Housing appropriations encompass Military Family Housing (MFH) authorized by law to meet the requirements of the DoD and include all DoD Component family housing, leases of real property utilized by DoD Components for family housing, and associated family housing support services. DLA GF did not receive Family Housing appropriations in FY2020 as DLA GF has divested all of its Family Housing units. Due to the size and materiality of Family Housing, DLA GF combined the Family Housing program with MILCON in its Statements of Net Cost for presentation and reporting purposes.

Military Construction (MILCON)

MILCON funds have an availability period of five years. MILCON appropriations are provided to construction agents. The three main funding categories include: (1) planning for design for the initial engineering phase of developing and scoping of all MILCON projects; (2) major construction to replace or renovate DoD Fuels, Distribution, and Inventory Control Point Facilities around the world; and (3) unspecified minor construction to address lower dollar add-on/related smaller projects, which emerge as new requirements during the major construction process, and weren't included in the original scope of the major construction projects. In FY2020 and FY2019, MILCON was appropriated a total of $353.6 million and $189.1 million, respectively. DLA's funds are primarily sub-allotted to USACE and NAVFAC for execution. Due to the long term nature of construction projects, MILCON funds are held by DLA GF and released to sub-allottees on a scheduled basis based on the project phase and related funding categories. In FY2020 and FY2019, USACE was sub-allotted a total of $137.4 million and $148.2 million, respectively. In FY2020 and FY2019, NAVFAC was sub-allotted a total of $0.0 million and $21.5 million, respectively.

Ongoing projects include fuel hydrant systems encompassing entire aircraft parking ramps, operations and HQ facilities, and retail gas stations.

Organizational Chart

Below is DLA's organizational chart. Appendix B contains further explanation of the Staff Directors and Field Activity Commanders (J/D) Codes.

Figure 1: DLA Organizational Chart

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS

The DLA has established performance assessments of its programs for purposes of assessing Agency performance and improvement, based on the GPRA Modernization Act of 2010. DoD produces an Annual Performance Report (APR) for all its components (including DLA GF) and will include its FY2020 APR with its FY2022 Congressional Budget Justification. The APR is located at: https://cmo.defense.gov/Publications/Annual-Performance-Plan-and-Performance-Report/.

The Performance Goals, Objectives, and Results within this section are aligned to DLA's 2018-2026 Strategic Plan and provides a summary of DLA's five Lines of Effort (LOEs), two Critical Capabilities (CCs) and three Cross-Cutting Efforts (CCEs). These goal-oriented objectives and forward-looking initiatives are designed to strengthen DLA's efforts in sustaining Warfighter readiness and the Nation's responsiveness as described:

Lines of Effort: A mechanism to link multiple goal-oriented objectives that focus efforts toward establishing operational and strategic conditions.

Critical Capabilities: A means that is considered a crucial enabler for a center of gravity to function as such and is essential to the accomplishment of the specified or assumed objective(s).

Cross Cutting Efforts: Efforts that support, impact or significantly influence more than one LOE. Identified to ensure deliberate consideration, greater coordination and synchronization during planning and execution, both within and external to DLA.

The key initiatives that have specific Director's emphasis in DLA's Strategic Plan for 2018-2026 are shown in the LOEs and CCs below.

Figure 2: Lines of Effort and Critical Capabilities

The LOEs, CCEs, CCs and objectives in the section below are derived from DLA's 2018-2026 Strategic Plan; however, there are specific objectives and key performance measures that are applicable to DLA GF and have been identified accordingly below.

LOE 1 WARFIGHTER FIRST

The DLA's number one priority, Warfighter First, is sustaining the full range of military operations in an increasingly complex global environment.

Warfighter First Objectives

1.1 Nuclear Enterprise
1.2 Readiness and Lethality
1.3 Address Risk
1.4 Predictive Technology
1.5 Warfighter Trust
1.6 Space Enterprise
1.7 Support to DoD Reform
1.8 Demand Projections

Objective 1.2: Readiness and Lethality

Link performance to service and Combatant Command (CCMD) readiness and lethality. DLA must be ready to support Warfighters engaged in any possible operation while achieving the efficiencies the Nation and customers expect. DLA will prioritize wargame and exercise participation, training, and realistic logistics scenarios that ensure DLA validates the Concepts of Operations.

Objective 1.4: Predictive Technology

Anticipate and position solutions for Warfighter requirements by combining big data, predictive analytics, automation, artificial intelligence, sustained supply chain visibility, and continuous communication.

Through employment of trend analysis and predictive algorithms, DLA is able to consistently predict and position the right logistics solution on time, every time.

Objective 1.5: Warfighter Trust

Continually earn the Warfighter's trust as the Nation's Combat Logistics Provider. DLA will make it fast and easy for Warfighters to work with DLA by quickly understanding the customers' current requirements and anticipating their future needs.

Objective 1.8: Demand Projections

Working collaboratively with DLA's service, Whole of Government and Industry partners, DLA will improve projections and reduce demand planning errors to increase service readiness and the buying power for DoD and supported Federal Agencies.

LOE 2 GLOBAL POSTURE

The DLA's logistics presence and posture must enable the Nation's ability to protect its global interests. The speed and complexity of global crises require resilient networks, robust partnerships, and quickly integrated teams. DLA will position resources for rapid use, build more deployable capabilities, and strengthen the partnerships using integrated logistics and contracting services.

Global Posture Objectives

2.1 Strategic Positioning
2.2 Single Point of Entry
2.3 Expeditionary Capabilities
2.4 Expanded Solutions
2.5 Joint Reserve Force

Objective 2.1: Strategic Positioning

Strategically position DLA capabilities where the Warfighter needs them most. DLA supports service members around the world by providing comprehensive logistics support and services, even in the most austere environments.

LOE 3 STRONG PARTNERSHIPS

Mission accomplishment requires close collaboration and strong relationships with critical stakeholders: the Joint Logistics Enterprise (JLEnt), other government partners, suppliers, and allies. DLA must sustain partnerships and synchronize efforts with these entities to help DoD and the Nation address immediate needs and long-term challenges.

Strong Partnerships Objectives

3.1 Joint Logistics Enterprise Partnerships
3.2 DoD Interagency Partnerships
3.3 Industry Partnerships
3.4 Public Engagement

Objective 3.1: Joint Logistics Enterprise Partnerships

Partner across the JLEnt to improve support for current and emerging requirements. Basing the efforts in Joint Publication 4.0, DLA will strengthen partnerships through engagement with JLEnt entities and cooperatively facilitate progress toward mutual goals, objectives, and expectations of the partners.

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Objective 3.3: Industry Partnerships

Work with industry to ensure a capable defense industrial base, generate innovative and efficient solutions, and maintain a secure and resilient supply chain. By building on DLA's strong relationships with industry partners, DLA will deliver cost-effective, innovative solutions. DLA's supplier engagement plan will guide DLA. DLA will continuously assess the strength of our industrial capabilities and develop responses to vulnerabilities, reduce single points of failure and implement best practices.

LOE 4 WHOLE OF GOVERNMENT

The DLA's global network and expertise in supply chain management can improve efficiency and increase effectiveness of the Whole of Government partners. Collaboration ensures a healthy, viable base of suppliers able to surge when needed. Working alongside these Whole of Government partners in domestic and international operations, DoD and DLA strengthen the ability to serve National interests.

Whole of Government Objectives

4.1 Crisis Response
4.2 Provider of Choice
4.3 Expand Support to Federal Agencies

Objective 4.3: Expand Support to Federal Agencies

Support interagency and DoD reform initiatives. DLA's core competencies can offer the most cost-effective, efficient solutions to DLA's Whole of Government partners. DLA will assess other Agencies' solutions for their value to the government and adopt solutions that enhance DLA's Warfighter support. DLA will actively participate in Federal initiatives to eliminate duplication, capitalize on economies of scale and create additional category management opportunities for the DoD.

LOE 5 ALWAYS ACCOUNTABLE

Trust and confidence in DLA is born from ethical behavior, reliability, and transparency. Cost-consciousness, auditability, innovation, risk assessment and mitigation, and sound business processes are the foundation of this trust. DLA holds partners and suppliers to the same high standards.

Always Accountable Objectives

5.1 Cost Consciousness
5.2 Auditability
5.3 Value Innovation
5.4 Mitigate Risks
5.5 Transfer Cost Structure to Reduce Rates and Improve Transparency

Objective 5.1: Cost Consciousness

Reinforce a cost-conscious and process-oriented culture to ensure efficient, effective and reliable operations. We promote a cost-conscious culture through stewardship and informed investment decisions using sound business acumen. We will create and refine our business processes, emphasizing cybersecurity, supply chain management and improved supply availability. We will work together to ensure interoperability across business systems and share process improvements across the enterprise and with government and industry partners.

Objective 5.2: Auditability

Attain and sustain auditability through process excellence and sound financial stewardship. DLA will achieve an unmodified financial statement audit opinion using thoroughly documented processes, automated tools and general controls that are secure and compliant. DLA will continue to document, evolve and test processes to ensure DLA implements corrective actions and address deficiencies.

Objective 5.3: Value Innovation

Innovate to achieve best-value logistics solutions. DLA always seeks opportunities to improve through process management and research and development. DLA works across the JLEnt to be more agile, adaptable and responsive to customer requirements. We are a change agent for logistics excellence in support of the Nation's strategic security objectives.

Objective 5.4: Mitigate Risks

Strengthen risk management to ensure secure, agile and resilient combat logistics support. DLA thoroughly manages risks associated with alternatives to deliver world-class logistics support. We must pay special attention to cyber risks and data integrity across the entire supply chain.

CCE 1 AUDITABILITY

Auditability is a cross-cutting effort and is everyone's responsibility from the Director down to the warehouse worker and across the enterprise as a whole. The audit requires full engagement to understand our operations, adequately document processes, implement strong internal controls and enhance Information Technology (IT) general controls. Audit sustainment will improve enterprise business operations, reduce cycle times, and ultimately maximize warfighter support. DLA will develop corrective action plans that address changes to the end-to-end processes that span across the enterprise, improving DLA's core business cycles.

CCE 2 DoD REFORMS

In response to the President's call for governmental reform and under the Direction of the Chief Management Officer, DoD is reviewing, changing and singling up processes, where appropriate to gain efficiencies and maximize savings to reinvest into Service readiness. To support this effort, DLA's central Reform Program Management Office coordinates with DoD reform teams and integrates reform efforts across the Agency.

CCE 3 SUPPLY CHAIN SECURITY

Supply Chain security is a cross-cutting effort to ensure DLA has the connections and communication in place to operate in a contested or degraded operational environment. Interruption of DLA supply chain operations compromises our Nation's ability to deliver combat power and execute critical missions. DLA's efforts are focused on maintaining the integrity and access to key data; engaging with valid and reputable vendors who produce quality supplies and services; and building resiliency and redundancy into processes and systems to ensure continuity of operations.

CC 1 ENTERPRISE ENABLERS

The DLA recognizes innovation, data management, technology and cybersecurity are intertwined. These four critical capabilities support DLA's LOEs and CCEs and are essential for DLA's workforce to accomplish strategic and operational objectives.

Enterprise Enablers Objectives

1. Innovation
2. Data Management
3. Technology
4. Cybersecurity

CC 2 PEOPLE AND CULTURE

The DLA will continue to attract, develop, engage and retain a diverse, highly skilled, mission-focused workforce, strengthen current and emerging workforce competencies, leverage and expand leadership programs, and foster an environment that unlocks the full potential of DLA employees in order to meet current and future mission demands.

People & Culture Objectives

1. Develop Leaders
2. Resource the Enterprise
3. Manage the Talent
4. Sustain our People
5. Fortify the Culture
6. Perform and Reward
7. Build Connections
8. Protect the Workforce

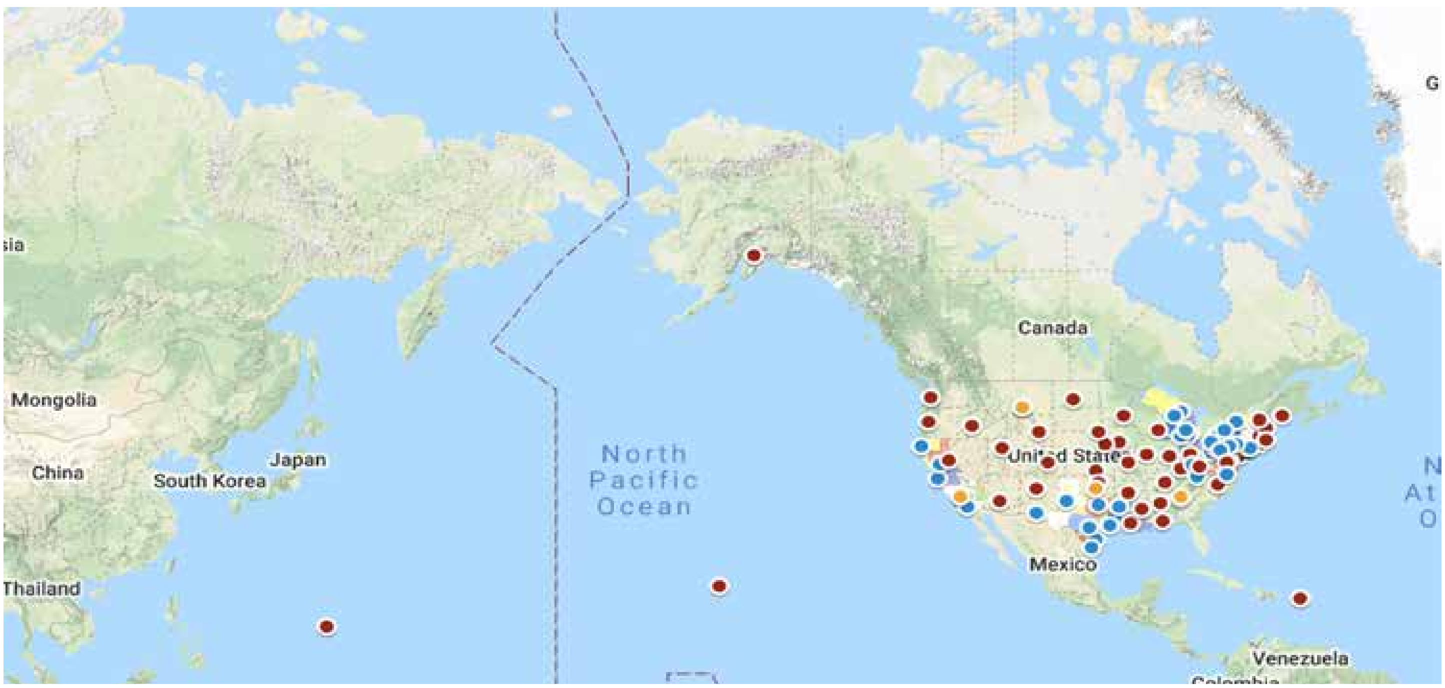
Performance Measures (Unaudited)

Procurement Technical Assistance Program

This performance measure relates to the objective described above:
3.1 Joint Logistics Enterprise Partnerships.

Within DLA, the Office of Small Business Programs (OSBP) is responsible for implementation of the Procurement Technical Assistance Program (PTAP) and executes cooperative agreements with eligible program participants to establish the Procurement Technical Assistance Centers (PTACs) that assist businesses in pursuing and performing under contracts with DoD, other Federal Agencies, and state and local governments. PTACs provide day-to-day assistance to businesses in the form of services such as helping prepare bids/proposals, marketing to potential buyers, setting up or improving quality assurance and accounting systems, complying with cybersecurity requirements, and resolving payment problems.

At the end of FY2020, there were PTACs assisting business in the U.S., Puerto Rico, Guam, the Commonwealth of the Northern Marianas, and in regions established by the Bureau of Indian Affairs of the U.S. Department of the Interior as displayed in Figure 3 below.



State-wide-PTACs
Regional county-wide PTACs
Bureau of Indian Affairs PTACs

Figure 3: PTAC presence across the U.S., Puerto Rico and Guam

Funding for the PTAP and for DLA's administration of the program is provided by an annual O&M appropriation.

In accordance with 10 USC Ch 142 for the PTAP cost sharing program, DLA pays up to 75.0% for the Federal share in distressed areas, and up to 60.0% for the Federal share in non-distressed areas. Distressed areas represent areas that have a per capita income of 80.0% or less than the state average; or an unemployment rate that is 1.0% greater than the National average for the most recent 24-month period.

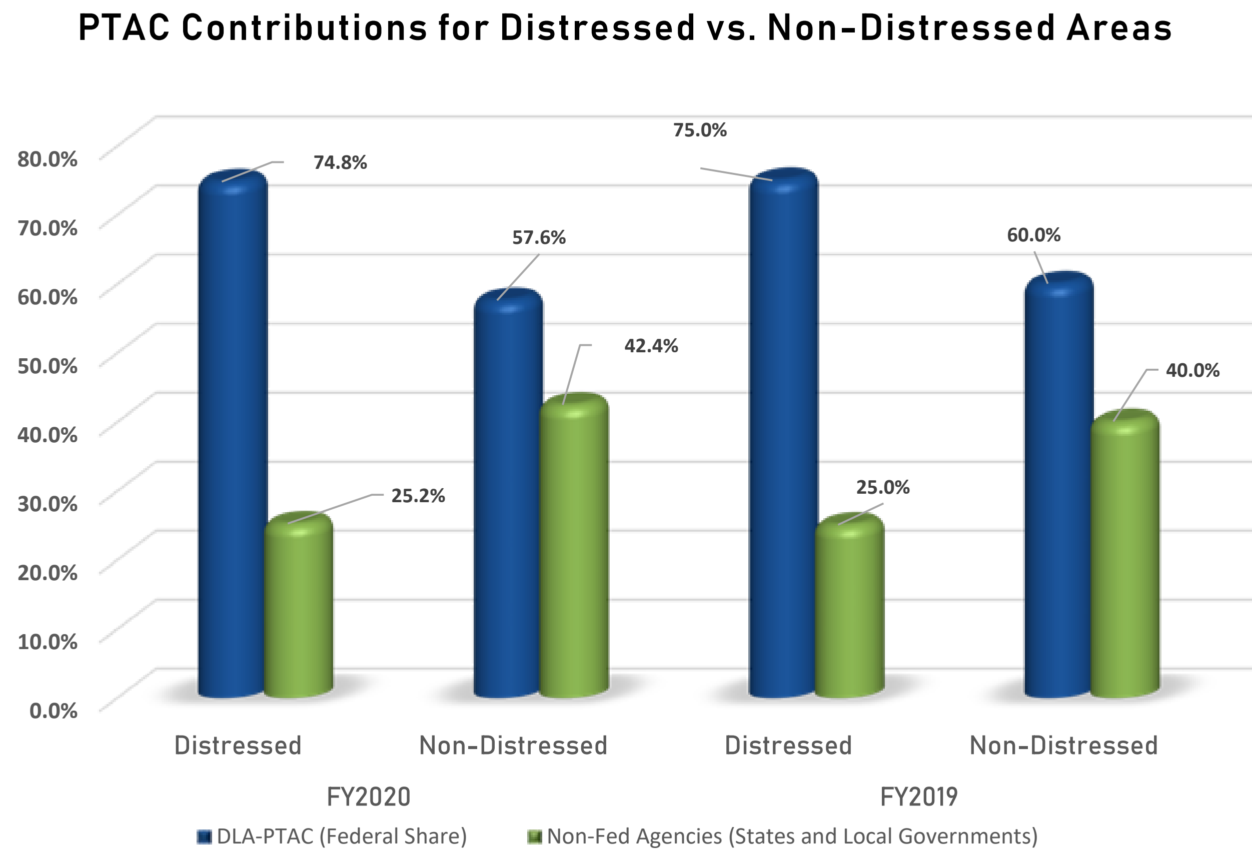


Figure 4: PTAC Contributions for Distressed vs. Non-distressed areas

Warstopper Program

This performance measure relates to the objective described above: **2.1** Strategic Positioning. The Warstopper Program performance metric is divided into three major industry based activity groups – Readiness Investments, Preservation of Capabilities/ Capacities, and Risk Analysis.

Readiness Investments

Readiness Investments in industry are made when the forecasted readiness demand is higher than the commercial industry is willing to invest. These types of investments can occur across all DLA Supply Chains. Additionally, DoD policy allows these industrial base measures to be used to offset War Reserve Material stocks and potentially avoid stock spoilage due to shelf-life expiration and changes to system configurations. Warstopper investments are like a catastrophe or disaster business insurance policy and deliver expedited products to our customers (i.e., Military Services) when triggered by an event (e.g., war, contingency, National Emergency or disaster).

Regular execution of these types of investments is essential to ensuring our customers, contracting officials and industry knows how to access the materials available during times of National Emergency.

Preservation of Capabilities/Capacities

The two major objectives are (1) preserving and/or (2) cold start of industrial base capabilities and capacities. The performance measure is based on the Warstopper Program's success in implementing the industrial base preservation initiatives. The applicable performance target is to successfully preserve identified capabilities and capacities.

A Warstopper investment is required to preserve an industrial base capability or capacity that would have closed but is needed for future readiness demand. Typically, this involves a Warstopper funded Industrial Base Maintenance Contract (IBMC), and as a last resort, a Minimum Sustaining Rate (MSR) contract. Currently, the program has two energy investments to maintain domestic capability for Dinitrogen Tetroxide (N2O4) and Hydrazine critical for military satellites.

The second type of preservation investment is a cold start of industrial base capabilities and/or capacities. These investments typically result from service life extension and/or reactivation of older weapon systems. The Warstopper Program has three cold start preservation investments: Tinker Bomber initiative (e.g., B-52 Bomber), Boeing Obsolescence and TF-33 Analysis Program.

Risk Analysis

Risk analysis and studies are used to determine the health of selected industries, as well as maintaining DLA industrial acquisition policies, assessing supplier reports on their ability to address surge and sustainment to meet readiness demand, and other program administrative duties.

The risk analysis program can be linked to objective 2.1, Strategic Positioning, as these analyses enable the DoD to be prepared, in the event of a potential threat to the security of the U.S., to take actions necessary to ensure the availability of adequate industrial resources and production capability, including services and critical technology for National defense requirements.

The main measure of performance is Level-1 Risk Assessment (RA) to determine and verify if an industrial base issue exists or not, and Level-2 RA (i.e., study) to assess the risk and identify any potential risk mitigation strategies (e.g., acquisition strategies, Warstopper investments). A Level-1 RA is typically less than 4-months and a Level-2 RA is greater than 4-months to complete.

Industrial Base Risk Analysis	
Analysis	Completed
Level -1	66
Level - 2	9

Figure 5: Industrial Base Risk Analysis Completed

Defense Agencies Initiative

This performance measure relates to the objectives described above: **4.3** Expand Support to Federal Agencies; **5.1** Cost Consciousness; **5.2** Auditability; **5.3** Value Innovation; and **5.4** Mitigate Risks.

The Defense Agencies Initiative (DAI) is a financial management system of nine integrated business processes as displayed in Figure 6 below. The system provides real time, web- based accessible capabilities for financial managers and other DoD employees to make sound business decisions in support of the Warfighter. Approximately 24 Defense Agencies use Defense Information Systems Agency (DISA), including Defense Contract Audit Agency (DCAA), Defense Information Services Agency (DISA), Defense Technical Information Agency (DTIA), and Defense Financial and Accounting Services (DFAS). The DAI program continually demands innovation to meet the current dynamic technological and operational environment. As a result, in addition to O&M funding, the program also receives sub-allotments through DLA GF RDT&E appropriations. In FY2020, DAI was allotted $65.2 million of O&M funds, which represents 15.4% of the total O&M appropriation of $422.1 million. In FY2020, DAI was allotted $23.1 million of RTD&E funds, which constitutes 7.3% of the RDT&E appropriation of $316.2 million. Due to the nature of the DAI program, DLA GF presents a combined performance measure for both RDT&E and O&M.

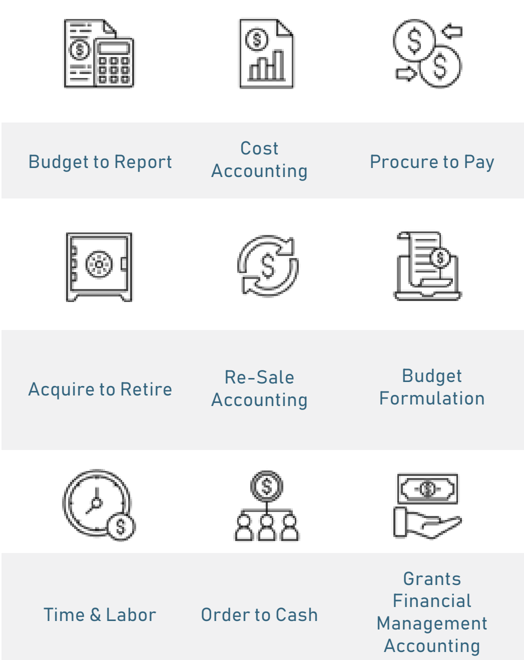


Figure 6: DAI's Nine Integrated Business Processes

For FY2020, DAI targeted to provide assurance that:

- DAI implements and executes an auditable financial management system to support customer organizations' financial end-to-end processes. DAI received an unmodified opinion in a System and Organization Controls Type 2 report for the period October 1, 2019 through June 30, 2020. (Targets O&M)
- DAI achieved system performance availability (% system is on line and available to end users) (98.0% objective (desired performance level) ; 95.0% threshold (minimum acceptable performance). As displayed in Figure 7, DAI 2020 system availability exceeded the objective. (Targets O&M and RDT&E)
- DAI deployed Global Model capabilities to the Defense Commissary Agency (DeCA), the Joint Chiefs of Staff (JCS) and the National Defense University (NDU) in accordance with its implementation plan. (Targets RDT&E)
- DAI interfaces have data integrity checks in place to ensure no loss or corruption of data during transmission,as well as no loss of interoperability across business systems (timeliness and accuracy of data transfers) (98.0% Objective. 95.0% threshold) (Targets O&M and RDT&E). As displayed in Figure 7, DAI 2020 system availability has been favorable.

DAI Operating Metrics		
	FY2020 Target	FY2020 Actual
System Availability	98.0%	100.0%
Timeliness and Accuracy of Data Transfers	98.0%	100.0%

Figure 7: DAI Operating Metrics

DMEA

This performance measure relates to the objectives described above: **1.4** Predictive Technology*,* **3.3** Industry Partnerships.

The DMEA uniquely accomplishes this mission for the Department by providing a guaranteed and trusted source of supply of microelectronics parts that are essential to combat operations. In addition, Defense Microelectronics Activity (DMEA) provides the rare technology and acquisition capabilities to develop, manage and implement innovative microelectronic solutions to enhance mission capability for customers across the department. DMEA provides decisive, quick turn solutions for defense, intelligence, special operations, cyber and combat missions, as well as microelectronic components that are unobtainable in the commercial market. DMEA accomplishes these missions by provision of internal engineering services and production of microelectronic parts, acquisition of microelectronic foundry production, accelerated acquisition of microelectronic development solutions in the defense industry, and through the development of a microelectronic manufacturing capability at DMEA.

DMEA assists hundreds of Department programs every year. DMEA has provided its specialized engineering assistance and capabilities to older systems, current systems, and even to programs not yet in the production phase. This includes the Counter-Rocket, Artillery, and Mortar System, F-18 Super Hornet, F-22 Raptor, F-35 Lightning II, B-52 Stratofortress, C-5 Galaxy, V-22 Osprey, RQ-4 Global Hawk, MQ-9 Reaper, AEGIS Advanced Surface Missile System, Advanced Medium-Range Air-to-Air Missile, HH-60G Pave Hawk Helicopter, MH-53E Super Stallion Heavy Lift Helicopter, Evolved Sea Sparrow Missile, Ohio class submarine fleet, Upgraded Early Warning Radar, among many other programs. DMEA assists the Combatant Commands (CCMDs) including Special Ops, Cyber, Intelligence, and the Radiation-Hard communities.

Manufacturing Technology Program

This performance measure relates to the objectives described above: **1.2** Readiness and Lethality; **1.4** Predictive Technology; and **3.3** Industry Partnerships.

The DLA ManTech program enables DLA to explore and develop innovative solutions to improve and modernize manufacturing processes directly aligned to the National Defense Strategy (NDS). The program aims to rebuild military readiness for a more lethal force and achieve reform through greater performance and affordability, predictive analytics and continuous communication.

In FY2020, the DLA ManTech program targeted 40.0% transition of R&D projects to implementation. DLA ManTech measures successful R&D project implementation by reducing material costs and lead time and improving quality of material, hard-to-source critical parts, and the sharing of information between Military Service needs and industry capabilities.

As of September 30, 2020, DLA ManTech achieved the following program results:

Advanced Microcircuit Emulation Program

- .35 Micron & Linear Process Development II: Developed 0.35 micron manufacturing and linear microcircuit processes to assure a source of supply for obsolete microcircuits for critical weapons systems.

Defense Logistics Information Research Program

- 3D Technical Data Solutions: Provided alternative of solutions to provide access to technical data from multiple proprietary sources to increase the ability of industry to respond to parts requirements; reviewed 3D technical data viewers that provide visibility of technical data from multiple proprietary sources to develop standard guidance the development of 3D Technical Data Packages across DoD (project on-going through FY2021).

Additive Manufacturing Program

- Creating 3D Technical Data Packages (TDPs) & ANTPQ-36 Fire Finder Waveguide: Advanced and demonstrated 3D Model-based technical data use in procurement for hard-to-source parts; produced hard-to-source waveguides for the AN/TPQ-36 Firefinder Radar to test for insertion to the supply system.

Subsistence Network Program Pulsed Plasma Treatment

- Pulsed Plasma Treatment provides Rapid Disinfection of Non-Invasive Ventilation Systems and PPE: Provided critical and rapid response for DLA COVID-19 pandemic support efforts, to include initiating a project to provide personal protective equipment systems capable of "between-patient" disinfection within 20 minutes (project on-going through FY2021).
- Identification of Critical Performance Properties for Meals Ready-to-Eat (MRE) & Horizontal Form Fill Seal (HFFS) / AmeriQual: Developed improvements to materials and manufacturing processes for MRE packaging material and overall food quality; developed new MRE meal bags that reduces packaging waste, reduce MRE weight, volume and cost.

The following table displays the DLA ManTech project efforts for FY2020; Transition performance for FY2020 was favorable to target at 80%.

Item	Strategic Focus Area	Project Description	Contract Amount ($ in millions)	Transition Status (Y/N)	Transition Date
1	Improving Industrial Base Manufacturing	Creating 3D TDPs: Enabling Digital Manufacturing for Hard to Source Parts (Deloitte)	$1.4	Y	04/18/2020
2	Maintaining Viable Supply Sources (MVSS)	0.35 micron Process Development II	$14.1	Y	04/07/2020
3	MVSS	Linear Process Development II	$14.1	Y	02/28/2020
4	Improving Technical Logistics Information (ITLI)	Legacy Technical Data Conversion Criteria	$0.1	Y	01/10/2020
5	Improving Industrial Base Manufacturing (IIBM)	Pulsed Plasma Treatment provides Rapid Disinfection of Non-Invasive Ventilation Systems and Personal Protective Equipment (PPE)	$1.0	N	N/A
6	IIBM	ANTPQ-36 Fire Finder Waveguide (Army C5ISR Ctr)	$0.1	Y	08/14/2020
7	IIBM	Identification of Critical Performance Properties for Barrier Materials in Hot Sauce Packaging for MREs - University of Massachusetts Lowell	$0.2	Y	09/01/2020
8	ITLI	3D Technical Data Solutions	$0.7	N	N/A
9	IIBM	Develop and test MRE meal bags with Horizontal Form Fill Seal (HFFS) / AmeriQual	$0.1	Y	09/27/2020
10	IIBM	In-Theater Casting for Stop Gap DoD Components Utilizing Desert Sand Printed Casting Molds (Army CCDC)	$15.0	Y	09/30/2020

Figure 8: ManTech R&D Projects and Transition Status

Military Construction

This performance measure relates to the objectives described above: **1.2** Readiness and Lethality and **1.5** Warfighter Trust.

The MILCON program provides funds for major construction to replace or renovate DoD fuel depots and Industrial Capabilities Program (ICP) facilities around the world. DLA sub-allots MILCON funds to USACE and NAVFAC, which are DLA's primary design and construction agents for the MILCON program. Projects include fuel hydrant systems encompassing entire aircraft parking ramps, over six hundred operations and HQ facilities, and retail gas stations.

In FY2020, the Facilities Modernization division within Installation Management brought 21 MILCON projects to completion. The total value of these projects was over $275.2 million. Projects ranged in scope from fuel hydrant systems encompassing entire aircraft parking ramps to a new ship refueling pier. Prices ranged from just over $559.4 thousand to $57.3 million. The following figures summarize completed DLA MILCON projects.

Completed DLA MILCON Projects

Top left: Naval Support Facility Diego Garcia Finished Facility Overview; Top right: Nellis Air Force Base Hydrant Fuel Pit; Bottom left: Commissioning the new Hydrant Fuel System at the Nellis Air Force Base; Bottom right: Inside the 1,800 gallon per minute pumphouse at the Dover Air Force Base.

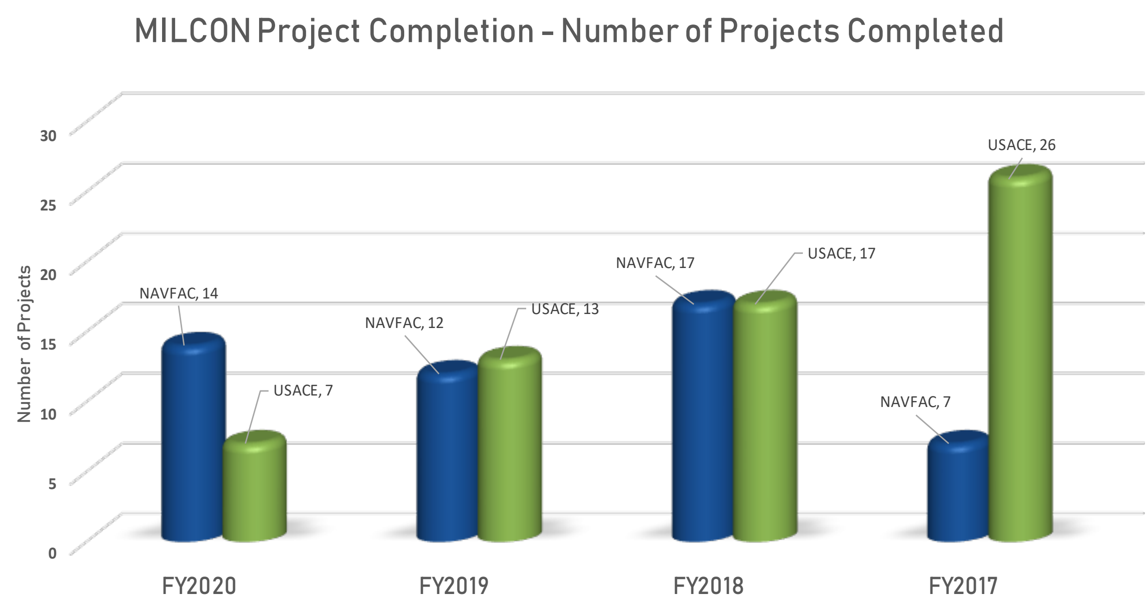


Figure 9: Completed DLA MILCON Projects by Year

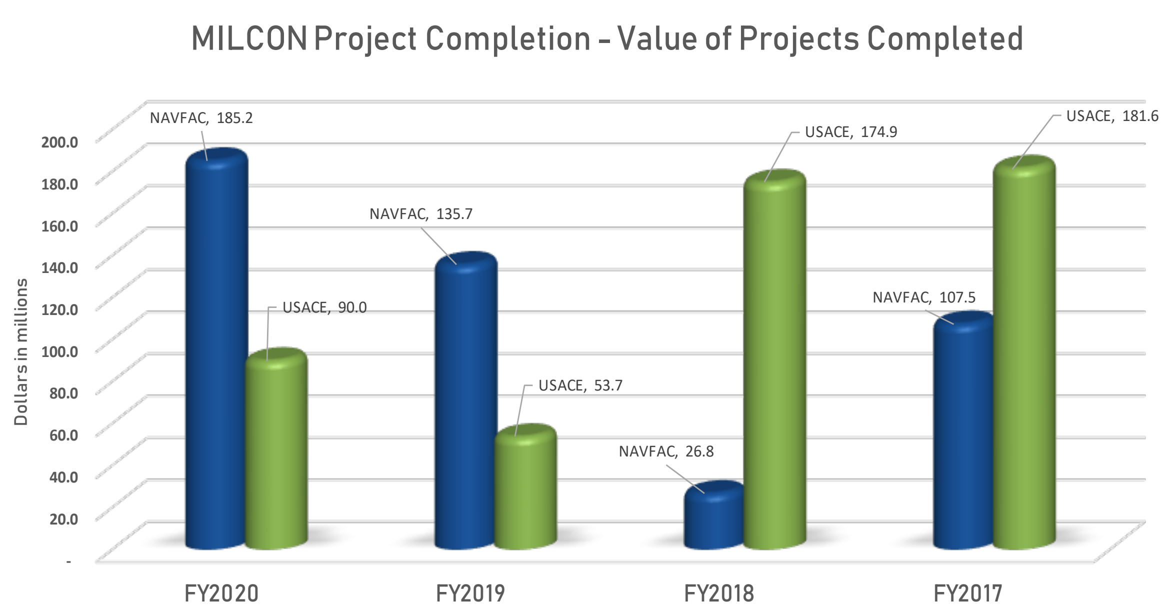


Figure 10: DLA MILCON Value of Completed Projects by Year

MILCON Projects Completed in FY2020					
FY (Authorized)	Project	Installation / Location Name	Country	Actual Completion Date	Construction Cost
2015	Replace Fuel Storage and Distribution Facilities	NAS Lemoore, CA	USA	Q4 2020	$57,308,776
2014	Construct Hydrant Fuel System	Iwakuni	Japan	Q3 2020	$37,871,588
2013	Replace Fuel Pier	GTMO	Cuba	Q2 2020	$33,685,354
2012	Replace Fuel Storage and Distribution Facility	Charleston AFB, SC	USA	Q2 2020	$26,756,769
2016	Correct Title Replace Fuel Pier and Distro Joint Base	Langley, VA	USA	Q3 2020	$24,430,880
2015	Replace Fuel Distribution Facilities	MCAS, Beaufort, SC	USA	Q2 2020	$20,803,543
2015	Replace Headquarters (Philadelphia, PA DET)	Philadelphia, PA	USA	Q4 2020	$10,865,643
2015	Upgrade Fire Suppression and Ventilation System	JB Pearl Harbor, HI	USA	Q3 2020	$10,698,617
2011	Replace Fuel Storage and Distribution Facilities	Andrews AFB, MD	USA	Q2 2020	$9,272,105
2016	Replace Hydrant Fuel System – NAFB	Nellis AFB, NV	USA	Q3 2020	$8,408,754
2013	Replace Reservoir	Defense Distribution Depot, PA	USA	Q2 2020	$6,782,510
2014	Upgrade Public Safety Facility	Susquehanna, PA	USA	Q4 2020	$6,725,684
2018	Pave Storage Yard Eglin AFB FL	Eglin AFB, FL	USA	Q2 2020	$4,504,811
2018	Alpha Pier Placement	Craney Island, VA	USA	Q3 2020	$4,000,698
2014	Alter Warehouse Space	JB Hickam, HI	USA	Q1 2020	$3,388,534
2014	Upgrade Administrative Space	JB Pearl Harbor, HI	USA	Q1 2020	$2,930,407
2018	Construct North Pier D Breasting Dolphin (Craney)	Craney Island, VA	USA	Q3 2020	$2,313,358
2013	Truck Unload Facility	MCAS Yuma, AZ	USA	Q2 2020	$1,726,665
2014	ECIP-PV System Dist Bldg 7983 Germersheim	Germersheim	Germany	Q1 2020	$1,270,309
All Other under $1M (2 Projects)				Various	$1,421,881
FY2020 Total					**$275,166,886**

Figure 11: Completed DLA MILCON Projects by Location

DLA Roadmap to Auditability

This performance measure relates to the objective described above: **5.2** Auditability.

Currently, DLA GF receives a disclaimer of opinion on its financial statements. DLA GF is striving to obtain an unmodified audit opinion from its IPA in the future. Since receiving a disclaimer of opinion each year from FY2017 through FY2020, DLA GF has taken a two track approach in resolving major impediments in efforts to strive for an unmodified audit opinion: (1) improving the reliability and fair presentation of financial data reported in the AFR by virtue of addressing Notice of Findings and Recommendations (NFRs); and (2) developing, improving, and refining the underlying end-to-end processes that support the preparation of the AFR by instilling sound fundamental practices in developing the AFR in accordance with OMB Circular A-136 financial reporting requirements, and the financial statements in accordance with U.S. Generally Accepted Accounting Principles (U.S GAAP).

Pacific Vanguard

Navy warships sail in formation with Australian, Korean and Japanese vessels during Pacific Vanguard in the Pacific Ocean, Sept. 14, 2020. The exercise is designed to improve multinational interoperability. **Photo By: Official Japan Maritime Self-Defense Force**

ANALYSIS OF FINANCIAL STATEMENTS AND STEWARDSHIP INFORMATION

This analysis presents a summary of DLA GF's financial position and results of operations, and addresses the relevance of major changes in the types and amounts of assets, liabilities, costs, revenues, obligations, and outlays.

The principal financial statements of DLA GF include the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Combined Statements of Budgetary Resources. These principal financial statements and accompanying notes are included in the Financial Section of this AFR.

Overview of Financial Position

Preparing DLA GF financial statements is a vital component of sound financial management and is intended to provide accurate, accountable, and reliable financial information that is useful for assessing performance, allocating resources, and for targeting areas for future programmatic emphasis. DLA GF's management is responsible for the integrity and objectivity of the financial information presented in the statements. DLA is dedicated in its pursuit of financial management excellence.

A summary of DLA GF changes in key financial measures for FY2020 and FY2019 is presented in the following Analysis of Key Financial Measures. The table represents the budgetary resources available, assets on hand to pay liabilities, and the corresponding net position. The net cost of operations is the gross costs of DLA GF five programs: O&M, PDW, RDT&E, Family Housing, and MILCON less earned revenue. Because of the materiality and nature of the program, DLA combines the Family Housing Program with MILCON for reporting purposes in the Statements of Net Cost. Budgetary resources are funds available for DLA GF to incur obligations to pay for goods and services prior to the cancellation of funds. The summary section also includes an explanation of significant changes for each DLA GF financial statement.

Flying Together

Marine Corps AV/8B Harriers prepare to refuel from a KC-130J Super Hercules over Kuwait, April 28, 2020. **Photo By: Marine Corps Sgt. Branden J. Bourque**

Changes In Key Financial Measures

As of and for the Years Ended September 30, 2020 and 2019 (dollars in millions)

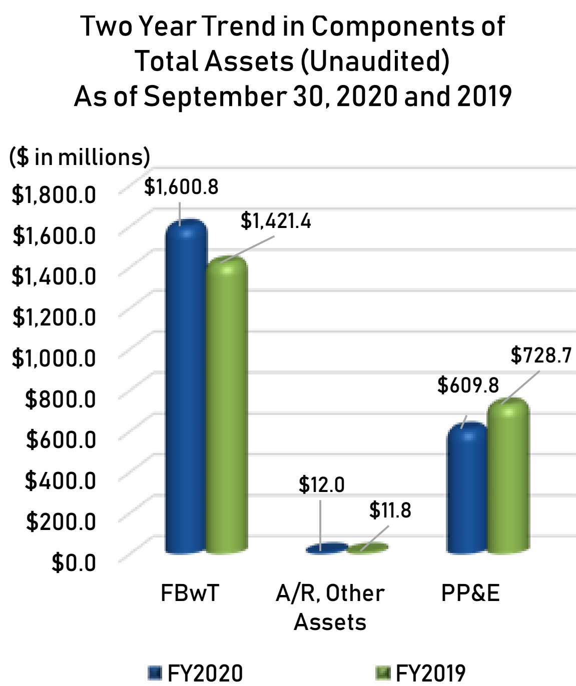
Net Financial Condition	FY2020 (Unaudited)	FY2019 (Unaudited)	Increase/Decrease $	Increase/Decrease %
Fund Balance with Treasury	$ 1,600.8	$ 1,421.4	$ 179.4	12.6%
Accounts Receivable and Other Assets	12.0	11.8	0.2	1.7%
General PP&E	609.8	728.7	(118.9)	(16.3%)
Total Assets	**$ 2,222.6**	**$ 2,161.9**	**$ 60.7**	**2.8%**
Accounts Payable	$ 55.3	$ 71.1	$ (15.8)	(22.2%)
Federal Employment Benefits and Other Liabilities	16.1	15.2	0.9	5.9%
Environmental and Disposal Liabilities	77.7	81.2	(3.5)	(4.3%)
Total Liabilities	**149.1**	**167.5**	**(18.4)**	**(11.0%)**
Unexpended Appropriations	1,563.5	1,361.0	202.5	14.9%
Cumulative Results of Operations	510.0	633.4	(123.4)	(19.5%)
Total Net Position	**2,073.5**	**1,994.4**	**79.1**	**4.0%**
Total Liabilities and Net Position	**$ 2,222.6**	**$ 2,161.9**	**$ 60.7**	**2.8%**
Net Cost of Operations	**$ 690.7**	**$ 701.9**	**$ (11.2)**	**(1.6%)**
Budgetary Resources	**$ 1,605.6**	**$ 1,543.8**	**$ 61.8**	**4.0%**

Figure 12: Changes In Key Financial Measures

Balance Sheets Summary

ASSETS – What DLA GF Owns and Manages

Assets represent amounts owned and managed by DLA GF that can be used to accomplish its mission as the Nation's Combat Logistics Support Agency. Fund Balance with Treasury (FBwT) is the largest DLA GF asset, which represents 72.0% of Total Assets at just over $1,600.8 million as of September 30, 2020. Compared to the September 30, 2019 balance, the increase of $179.4 million or 12.6% was primarily due to additional funding for MILCON projects; Petroleum, Oil, and Lubricants Facilities Replacement at General Mitchell Air National Guard Base. General Property, Plant and Equipment (PP&E), comprised of mostly construction-in-progress (CIP), represents $609.8 million or 27.5% of Total Assets. The decrease of $118.9 million or 16.3% from the September 30, 2019 balance was largely due to projects completed by Military Construction Agents and placed in service.



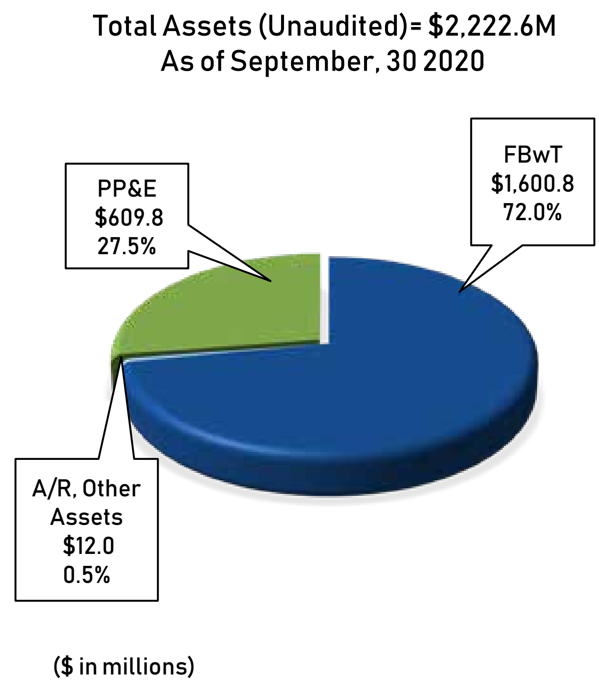
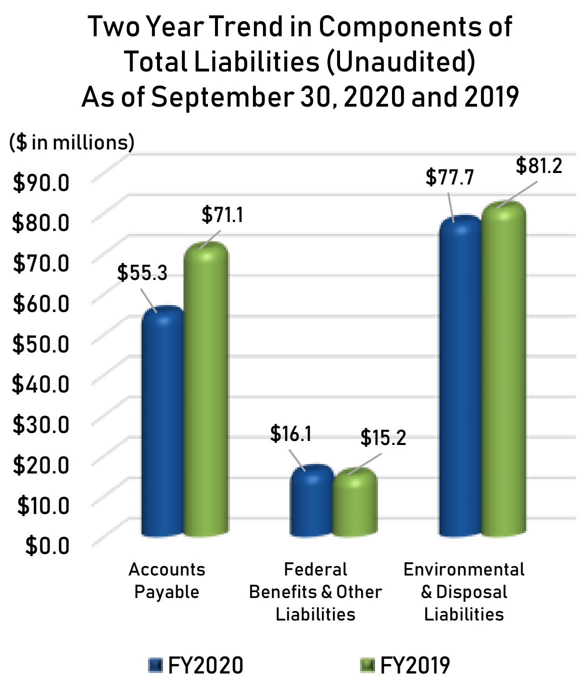


Figure 13: Total Assets as of September 30, 2020 and 2019

LIABILITIES – What DLA GF Owes

Liabilities are the amounts owed (1) to non-Federal and Federal entities for goods and services provided but not yet paid; (2) to DLA employees for wages and future benefits; (3) for environmental and disposal liabilities; and (4) for other liabilities. As of September 30, 2020, Environmental and Disposal Liabilities (EL) represent $77.7 million or 52.1% of Total Liabilities. The second largest liability is Accounts Payable, which comprises $55.3 million or 37.1% of Total Liabilities. Accounts Payable shows a net reduction of $15.8 million or 22.2% over the September 30, 2019 balance. Federal Benefits and Other Liabilities represent $16.1 million or 10.8% of Total Liabilities.



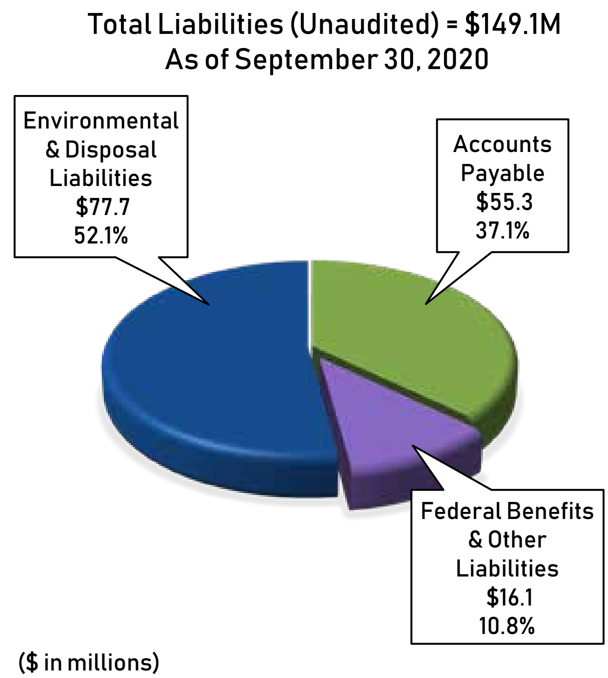


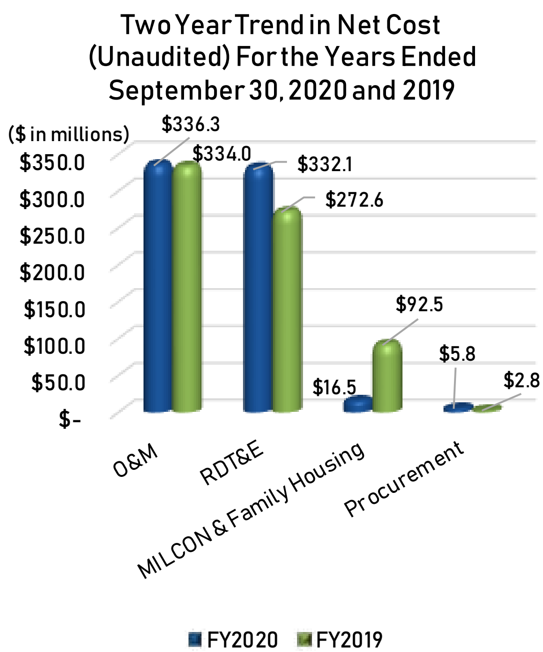
Figure 14: Total Liabilities as of September 30, 2020 and 2019

ENDING NET POSITION – What DLA GF Has Done Over Time

Net position represents primarily the accumulation of Revenue and Expenses, and Unexpended Appropriations and Other Financing Sources transferred in/out since inception, as represented in DLA GF balances reflected in the Statements of Changes in Net Position. Total Net Position in the amount of $2,073.5 million as of September 30, 2020 is made up of: (1) Unexpended Appropriations, and (2) Cumulative Results of Operations. The net increase of $79.1 million or 4.0% was primarily due to Military Construction Agents funding, $202.5 million, and CIP transfers out, $123.4 million.

DLA GF RESULTS – Current Fiscal Year Net Cost of Operations

The DLA GF manages five programs: O&M, RDT&E, PDW, MILCON, and Family Housing. Net Cost is grouped by four major components, combining MILCON and Family Housing into one. For the year ended September 30, 2020, O&M represents the largest portion of Net Cost of Operations at $336.3 million. RDT&E represents the second largest portion of Net Cost of Operations at $332.1 million for the year ended September 30, 2020. The net decrease in Net Cost of Operations of $11.2 million or 1.6% was associated with a decrease in military construction due to the long term lead time to complete projects offset by increases in RDT&E costs.



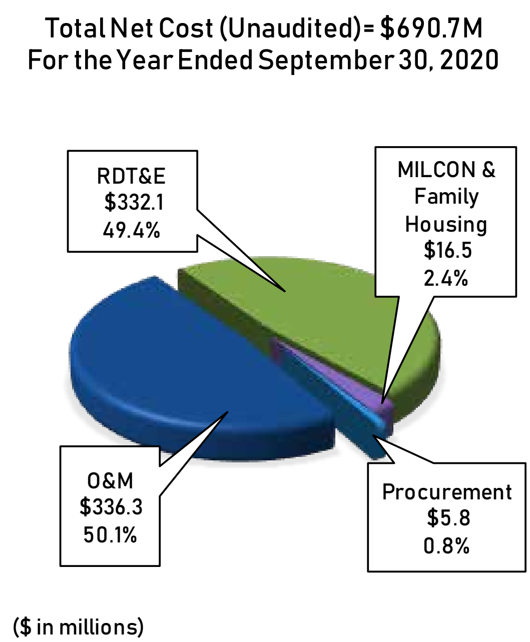
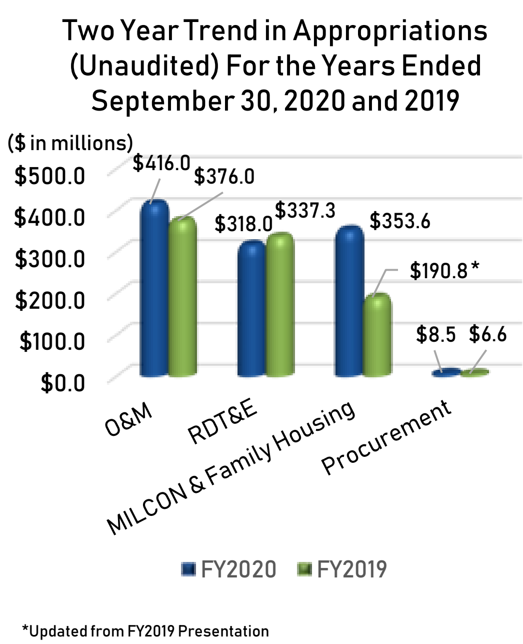


Figure 15: Comparative Net Cost by Program for the Years Ended September 30, 2020 and 2019

BUDGETARY RESOURCES - DLA GF Budgetary Resources

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. The budget represents our plan for efficiently and effectively achieving the strategic objectives to carry out our mission and to ensure that DLA GF manages its operations within the appropriated amounts using budgetary controls. Budgetary Resources are comprised of Unobligated Balances and Obligations Incurred. Unobligated balances represent balances that have not yet been committed by contract or other legally binding action. Obligations incurred refers to balances for which there has been legally binding action. DLA GF is primarily funded through appropriations from Congress for all of its operations.

The Total Budgetary Resources was approximately $1,605.6 million for DLA GF for the year ended September 30, 2020. The authority was primarily derived from 1) $432.3 million in unobligated authority carried forward from FY2019; and 2) $1,173.3 million in Appropriations and Spending Authority from Offsetting Collections in FY2020. Of the total budget authority available, DLA GF incurred a total of $989.9 million in new obligations from salaries and benefits, purchase orders placed, contracts awarded, and similar transactions. The net increase in Total Budgetary Resources of $61.8 million or 4.0% was primarily due to additional funding for Military Construction Agents.



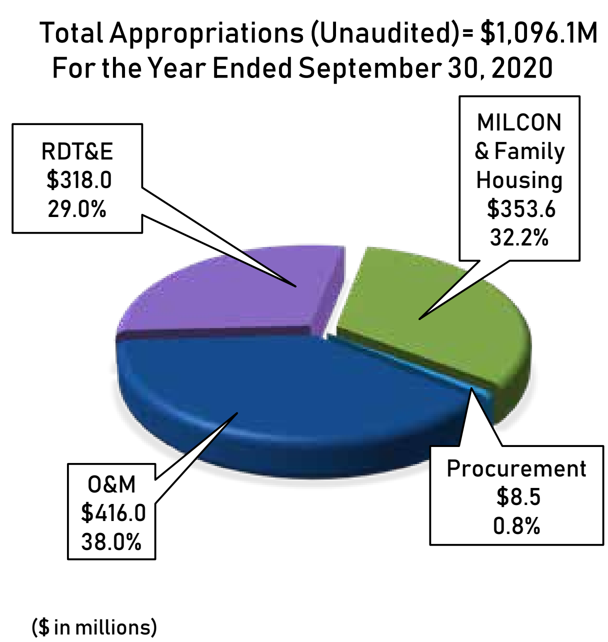
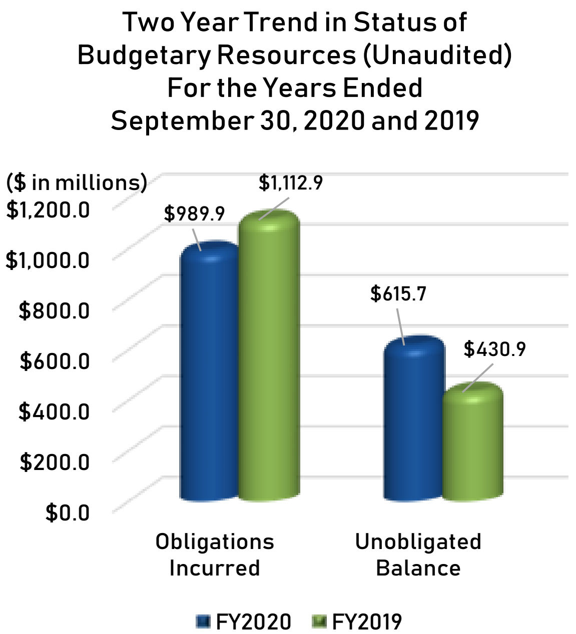


Figure 16: Appropriations by Category for the Years Ended September 30, 2020 and 2019



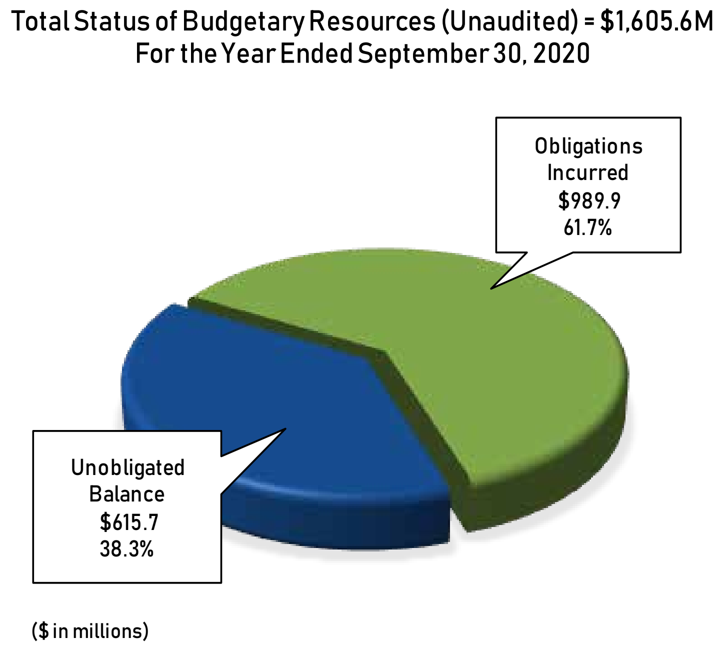


Figure 17: Status of Budgetary Resources for the Years Ended September 30, 2020 and 2019

LIMITATIONS OF THE FINANCIAL STATEMENTS

The DLA GF principal financial statements[4] and accompanying notes are prepared to report the financial position and results of operations of DLA GF, as required by the CFO Act of 1990, expanded by the GMRA of 1994, and 31 U.S.C. § 3515(b).

The DLA GF is unable to fully implement all elements of U.S. GAAP as promulgated by the Federal Accounting Standards Advisory Board (FASAB) and the form and content requirements for Federal government entities specified by OMB Circular A-136, and other authoritative guidance. This is due to financial and nonfinancial management system limitations, as well as limitations on the underlying processes that support the principal financial statements. DLA GF derives reported values and information for major asset and liability categories largely from nonfinancial systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of Federal appropriations rather than preparing financial statements in accordance with U.S. GAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by U.S. GAAP, and most of the financial management systems used by DLA GF were designed to record information on a budgetary basis.

The DLA continues to address IT and financial audit NFRs to strengthen system controls, and financial and regulatory compliance with corrective action plans that include developing requests for systems changes. DLA has begun planning and defining requirements for a major systems upgrade to SAP's 4th generation Enterprise Resource Planning (ERP) system (S/4), which will be an enterprise cloud based system. SAP S/4 will provide enhanced reporting of financial information on the full accrual accounting basis and streamline data between IT systems, which DLA continues to consolidate and rationalize through the migration of major legacy systems.

The DLA GF continues to develop, improve, and refine the underlying financial and nonfinancial end-to-end processes and systems that support the compilation of the financial statements and notes in accordance with U.S. GAAP as promulgated by FASAB and other Federal regulations. DLA GF continues to implement interim mitigation processes to address known limitations; additionally, DLA GF is remediating material weaknesses to the financial statement preparation process. DLA GF has several corrective actions underway intended to improve the underlying systems, business processes and internal controls.

The financial statements should be read with the realization that they are for a component of the U.S. Government.

[4] Refer to the Financial Section Introduction for definition of principal financial statements.

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

The DLA management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control*, the FMFIA (31 U.S. Code (U.S.C.) 3512, Sections 2 and 4), and the FFMIA (Pub. L. 104-208), as prescribed by U.S. Government Accountability Office (GAO) Green Book, *Standards for Internal Control in the Federal Government*, are met. The appendices referenced within the annual Statement of Assurance (SOA) below are OMB Circular A-123 appendices and are not included in DLA GF AFR.

Management Assurances

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

OCT 0 1 2020

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)

THROUGH: OFFICE OF THE CHIEF MANAGEMENT OFFICER

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year 2020

As Director of the Defense Logistics Agency (DLA), I recognize DLA is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. DLA conducted its assessment of risk and internal controls 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, DLA provides no assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2020.

DLA conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The *Summary of Management's Approach to Internal Control Evaluation* section provides specific information on how DLA conducted this assessment. Based on the results, DLA provides no assurance that internal controls over operations and compliance are operating effectively as of September 30, 2020.

DLA 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 *Summary of Management's Approach to Internal Control Evaluation* section, provides specific information on how DLA conducted this assessment. Based on the results, DLA provides no assurance that internal controls over reporting and compliance are operating effectively as of September 30, 2020.

DLA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The *Summary of Management's Approach to Internal Control Evaluation* section provides specific information on how DLA conducted this assessment. Based on the results, DLA provides no assurance that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; Federal Financial Management Improvement Act (FFMIA) of 1996, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2020.

DLA conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, DLA provides no assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2020.

To address these deficiencies, DLA established the Enterprise Risk Management (ERM) Program Management Office (PMO) in 2019 and appointed a Chief Risk Officer to address the full spectrum of DLA's risk portfolio and key internal controls across all organizational and business aspects. This will enable DLA to modernize and integrate risk management and internal control activities into an ERM framework resulting in improved mission delivery, reduced costs, and corrective actions focused toward key risks. Moreover, DLA developed corrective actions to address the shortfalls in the OMB A-123 Program and senior leaders at all levels of the organization are committed to incremental improvements to establishing a risk based controls environment. DLA continues to build the institutional capacity to execute an effective OMB A-123 Program and demonstrates measurable progress that includes:

- Established a robust, multi-layered ERM governance structure, including a Senior Management Council (SMC) to identify, escalate, and respond to risks in a methodical way and implement internal controls in the high priority areas

- Designated and appointed key officials within the Agency, including a Senior Accountable Official (SAO) to oversee the OMB A-123 Program, a Chief Risk Officer (CRO) to coordinate DLA's existing ERM efforts, and a Risk Management and Internal Control (RMIC) Manager to facilitate and coordinate the Agency's A-123 Program

- Established and staffed DLA's ERM Program Management Office with team members well versed in risk management, internal control and audit

- Developed an ERM Framework to address predictable and unpredictable risk events

- Initiated the development of institutional capacity to implement A-123 by conducting seven A-123 workshops focused on Program Overview, End-to-End Business Processes, Assessable Units, Enterprise Risk Management, Risk Management Process, Fraud Risk Management, and Internal Control

- Developed DLA's first Risk Appetite Statement and identified Agency's "top 3 most critical risks" to focus risk-mitigation activities at the enterprise level

- Developed and implemented an ERM dashboard to track DLA's top 3 most critical risks

- Published a comprehensive A-123 Program instruction (DLAI 5010.40) that is sought after by the DoD Enterprise Risk Management Community of Practice and other DoD organizations to use as benchmark for developing the Department's DODI 5010.40

- Developed a comprehensive manual, DLAM 5010.40, Risk Management (Vol I) and Internal Control (Vol II) that provides the concepts for implementing and executing an effective A-123 Program

DLA also consistently strives to create a "culture of accountability" to ensure compliance with laws, regulations, policies, and the execution of key processes. Examples of this include the Agency-wide circulation of the Director's "Tone at the Top" message and monthly employee accountability assessments and supervisory assurance certifications.

DLA has also synchronized its efforts between the ERM PMO and Audit Task Force to strengthen the Agency's A-123 Program and audit infrastructure. This new approach leverages a risk-based methodology to facilitate the integration of internal controls, risk management activities and audit remediation. The effort includes establishing an aggressive plan to validate Transaction Fund beginning balances and inventory existence, completeness and valuation for Fiscal Year 2021 to support a favorable audit opinion.

Point of contact for this action is Kelleye Elmore at (571) 205-3397 or kelleye.elmore@dla.mil.

M. C. SKUBIC
VADM, SC, USN
Director

Summary of Internal Control Assessment

The objectives of the system of internal control of DLA are to provide reasonable assurance of:

- Effectiveness and efficiency of operations;
- Reliability of financial and nonfinancial reporting;
- Compliance with applicable laws and regulations; and
- Financial information systems compliance with the FMFIA and FFMIA

Federal Managers' Financial Integrity Act

The DLA management evaluated the system of internal control in effect during the current fiscal year according to the guidance prescribed in the GAO Green Book and OMB Circular A-123.

The evaluation of internal controls extends to every responsibility and activity undertaken by DLA and applies to program, administrative, operational controls, and financial reporting. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the expected benefits and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Errors or irregularities may occur and not be detected because of inherent limitations in any system of internal control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. The projection of any system evaluation to future periods is subject to risks that procedures may be inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate. Based on the preceding description, DLA is providing a statement of no assurance.

The DLA management did not methodically evaluate the system of internal control in accordance with the GAO Green Book and OMB Circular A-123 guidelines. There is not persuasive evidence to support a determination that Green Book principles are present and functioning and internal control components are operating together throughout the organization consistently. As a result, there is not an effective system of internal control for DLA in effect as of the date of the SOA. Taken as a whole, DLA does not comply with the requirement to provide reasonable assurance that DLA operations, reporting, and compliance objectives were achieved. DLA is unable to provide a position of reasonable assurance for FY2020 and reports a statement of "no assurance" for Internal Control over Reporting (ICOR) and Internal Control over Operations (ICOR-O). In addition, DLA is unable to provide assurance that internal controls over financial systems (ICOFS) are in compliance with FMFIA and FFMIA.

The DLA's FY2019 SOA package followed the structure of the financial statement audit NFRs for documenting the individual material weaknesses associated with ICOR and ICOFS. DLA's FY2019 SOA package included a total of 233 ICOR material weaknesses (consolidated into seven material weaknesses for AFR presentation), 78 ICOFS non-conformances (consolidated into four non-conformances for AFR presentation), and three ICOR-O material weaknesses across the GF, Transaction Fund (TF), and Working Capital Fund (WCF).

For FY2020, the SOA package is only required to include self-identified material weaknesses and significant deficiencies for internal DoD reporting because the financial statement audit NFRs are already being reported and tracked separately. The audit related ICOR and ICOFS material weaknesses that have not yet been remediated are reported in the Summary of Financial Statement Audit and Management Assurances Other Information (OI) section. Per the June 2019 DoD Financial Improvement and Audit Remediation Report, financial statement audit findings and Corrective Action Plans (CAPs) "are entered into a centralized database managed by the Office of the Deputy Chief Financial Officer (ODCFO)." DLA's SOA Package FY2020 Material Weaknesses and Significant Deficiencies template included a total of three material weaknesses in the area of ICOR-O. The three FY2020 ICOR-O material weaknesses, summarized in the table below, are consistent with the ICOR-O material weaknesses reported by DLA in the FY2019 AFR.

Effectiveness of Internal Control over Operations (FMFIA § 2)	
Material Weaknesses	**Corrective Action Summary**
Supply Operations: Lack of policy and procedures in place over the management and oversight of First Article Test Exhibits	The DLA will establish and implement policies and procedures for identified areas, train affected personnel on new procedures, and conduct compliance reviews, tests of design, and tests of effectiveness for internal controls.
Contract Administration: Non-verification of supplier invoices	The DLA will perform an analysis, develop and update policies and procedures, test controls, and conduct implementation procedures to remediate the deficiencies associated with this finding.
Business Process Controls: Lack of procedures over the scrap management program	The DLA is working to define and publish policy/procedures to correct the OCONUS Scrap Program. DLA will perform risk assessments on recommendations including fraud risk. DLA will also develop and review the internal controls testing procedures.

The DLA is working to improve the documentation around DLA's end-to-end business processes and has not performed full-scale OMB Circular A-123 internal control testing during FY2020 in order to self-identify and track ICOR and ICOFS material weaknesses that remain unremediated from the FY2019 SOA package. To address these deficiencies, DLA established the ERM Program Management Office (PMO) in FY2019 and appointed a Chief Risk Officer (CRO) to address the full spectrum of DLA's risk portfolio and key internal controls across all organizational and business aspects. This will enable DLA to modernize and integrate risk management and internal control activities into an ERM framework resulting in improved mission delivery, reduced costs, and corrective actions focused toward key risks. Moreover, DLA developed corrective actions to address the shortfalls in the OMB Circular A-123 Program and senior leaders at all levels of the organization are committed to incremental improvements to establishing a risk based controls environment. DLA continues to build the institutional capacity to execute an effective OMB Circular A-123 Program and demonstrates measurable progress that includes:

- Established a robust, multi-layered ERM governance structure, including a Senior Management Council (SMC) to identify, escalate, and respond to risks in a methodical way and implement internal controls in the high priority areas.
- Designated and appointed key officials within the Agency, including a Senior Accountable Official (SAO) to oversee the OMB Circular A-123 Program, a CRO to coordinate DLA's existing ERM efforts, and a Risk Management and Internal Control (RMIC) Manager to facilitate and coordinate the Agency's OMB Circular A-123 Program.
- Established and staffed DLA's ERM Program Management Office with team members well versed in risk management, internal control and audit.
- Developed an ERM Framework to address predictable and unpredictable risk events.
- Initiated the development of institutional capacity to implement OMB Circular A-123 by conducting seven OMB Circular A-123 workshops focused on Program Overview, End-to-End Business Processes, Assessable Units, Enterprise Risk Management, Risk Management Process, Fraud Risk Management, and Internal Control.
- Developed DLA's first Risk Appetite Statement and identified the top three most critical risks to focus risk-mitigation activities at the enterprise level.
- Developed and implemented an ERM dashboard to track DLA's top three most critical risks.
- Published a comprehensive OMB Circular A-123 Program instruction that is sought after by the DoD Enterprise Risk Management Community of Practice and other DoD organizations to use as a benchmark for developing the Department's instruction.
- Developed a comprehensive Risk Management and Internal Control manual that provides the concepts for implementing and executing an effective OMB Circular A-123 Program.

The DLA consistently strives to create a "culture of accountability" to ensure compliance with laws, regulations, policies and the execution of key processes. Examples of this include the Agency-wide circulation of the Director's "Tone at the Top" message and monthly employee accountability assessments and supervisory assurance certifications.

The DLA has also synchronized its efforts between the ERM PMO and Audit Task Force to strengthen the Agency's OMB Circular A-123 Program and audit infrastructure. This new approach leverages a risk-based methodology to facilitate the integration of internal controls, risk management activities and audit remediation. The effort includes establishing an aggressive plan to validate Transaction Fund beginning balances and inventory existence, completeness and valuation for FY2021 to support a favorable audit opinion.

The DLA's Summary of Financial Statement Audit and Management Assurances for SOA package and audit related material weaknesses are presented in the OI section of this report.

Federal Financial Management Improvement Act

FFMIA was enacted to advance Federal financial management by ensuring that Federal financial management systems can routinely provide reliable financial information uniformly across the Federal government following OMB Circular A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*. The FFMIA requires Agencies to establish and maintain financial management systems that substantially comply with the following three FFMIA Section 803(a) requirements:

- **Federal Financial Management System Requirements (FFMSRs)**
- **Federal Accounting Standards**
- **U.S. Standard General Ledger (USSGL) at the transaction level**

OMB Circular A-123, Appendix D provides the compliance determination framework to evaluate compliance with the FFMIA requirements. The FFMIA compliance determination framework includes a series of Federal financial management goals applicable across all Federal Agencies and associated compliance indicators that assist the Agency head in determining whether the Agency has substantially complied with the requirements of FFMIA.

The DLA leveraged the OMB Circular A-123, Appendix D compliance determination framework to perform a review of data for each of the FFMIA compliance indicators and associated analysis in order to determine compliance with FFMIA. Based on the application of the framework and associated analysis of relevant FFMIA compliance indicators available, DLA identified high-risk factors associated with all three FFMIA Section 803(a) requirements.

FFMSR:

High-risk factors that indicate non-compliance in this area include: the disclaimer of opinion on the FY2019 financial statements; and material weaknesses over internal controls over reporting and information system non-compliance related to financial system security were reported in FY2019 and FY2020 in areas that corresponded to FFMSRs.

Federal Accounting Standards[3]:

High-risk factors that indicate non-compliance in this area include: the disclaimer of opinion on the FY2019 financial statements and material weaknesses over internal controls over reporting reported by DLA in FY2019 and FY2020 in areas that related to compliance with Federal accounting standards.

USSGL at the Transaction Level:

High-risk factors that indicate non-compliance in this area include the disclaimer of opinion on the FY2019 financial statements and material weaknesses over internal controls over reporting reported in FY2019 and FY2020 in areas that related to implementation of the USSGL at the transaction level.

During FY2019, DLA documented a financial management systems strategy to formalize DLA's strategic goals and objectives for achieving FFMIA compliance and improving financial management practices by ensuring that financial management systems that process DLA transactions consistently provide accurate, reliable, and timely financial information. The table below summarizes the status of unresolved deficiencies associated with each of the FFMIA Section 803(a) requirements and remediation activities that are planned or underway, target dates, and offices responsible for bringing systems into compliance.

[3] Refer to the Notes to the Principal Financial Statements; Note 1.C, Departures from U.S. GAAP.

FFMIA Section 803(a) Requirement	Remediation Activities	Target Date	Responsible Offices
Federal Financial Management System Requirements	The DLA will continue to develop and document policies, procedures, and controls in order to comply with standards, laws, and regulations that promote reliable financial reporting and effective and efficient operations.	FY2021 - FY2023	• Finance • Information Operations • Acquisition • Logistics Operations
Federal Accounting Standards Advisory Board (FASAB)	The DLA will continue to perform a root cause analysis to identify underlying issues as well as develop and document policies, procedures, and controls to maintain accounting data to permit reporting in accordance with U.S. GAAP as established by the FASAB.	FY2021 - FY2023	• Finance • Information Operations • Acquisition • Logistics Operations
USSGL at the Transaction Level	To reduce the material risks of procedural and posting logic deficiencies and achieve compliance with applicable accounting regulations, DLA will identify non-compliant areas with a financial impact in processes across the enterprise. This approach will include creating and updating policies, procedures and internal controls, as well as requesting the implementation of system changes to address underlying errors in the systemic posting logic.	FY2021 - FY2023	• Finance • Information Operations • Acquisition • Logistics Operations

Compliance with Laws and Regulations

Anti-Deficiency Act

The Anti-Deficiency Act (ADA) Title 31 U.S.C. §1341, prohibits Federal employees from obligating funds in excess of an appropriation or before funds are available, or from accepting voluntary services. As required by the ADA, DLA GF notifies all appropriate authorities of any potential ADA violations. At this time, there are no known or potential ADA violations for DLA GF.

The DLA GF has funds control policies to monitor and track commitments, expenditures, and obligations to ensure amounts do not exceed available authority, in compliance with the ADA. DLA GF is continuously evaluating the existing processes and controls to identify areas of improvement.

Digital Accountability and Transparency Act of 2014

The Digital Accountability and Transparency Act of 2014 (DATA Act) expands the Federal Funding Accountability and Transparency Act of 2006 to increase accountability and transparency in Federal spending, making Federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on USASpending.gov. The standards and data allow stakeholders to track Federal spending more effectively.

In FY2019, DLA implemented a comprehensive Data Quality Plan (DQP) in accordance with OMB Memorandum M-18-16, Appendix A to OMB Circular A-123, *Management Reporting of Data and Data Integrity Risk*. This plan leverages several well-established processes to monitor and improve procurement data quality. During FY2020, DLA continued to build upon this plan, which sets forth DLA's process for reviewing, monitoring, and reporting the required data, as well as how DLA will continue to improve the process. At this time, DLA, as a component of DoD, continues to rely on the Department's DQP to satisfy the OMB requirement, while DLA continues to develop a separate DQP and test plans to assess controls impacting data quality.

DLA is unable to provide assurance over compliance with the DATA Act.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 (DCIA) requires that Federal Agencies refer delinquent debts to Treasury within 120 days and take all appropriate steps prior to discharging debts. DFAS prepares the Treasury Report on Receivables, a report for the debt receivable, at the end of each fiscal quarter, to notify Treasury of debt aged more than 120 days, as required by the DCIA.

Prompt Payment Act, 31 U.S.C. §§ 3901–3907

In 1982, Congress enacted the Prompt Payment Act (PPA) to require Federal Agencies to pay their bills on a timely basis, to pay interest penalties when payments are made late, and to take discounts only when payments are made by the discount date. DLA is unable to provide assurance over compliance with the PPA.

Government Charge Card Abuse Prevention Act of 2012

The Charge Card Abuse Prevention Act (Charge Card Act) requires Agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Furthermore, the Charge Card Act requires Agencies to report purchase card violations, and the Inspector General to conduct periodic risk assessments of government charge card programs. DLA is unable to provide assurance over compliance with the Charge Card Act but has multiple layers of processes and controls in place to identify fraudulent purchases.

In order to mitigate the risk of fraud, DLA uses the DoD mandated Insight on Demand (IOD) system, which is an artificial intelligence data mining platform that automatically analyzes Goverment Purchase Card (GPC) data to identify and flag high risk transactions. Agency/Organization Program Coordinators (A/OPC) and Approving/Billing Officials (A/BO) review 100% of all flagged IOD data mining cases on a daily basis. A/OPCs complete a monthly checklist within IOD, which is a series of oversight questions related to appointment and training, and the Component Program Manager (CPMs) review the monthly A/OPC reports within IOD to include corrective actions taken for any identified non-compliance. A/OPCs complete a semi-annual head of activity report within IOD that captures program oversight data, including the number of transactions flagged for review, findings, and corrective actions assigned. The A/OPCs brief their head of activity with the results. CPMs complete a semi-annual head of activity report within IOD that captures program oversight data at the Agency level and briefs to the Senior Procurement Executive.

In addition to IOD, DLA has processes in place for A/BOs, A/OPCs, and the CPMs to conduct transaction reviews and overall program compliance reviews in order to mitigate the risk of fraud and misuse. Major Subordinate Command (MSC) audit teams also conduct GPC reviews. As a result of IOD and DLA processes, transactions are reviewed by A/BOs, A/OPCs, and CPMs daily, monthly, semi-annually, and annually with corrective action assigned as appropriate.

On a daily basis, management approves all requirements before the cardholder makes the purchase. A/BOs approve the use of the GPC as the method of payment and review 100% of purchases made by cardholders. The A/OPCs perform a monthly review over a minimum of 6.0% of all cardholder transactions, take corrective action and provide results to the CPM for review. The A/OPCs and CPMs also review all monthly statement approval and certifications to identify any A/BO violations of segregation of duty policies.

CPM also conducts an annual comprehensive program review of each DLA GPC Activity, which includes a random sampling of cardholder transactions, appointment and training documentation, and overall program oversight responsibilities. The CPM assigns corrective actions as appropriate and provides results to senior leadership.

During FY2020, there were no instances of fraud identified as a result of reviews or audits.

Sea Supplies

A Navy MH-60S Seahawk helicopter transports supplies from the USNS William McLean to the USS Bataan in the Arabian Sea, March 12, 2020. **Photo By: F Navy Petty Officer 1st Class Kathryn E. Macdonald**

Financial Systems

Financial Systems Strategy

The DLA Information Operations is DLA's knowledge broker, providing comprehensive, best practice IT support to DoD/DLA Logistics Business Community. Information Operations provides dynamic information systems, customer support, efficient and economical computing, data management, electronic business, telecommunication services, key management, and secure voice systems for DoD and DLA. Although DLA is unable to provide assurance that the financial systems are in compliance with Federal system security and accounting requirements, DLA Information Operations endeavors to improve the control posture of systems and processes by testing and correcting deficiencies to ensure that DLA's systems are compliant.

The DLA Information Operations continues to review audit findings from prior and current financial statement audits. DLA Information Operations works with DLA Finance and other business stakeholders to develop CAPs and resolve findings. Identified deficiencies are prioritized and aligned to the appropriate plans and system enhancements. In addition to identified audit findings, DLA Information Operations is working to become compliant with the Standard Financial Information Structure (SFIS) and Standard Line of Accounting (SLOA) in accordance with applicable Federal requirements. Improvements to general ledger posting logic to comply with the USSGL are also being implemented proactively to ensure all business events are mapped to the proper general ledger accounts. DLA Information Operations works with DLA Finance to build a roadmap for future financial system improvements based on budget availability, resource and system constraints. The financial systems strategy will support the overarching strategy of DLA to make an end-to-end process review aligned to financial statements line items with focus on risk and controls. DLA Information Operations will also continue to focus on remediating any issues associated with material weaknesses and DoD Chief Information Officer (CIO) priorities.

Effective April 1, 2020, DLA reduced onsite operations to emergency and mission-essential/critical personnel only (i.e., meaning only those employees who must be physically present to perform necessary functions) in response to the COVID-19 pandemic. While operating in an emergency status due to COVID-19 precautions, telework-ready personnel not required to be onsite are required to telework. DLA is working with the Defense Information Systems Agency (DISA) to ensure the sustainment of DLA mass telework capability and partnering with the DoD CIO, National Security Agency (NSA), and industry on a longer term solution to provide the Secret Internet Protocol Router Network for teleworkers.

Financial Management Systems Framework

The DLA relies on the Enterprise Business System (EBS) as its accounting system of record to process, track and report all business transactions which impact DLA GF. The core of EBS is Systems Applications and Product's (SAP) Enterprise Resource Planning Central Component (ECC) version 6.0. This is an on-premise, commercial off-the-shelf (COTS) software which has been configured to meet DLA's business requirements. However, due to system limitations, accurate data is not always produced, and DLA is unable to provide assurance that the financial systems are in compliance with Federal system security and accounting requirements. There are numerous feeder systems which interface to EBS. These include, but are not limited to, inventory and customer ordering systems. The Distribution Standard System (DSS) is a legacy inventory warehouse management system which interfaces with EBS. EBS also interfaces with multiple DFAS systems for the creation of financial statements, reports and Treasury cash management. DLA EBS has a single, enterprise general ledger which resides in SAP and is used for all funds.

Future Financial Management Systems Framework

In future years, DLA will be upgrading to SAP's S/4 cloud-based platform to replace ECC 6.0. This upgrade will provide enhanced capabilities for financial reporting and accounting. In addition, DLA is in the process of migrating from its legacy warehouse management system, DSS, to SAP's Enterprise Warehouse Management System. This will provide an integrated process of inventory movements and tracking, thereby improving inventory accounting accuracy.

The DLA will also be implementing system changes to meet the requirements of Treasury's G-Invoicing system. G-Invoicing will help address government-wide accounting elimination problems by ensuring trading partners have the same information for intragovernmental transactions. Federal Program Agencies (FPAs) will be required to use G-Invoicing to process intragovernmental buy/sell transactions. This process will remove the seller side over-write requirements and require trading partners to reconcile variances. The G-Invoicing required use date for FPAs for New Orders has been delayed from June 2021. The mandated implementation deadline of October 2022 for New Orders includes Orders with a Period of Performance beginning October 1, 2022 or later. FPAs must implement G-Invoicing for "In-Flight" Orders by October 2023. The mandated implementation deadline of October 2023 for "In-Flight" Orders includes the conversion of Orders with an open balance and a Period of Performance extending beyond September 30, 2023.

The implementation of DoD SLOA will improve interoperability between DoD business systems and provide better end-to-end funds traceability and eliminations reporting to enable successful audits in DoD.

FORWARD-LOOKING INFORMATION

The following areas present insights into how the Agency shapes its programs and responds to challenges posed to DLA GF's goals and missions.

An Ever Changing Workforce

The DLA is a high-performing organization, and DLA's workforce is its greatest asset. The eight People and Culture objectives are the strategies that will assist DLA in mitigating several significant external factors that will affect DLA and its workforce.

Changing demographics are the first significant external factor. There are different generations working side-by-side in the DLA workplace and DLA civilians are playing an increasingly critical role in supporting global DoD missions. These changing demographics will require continued assessment of DLA's current human resources initiatives and new strategies to excel in areas such as recruitment, training and development, work-life balance, managing in a geographically dispersed environment while maintaining strong connections to DLA culture, knowledge transfer, leadership skills, labor management relations and a culture that fosters inclusiveness and employee engagement.

Our economy is the second external factor that influences the Federal government's ability to recruit top talent and retain its workforce. It is critical that DLA not only recruit and retain a diverse workforce, but also ensures the workforce has the critical skills necessary to operate in this constrained environment.

Technology is the third external factor that is rapidly transforming the way DLA works and interacts with others. DLA must recruit, develop, and sustain a workforce that is technically proficient and agile to adopt emerging technologies, which requires innovative human capital management strategies.

The work environment is the last significant external factor to impact DLA's workforce. DLA's success as an organization is largely dependent on DLA's ability to achieve a high-performing, results-driven culture and to sustain that culture in light of changes to demographics, economics, and technology. These factors will impact each segment of DLA, and DLA Human Resources must strategically partner with leadership and the workforce to carry out DLA's mission. The use of change management techniques will assist in decreasing the uncertainty associated with changes as well as mitigate resistance to those changes.

The DLA has a critical mission to support the Military Services, Combatant Commands, and other Federal Agencies; that includes supporting our Nation's response to COVID-19. The key to DLA's success is its people, and while DLA will respond professionally and swiftly to mission requirements related to COVID-19, we will also take necessary steps to protect and inform our workforce. Approximately 35% of our DLA workforce have been designated as "mission-critical onsite," which means they have to come into their workplaces throughout this crisis to continue DLA's vital work of supporting Warfighters and the whole-of-government response to the pandemic. This includes deploying overseas; executing our wholesale distribution operations; supporting our Disposition Services customers; enabling our Service customers at shipyards, readiness centers, and depots; keeping our installations safe and secure; performing necessary IT "touch labor"; issuing Common Access Cards (CACs) and fingerprinting new employees; performing classified work; and many other functions requiring physical presence. As an employer, DLA will follow DoD policies and guidelines in taking any actions to address or mitigate the threat posed by COVID-19. This includes disseminating official information by appropriate public or military health authorities, leveraging workplace policies and flexibilities designed to protect our workforce, and activating "continuity of operations" plans should it become necessary. Each DLA major population center has its own plan for returning employees to the workplace, all based on common guidance for a conditions-based, deliberate, and safe return. Different locations will go through the various phases on different timelines accounting for local conditions. DLA is monitoring workforce availability and conducting site capability and capacity assessments. DLA will continue to encourage completion of COVID-19 worksite related trainings and to develop methods to effectively hire and onboard personnel with a plan for virtual training and orientation.

External Threats

In response to the President's call for governmental reform and under the Direction of the Chief Management Officer, DoD is reviewing, changing, and setting up processes, where appropriate, to gain efficiencies and maximize savings to reinvest into service readiness. This is aligned to the LOE of

Warfighter First.

The DoD as a whole faces numerous challenges – ranging from strategic competition and aggression from other nations and the threat of terrorism, to the concern of securing funding necessary to accomplish the mission. These threats directly affect DLA's mission and goals. As the Nation's Combat Logistics Support Agency, DLA monitors these external threats to ensure readiness and support of the Warfighter.

In addition, DLA continuously reviews its strategy to meet global mission requirements as prescribed by DoD. DLA developed a 2018-2026 Strategic Plan and amended the plan in April 2019 to align with its principle to provide "effective logistics support to the operating forces of its Military Services" at the "lowest possible cost to the taxpayer". DLA's Strategic Plan reaffirms and extends DLA's commitment to Warfighter readiness and lethality and to self-accountability. The plan describes five LOEs, two CCs, and three Cross-Cutting Efforts that DLA leverages to provide global, end-to-end supply chain solutions: Warfighter First, Global Posture, Strong Partnerships, Whole of Government, Always Accountable, People and Culture, and Enterprise Enablers. Each LOE or CC has specific objectives. Additionally, the Cross-Cutting Efforts: Auditability, DoD reforms and Supply Chain Security ensure synchronized efforts for interagency coordination and execution.

The "Always Accountable" LOE focuses on building trust and confidence in DLA's supply chain business by practicing cost consciousness and ethical behavior through reliability and transparency. DLA holds partners and suppliers to the same high standards. DLA aims to attain and sustain auditability through process excellence and sound financial stewardship. DLA strives to achieve a control system that will enable it to provide reasonable assurance over operations, reporting, and compliance. DLA will continue to document, evolve, and test its processes to ensure the Agency addresses weaknesses and deficiencies identified in this document.

The DoD and the DLA share the responsibility for implementing effective ERM to maintain operational efficiency and to protect the achievement of mission. ERM is a strategic capability that enables DLA to effectively deal with uncertainty and associated risk and opportunity. It utilizes a forward-looking, mission-oriented, and holistic approach to ERM that links risk to DLA's strategy and objectives. ERM enables the identification of potential risks and subsequent responses to those risks. ERM enables DLA to more effectively manage enterprise risks, consider constraints and dependencies between key risks, while creating and preserving the value DLA contributes to the National Defense Strategy, National Defense Business Operations Plan (NDBOP), and DoD objectives. ERM and Internal Control are components of the governance framework.

The DLA's culture of risk awareness continues to mature. Thorough risk assessments can identify, document, and communicate risk before it becomes an issue. Through ERM and Internal Control, DLA is taking a strategic approach to manage risk and drive DLA's mission.

The DLA faces current and future cyber threats that must be countered in a sustained effort to secure and defend the Agency's critical operational data, network, and business systems by applying key security principles, which include:

- **Operations-level Situational Awareness;**
- **Layered perimeter defenses;**
- **Least privilege for access to data and IT capabilities; and**
- **Physical or logical segmentation of networks, services, and applications.**

The DLA is providing support to the U.S. response to COVID-19 in the areas of material support, planning, and acquisition and will continue to be a vital part of the worldwide logistics response. However, DLA is also a global enterprise, with resources and people around the world, both within and outside the Continental U.S. As such, DLA is tracking the virus and its impact to military operations and locations, as well as how communities are responding to the threat. DLA is fully engaged and monitoring COVID-19 changes from Occupational Safety and Health Administration (OSHA) and DoD as well as providing continual communication with employees through staff and site directors. DLA host site services are operating based on local and state guidance. DLA is continuing to monitor the readiness of first responders and documenting the execution of the risk manage process and risk acceptance at the appropriate leadership levels.

Technological Advancement and Initiatives

As part of the 2018-2026 Strategic Plan, DLA has the Enterprise Enablers CC. Enterprise Enablers focuses on Innovation, Data Management, Technology, and Cyber Security. Innovation allows DLA to adapt and overcome adverse circumstances in a timely manner and permits DLA to continue to support the Warfighter. DLA data assets include supply chain, acquisition, personnel, information management, and financial data, along with the infrastructure and exchanges that move it. Looking forward, effective data management will enable DLA to develop data and analysis as a service for its business users to facilitate access to it as well as data-driven decisions.

For technology, DLA Information Operations continuously evaluates the IT operating environment to identify potential opportunities to streamline and automate processes as well as ensure alignment with DoD and DLA Strategic Initiatives. One example of these types of efforts currently in process include increasing the use of cloud computing technologies and solutions. Many applications have already begun migration to cloud computing. A major initiative, ERP to cloud migration is scheduled for completion in the first quarter of FY2022. Simultaneously, DLA will perform a Business Transformation Study to define the scope and level of effort to conduct a Migration to Standard to SAP S/4 capability. DLA will conduct business process re-engineering to ensure use of the standard capability to the maximum extent possible to reduce cost, streamline business process to adopt industry best practices and allow for better innovation going forward. The full schedule for the Migration to Standard phase will be developed once the requirements have been defined and approved.

Finally, DLA provides funding for the development of the Defense Agencies Initiative (DAI). The DAI mission is to deliver auditable CFO Act compliant business environments for Defense Agencies. The goal is to provide accurate, timely, and authoritative financial data in support of DoD goals to standardize financial management practices, improve financial decision support, and support audit readiness. The DAI is a critical DoD effort to modernize the Defense Agencies' financial management capabilities.

Exercise Prep

Marines prepare for an exercise at Vaziani Training Area, Georgia, Oct. 18, 2020. **Photo By: USMC**

SECTION 2 | FINANCIAL SECTION (Unaudited)

SECTION 2

FINANCIAL SECTION
(Unaudited)

SECURITY POST

A Marine works security during a live-fire exercise in Okinawa, Japan, March 28, 2020. The exercise simulated the seizure of an objective by aerial assault from the amphibious assault ship USS America.

Photo By: Marine Corps Lance Cpl. Joshua Brittenham

IN THIS SECTION

SECTION 2

Financial Section (Unaudited)

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

NOVEMBER 2020 (GF)

"I am fully committed to ensuring DLA meets its stewardship responsibilities, and am proud to be part of a team of colleagues that works hard to develop strategies that strengthen our cross-functional partnerships internal and external to the Agency."

I am proud to join the Director in issuing our Fiscal Year (FY) 2020 Agency Financial Report (AFR), the fourth Defense Logistics Agency (DLA) has issued since starting the financial statement audit process. DLA General Fund's (GF) FY2020 AFR highlights certain valuable insights into the overall financial operations, accomplishments, and challenges of the Agency, and this section of the AFR provides a comprehensive view of DLA GF financial activities. DLA remains committed to ensuring value, efficiency, and effectiveness, as well as ensuring outstanding stewardship to protect against fraud, waste and abuse in every program we manage.

During the unprecedented COVID-19 pandemic, DLA quickly responded to the needs of the Nation and Warfighter and collaborated with the Federal Emergency Management Agency and Health and Human Services procuring critical medical equipment and personal protective equipment (PPE) in support of the National response. As challenging as the operating environment became as a result of providing this additional support and protecting the staff, DLA was still able to accomplish its mission, while still protecting against fraud, waste or abuse.

Although, DLA received a Disclaimer of Opinion on the Agency's GF financial statements, which denotes that the auditor conducted audit procedures but was unable to express an opinion on the financial statements, DLA continues to make tremendous strides, establishing the framework to correct material weaknesses, by reviewing and establishing end-to-end business processes, identifying the financial statement and financial reporting risks, and designing and implementing the associated controls to address those risks.

The DLA enterprise continues to document and evaluate critical processes and controls to identify and address risks associated with financial reporting. Efforts include initiatives to improve the performance in accounting, financial operations, and customer service to enhance the value provided to the Warfighter and our partners. DLA continues to strive toward improved financial reporting, remediation of Notice of Findings and Recommendations, and improved financial data and internal controls with the goal of achieving an unmodified audit opinion. For DLA GF, we are enhancing our internal controls over operations, financial reporting, and financial systems.

I am fully committed to ensuring DLA meets its stewardship responsibilities, and am proud to be part of a team of colleagues that works hard to develop strategies that strengthen our cross-functional partnerships internal and external to the Agency. As DLA evolves and matures in the audit process, we will continue to learn and use that knowledge to improve and protect our business processes, allowing us to maximize our resources in support of the Warfighter. One of our highest priorities is to provide enhanced financial management and strong governance in support of our goals to identify and address risks, successfully manage challenges, including audit findings, and accomplish associated remediation actions necessary to address material weaknesses. WARFIGHTER ALWAYS!

J.ARTHUR HAGLER
Director, DLA Finance
Chief Financial Officer

AUDIT REPORTS

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

November 13, 2020

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Logistics Agency General Fund Financial Statements and Related Notes for FY 2020 and FY 2019 (Project No. D2020-D000FE-0052.000, Report No. DODIG-2021-027)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY), to audit the Defense Logistics Agency (DLA) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. The contract required EY to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the DLA's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required EY to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018, Updated April 2020. EY's Independent Auditor's Reports are attached.

EY's audit resulted in a disclaimer of opinion. EY could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DLA General Fund Financial Statements. As a result, EY could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, EY did not express an opinion on the DLA General Fund FY 2020 and FY 2019 Financial Statements and related notes.

EY's separate report, "Internal Control Over Financial Reporting," discusses seven material weaknesses related to the DLA's internal controls over financial reporting.* Specifically, EY's report describes the following material weaknesses.

- The DLA did not have policies, procedures, and controls to identify the costs associated with the construction of assets in order to properly value the assets and had weaknesses in the processes of maintaining and reconciling Property Plant & Equipment records.

- The DLA was unable to reconcile the Fund Balance With Treasury ending balances from the general ledger directly to the U.S. Treasury and did not have sufficient policies, procedures, and internal controls in place for the end-to-end Fund Balance With Treasury process.

- The DLA did not have adequate policies, procedures, and internal controls to record accounts receivable and revenue transactions in the proper period in accordance with Generally Accepted Accounting Principles and to properly identify valid unfilled customer orders; was unable to support the accounts receivable balances; and did not support recorded transactions.

- The DLA did not support the accounts payable balance, expenses, and related budgetary balances, and it recorded accounts payable and expense transactions in the wrong periods. In addition, the DLA did not have policies, procedures, and internal controls to effectively implement accounting standards; and did not have adequate procedures to record obligations and accrue for liabilities incurred but not paid.

- The DLA did not have sufficient controls to review and identify inaccurate financial statement balances and footnote disclosures, lacked policies and procedures to validate account balances and monitor reporting variances between source systems, and did not provide detailed budgetary accounts listings that reconciled to the general ledger.

- The DLA did not implement appropriate internal controls, including the documentation of policies and procedures that described end-to-end business

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

processes, roles and responsibilities, monitoring service providers, and remediation of audit findings.

- The DLA had weaknesses in the design and operation of information systems controls over financial data to include access controls, configuration management, segregation of duties control, and security management and governance over implementation of security controls.

EY's additional report, "Compliance and Other Matters," discusses two instances of noncompliance with applicable laws and regulations. Specifically, EY's report describes instances in which the DLA's financial management systems did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed EY's reports and related documentation and discussed them with EY's representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DLA General Fund FY 2020 and FY 2019 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the DLA's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with laws and other matters. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. EY is responsible for the attached reports, dated November 13, 2020, and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

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Report of Independent Auditors

The Director of the Defense Logistics Agency and
The Inspector General of the Department of Defense

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of the General Fund of the Defense Logistics Agency (DLA), which comprise the balance sheets as of September 30, 2020 and 2019, and the related statements of net cost, statements of changes in net position and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements (the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Departure from U.S. Generally Accepted Accounting Principles

As described in Note 1, DLA has not implemented certain accounting standards required for the Department of Defense and the Federal Government. The effect of these matters on the financial statement amounts and related disclosures involved is not currently determinable by DLA and could be material.

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Basis for Disclaimer of Opinion

DLA continues to have unresolved accounting issues and material weaknesses in internal controls that cause DLA to be unable to provide sufficient evidential support for complete and accurate financial statements on a timely basis. As a result, we cannot determine the effect of the lack of sufficient appropriate audit evidence on DLA's financial statements as of and for the years ended September 30, 2020 and 2019.

Disclaimer of Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the Table of Contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph. We do not express an opinion or provide any assurance on the information.

Other Information

We were engaged for the purpose of forming an opinion on the financial statements that collectively comprise DLA's financial statements. The Other Information, as listed in the Table of Contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The Other Information has not been subjected to the auditing procedures applied in the engagement to perform an audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our reports dated November 13, 2020, on our consideration of DLA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of those reports is solely 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 the effectiveness of DLA's internal control over financial reporting or on compliance. Those reports are an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering DLA's internal control over financial reporting and compliance.

Ernst + Young LLP

November 13, 2020

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Report of Independent Auditors on Internal Control Over Financial Reporting Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Director of the Defense Logistics Agency and
The Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the General Fund of the Defense Logistics Agency (DLA), which comprise the balance sheet as of September 30, 2020, and the related statement of net cost, statement of changes in net position and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2020. Our report disclaims an opinion on such financial statements because DLA was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Internal Control Over Financial Reporting

In connection with our engagement to audit the financial statements, we considered DLA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DLA's internal control. Accordingly, we do not express an opinion on the effectiveness of DLA's internal control. 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 preparing performance information ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. As described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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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 a 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 below and in Appendix A as items I. through VII. to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below and in Appendix B as item I. to be significant deficiencies.

Material Weaknesses

We identified the following matters involving internal control over financial reporting and its operation that we consider to be material weaknesses, as defined above:

I. Property, Plant and Equipment (PP&E) – PP&E includes internal use software (IUS) and construction-in-progress (CIP). DLA does not have policies, procedures and controls to identify the costs associated with the construction of assets in order to properly value the assets and has weaknesses in the processes of maintaining and reconciling PP&E records. Therefore, DLA is unable to support the existence, completeness, rights and valuation of its PP&E. The combination of deficiencies in aggregate results in a material weakness in internal control related to PP&E. The matters identified related to PP&E are further described in Appendix A.

II. Fund Balance with Treasury (FBwT) – DLA is unable to reconcile the FBwT ending balances from the general ledger directly to U.S. Treasury. DLA, in conjunction with Defense Finance and Accounting Services (DFAS), has implemented the Cash Management Reconciliation (CMR) and Department 97 Report Reconciliation Tool (DRRT) processes as mechanisms to reconcile DLA's general ledger to U.S. Treasury. However, these tools have known control deficiencies and reconciling issues. In addition, DLA does not have sufficient policies, procedures and internal controls in place for the end-to-end FBwT process. The combination of these deficiencies in aggregate results in a material weakness in internal control related to FBwT. The matters identified related to FBwT are further described in Appendix A.

III. Accounts Receivable (AR) and Revenue – AR consists of amounts owed to DLA primarily related to providing services to other federal agencies. Revenue is earned when DLA provides services to the public or other federal entities. DLA was unable to support the balances recorded as AR; properly identify valid unfilled customer orders and had not supported transactions recorded. In addition, DLA did not have adequate policies,

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procedures and controls to record AR and revenue transactions in the proper period and in accordance with U.S. generally accepted accounting principles (GAAP). The combination of these deficiencies in aggregate results in a material weakness in internal control related to AR and revenue. The matters identified related to AR and revenue are further described in Appendix A.

IV. Accounts Payable (AP) and Expense – AP represents the amount owed to third parties by DLA for goods and services received. Expenses are incurred and recognized when DLA receives goods and services from the public or other federal entities. DLA was unable to support the AP balance, expenses and related budgetary balances. In addition, DLA did not have overall policies, procedures, and internal controls for the procure to pay process, including the process to create and approve obligations and the process to review, record and pay invoices. Furthermore, DLA lacked adequate procedures to record obligations and accrue for liabilities incurred but not paid, and it recorded transactions in the procure to pay process in incorrect periods. The combination of these deficiencies in aggregate results in a material weakness in internal control related to AP and expense. The matters identified related to AP and expense are further described in Appendix A.

V. Financial Reporting – DLA's financial statement preparation process lacks sufficient controls to review and identify inaccurate balances within the financial statements and incomplete and inaccurate footnote disclosures. In addition, DLA lacks policies and procedures to validate account balances and monitor reporting variances between source systems, resulting in DLA recording unsupported journal vouchers (JV) to correct the variances. Furthermore, DLA is unable to provide detailed listings for budgetary accounts that reconcile to the general ledger. The combination of these deficiencies in aggregate results in a material weakness in internal control related to financial reporting. The matters identified related to financial reporting are further described in Appendix A.

VI. Oversight and Monitoring – DLA does not have an effective OMB Circular A-123 program, which impacted DLA's ability to appropriately identify and address significant risks for all key business processes. DLA has not implemented appropriate internal controls, including the documentation of policies and procedures that describe DLA's environment related to end-to-end business processes, monitoring of service providers, suballottees, related parties, systems, risks, controls and remediation of audit findings. In addition, DLA does not perform proper review of data/reports used in the execution of key controls. The combination of these deficiencies in aggregate results in a material weakness in internal control related to oversight and monitoring. The matters identified related to oversight and monitoring are further described in Appendix A.

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VII. Information Systems – Our assessment of DLA's information technology (IT) controls and the computing environment identified deficiencies which, collectively, constitute a material weakness in the design and operation of information systems controls over financial data. Based on our review, we have identified four areas of deficiency, which, when aggregated, result in a material weakness. The deficiencies relate to the following four areas:

- Access Controls
- Configuration Management
- Segregation of Duties Controls
- Security Management/Governance Over Implementation of Security Controls

The matters identified related to information systems are further described in Appendix A.

Significant Deficiencies

We identified the following matters involving internal control over financial reporting and its operation that we consider to be a significant deficiency, as defined above:

I. Environmental Liabilities (EL) – ELs are comprised of cleanup costs associated with the restoration of sites on real property that DLA manages. DLA lacks adequate policies, procedures and controls to validate its estimation methodology. The matters identified related to EL are further described in Appendix B.

Management's Response to Findings

DLA's responses to the findings identified in our engagement, and relevant comments from DLA's management are provided in their accompanying letter dated November 13, 2020. Management's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements, and, accordingly, we express no 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 the entity's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 13, 2020

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Appendix A – Material Weaknesses

I. Property, Plant and Equipment

Property, Plant and Equipment (PP&E) is comprised of internal use software (IUS) and construction-in-progress (CIP). In accordance with FMFIA, management is responsible for establishing and maintaining effective controls to achieve proper accountability for property and other assets for which the agency is responsible. However, DLA was not able to support the existence, completeness, rights and obligations, or valuation of its PP&E.

A. **Lack of or Inadequate Documentation of Accounting Policies and Procedures, Including Controls.** PP&E process documentation, policy memoranda and standard operating procedures fail to document the end-to-end processing of PP&E transactions and related internal control activities. Specifically, a complete inventory of IUS and a reconciliation of CIP has not been performed. DLA is in the process of establishing or revising its policies and procedures for performing the inventories and reconciliations on an ongoing basis and transferring of CIP assets upon completion.

B. **Lack of or Inadequate Documentation to Substantiate PP&E and PP&E-Related Transactions.** DLA was unable to provide documentation that PP&E balances exist, that transactions occurred or that DLA has rights to the PP&E recorded in the financial statements. Specifically, documentation was not available to support:

- **IUS.** The existence and rights of completed IUS assets recorded on the financial statements.
- **CIP.** The existence and completeness of CIP assets, including beginning balances, for 100% of the samples provided to DLA.

C. **Lack of or Inadequate Policies, Procedures and Controls Over PP&E Processes.** DLA lacks or has inadequate policies, procedures and controls, including the design of controls over the following:

- **Inadequately Designed Controls Over PP&E Processes.** Controls that have been implemented are not designed adequately. For example, the information used in the control activity is not assessed for completeness and accuracy. In addition, sufficient documentation does not exist to evidence the performance of the control activities. As a result, DLA is unable to demonstrate that the control is operating effectively.
- **IUS.** DLA policy states that IUS assets are recorded as in-service PP&E upon the completion of the asset. However, IUS activity is not evaluated to determine whether the activity should be capitalized or expensed and to identify when assets are completed and should be placed in service.

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D. **Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** DLA does not have policies, procedures and controls to effectively implement accounting standards, causing inaccurate presentation of PP&E on the balance sheet and in the related footnote disclosure. Specifically, DLA has neither implemented nor applied the accounting and valuation methodologies set forth by Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Government*; SFFAS No. 6, *Accounting for Property, Plant and Equipment*; SFFAS No. 10, *Accounting for Internal Use Software*; and SFFAS No. 50, *Establishing Opening Balances for Property, Plant and Equipment.* For example:

- DLA is unable to support the values assigned to IUS in accordance with SFFAS No. 10.

- DLA has not established a policy to account for its leasing arrangements, nor assessed whether the leasing arrangements should be accounted for as a capital or an operating lease. As a result, the financial statements do not include disclosures for DLA's policy to account for lease arrangements, any operating lease commitments and future minimum payments due.

Recommendations

Consider the following corrective actions related to the deficiencies identified above:

A. **Lack of or Inadequate Documentation of Accounting Policies and Procedures, Including Controls.** Document, update and finalize the process cycle memoranda (PCM) that document the end-to-end processes for PP&E, including the transfer of CIP assets to the military services when they are placed into service. Complete the inventory of IUS and CIP to verify the existence and completeness of the accounting records.

B. **Lack of or Inadequate Documentation to Substantiate PP&E and PP&E-related Transactions.**

- **IUS.** Develop documentation to substantiate that all of DLA's IUS assets exist and that DLA has the rights to the assets.

- **CIP.** Develop documentation to substantiate that all of DLA's CIP assets exist and are recorded completely and accurately.

C. **Lack of or Inadequate Policies, Procedures and Controls Over PP&E Processes.**

- **Inadequately Designed Controls Over PP&E Processes.** Design and implement internal control activities that include criteria, analyses, reviews and supporting thresholds used in the execution of all relevant internal controls. Specifically, evidential matter should be available to demonstrate that the control activity was performed; the scope of the review should be sufficient to identify and correct errors in the procedures performed; and the assessment of any variances should be performed appropriately.

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- **IUS.** Design and implement policies and procedures that require IUS activity to be reviewed for proper capitalization and recorded in the appropriate period.

D. **Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** Design policies and procedures to implement the appropriate accounting standards, specifically SFFAS No. 5, SFFAS No. 6, SFFAS No. 10 and SFFAS No. 50. The policies and procedures should include:

- Assessing whether the values assigned to IUS assets is in accordance with SFFAS No. 10. In addition, evaluate alternative valuation methodologies available under SFFAS No. 50. SFFAS No. 50 permits the exclusion of IUS and IUS under development from the opening balance as of the opening balance date.

- Establishing an accounting policy to identify and account for leasing arrangements, including whether the leases should be accounted for and reported as capital or operating leases in accordance with SFFAS No. 5 and SFFAS No. 6. In addition, include the required disclosures for capital and operating leases in the financial statements in accordance with OMB Circular A-136.

II. Fund Balance with Treasury

Fund Balance with Treasury (FBwT) represents the aggregate amount of funds in DLA's account with U.S. Treasury. Treasury's Financial Manual (TFM) Chapter 5100, Section 5120 requires agencies to implement effective and efficient reconciliation processes and perform timely reconciliations. However, deficiencies exist related to DLA's processes of recording and reconciling transactions involving FBwT.

A. **Lack of or Inadequate Documentation of FBwT Accounting Policies, Procedures and Controls.** DLA has not documented the end-to-end process to account for, monitor and report FBwT and FBwT-related transactions. Documentation does not include the process to determine the amounts recorded in suspense accounts and research and resolve differences between U.S. Treasury, disbursing system records and accounting system records within a timely basis.

B. **Lack of Controls for the Reconciliation of FBwT Between the General Ledger and the U.S. Treasury.** DLA, in conjunction with DFAS, has implemented the CMR and DRRT processes as mechanisms to attempt to tie the general ledger to U.S. Treasury. However, the CMR and DRRT processes are not sufficient to produce a complete and accurate reconciliation of DLA's general ledger to U.S. Treasury. As a result, DLA is unable to accurately reconcile to U.S. Treasury.

Recommendations

Consider the following corrective actions related to the conditions described above:

A. **Lack of or Inadequate Documentation of FBwT Accounting Policies, Procedures and Controls.** Finalize the documentation of the end-to-end process for FBwT. The documentation should include the process to perform regular and recurring reconciliations of the suspense account data and the process to research and resolve differences between U.S. Treasury, disbursing system records and accounting system records within a timely basis.

B. **Lack of Controls for the Reconciliation of FBwT Between the General Ledger and the U.S. Treasury.** In coordination with DFAS, obtain a system and organization controls (SOC) report for the CMR and DRRT and reconcile the transactions recorded in the general ledger to the transactions sent to the Secure Payment System (SPS) in order to verify that the data was processed correctly.

III. Accounts Receivable and Revenue

Accounts receivable (AR) consists of amounts owed to DLA. Revenue is earned when DLA provides services to the public or other federal entities. AR and revenue fall within the scope of DLA's order-to-cash process. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls that provide reasonable assurance that revenues applicable to the agency's operations are properly recorded and accounted for to permit the preparation of reliable financial reports and maintain accountability of assets. Because of the nature of its services, DLA has a significant volume of transactions in the order-to-cash process. This balance represents a substantial portion of their activity that involves receipt of funds by DLA in order to provide services to its ultimate consumers. The volume of these transactions makes it critical for DLA to properly record and reconcile these transactions to ensure timely, appropriate recognition of costs to the end users.

A. **Lack of or Inadequate Documentation of AR and Revenue Accounting Policies, Procedures and Controls.** DLA has not documented the end-to-end process to account for Unfilled Customer Orders (UCOs).

- **UCOs**. Documentation does not include the process to identify, research and resolve unreconciled amounts for UCOs and the process to review the validity of significantly aged UCOs in the general ledger despite being closed through other business processes and systems.

B. **Lack of or Inadequate Documentation to Substantiate UCOs, AR and Revenue Transactions.** DLA was unable to provide documentation that UCO and AR balances exist, revenue balances occurred and that transactions were recorded in the proper period. Specifically, documentation was not available to support:

- **UCOs.** The balance of UCO transactions is complete and accurate and reconciles to the general ledger.

- **Revenue.** Revenue transactions occurred and were recorded in the proper period.

- **AR.** Receivable balances are valid and have not been collected (i.e., existence and completeness).

C. **Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** DLA does not have policies, procedures and controls to effectively implement accounting standards, causing inaccurate presentation of revenue on the statement of net cost and in the related footnote disclosure. Specifically, DLA does not assess the proper revenue recognition for services produced to order in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Recommendations

Consider the following corrective actions related to the deficiencies identified above:

A. **Lack of or Inadequate Documentation of Accounting Policies and Procedures, including Controls.** Documentation should include the process to reconcile UCOs between the general ledger and sales legacy module completely, accurately and timely and to review the aged UCO balances for validity.

B. **Lack of or Inadequate Documentation to Substantiate UCOs, AR and Revenue Transactions.** Develop documentation, including detailed listings of account balances, to substantiate that the balance of AR (federal and non-federal), UCO and revenue transactions are complete and accurate and that the balances exist or have occurred. The listing should be reconciled to the general ledger.

C. **Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** Design policies and procedures to implement the appropriate accounting standards, specifically SFFAS No. 7. The policies and procedures should include assessing whether revenue for specific services produced to order should be recognized using the percentage-of-completion method as prescribed by SFFAS No. 7.

IV. Accounts Payable and Expenses

Accounts payable (AP) consists of amounts owed to vendors. Expenses are incurred and recognized when DLA obtains goods and services from the public or other federal entities. Undelivered Orders (UDOs) represent the amount of goods and/or services ordered which have not been received. AP, expenses and UDOs fall within the scope of DLA's procure-to-pay process. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls that provide reasonable assurance that expenses and budgetary transactions applicable to the agency's operations are properly recorded and accounted for to permit the preparation of reliable financial reports. Because of the nature of the services, DLA has a significant volume of transactions to procure goods and services to sell to its customers. Deficiencies exist in DLA's processes for recording and supporting the accounts payable and accruals, expenses and related

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budgetary balances; recording obligations and accounts payable in the proper period; documenting policies, procedures and controls; and designing and executing controls over the processes to create and approve obligations and to review, record and pay invoices.

A. **Lack of or Inadequate Documentation of UDO, AP, Unliquidated Obligation (ULO) and Expenses Accounting Policies, Procedures and Controls.** DLA has not documented the end-to-end process to account for UDO, AP and expense transactions.

- **UDO.** The documentation does not include the process to review the validity of significantly aged UDO. As a result, there is a significant number of UDO transactions that had no current-year activity.

- **AP.** The documentation does not include the process to evaluate the validity of AP, including significantly aged AP and negative payables; the process to record invoices in the general ledger and submit to DFAS for payment timely; and the process to pay invoices timely or assess interest penalties for late payments in accordance with the Prompt Payment Act.

- **ULO.** The documentation does not include the process to review the validity of significantly aged ULO. For example, $20.5m (approximately 15% of total balance) in ULOs had no activity (payables, expenses, outlays) for at least two years.

B. **Lack of or Inadequate Controls Over UDO, AP, Expenses and Cash Disbursement Processes.** DLA lacks or has inadequate controls, including the design of controls, over the following:

- **UDO.** DLA lacks controls to approve and record obligations in a timely manner; controls to record upward and downward adjustments to UDO accurately and timely; and controls to close invalid UDO in a timely manner.

- **Vendor Contracts.** DLA lacks controls to execute contracts in accordance with the Federal Acquisition Regulation (FAR) and to record obligations timely for contracts, including Indefinite Quantity Contracts (IQC). For example, IQCs awarded did not have an obligation recorded at the contract award date because the IQC did not have a guaranteed minimum at the contract award date.

- **AP and Cash Disbursements.** DLA lacks controls to post goods receipts in a timely manner; review invoices prior to payment and review payments that fail to post systematically in a timely manner.

- **Expenses Recorded in the Appropriate Period.** DLA lacks controls to record expense transactions appropriately and accurately in the period that the transactions occurred. As a result, two instances in our sample of five expense transactions were recorded in the incorrect period.

- **Transactions Recorded at the Detailed Level.** DLA lacks controls to comply with the Federal Financial Management Improvement Act (FFMIA), which requires transactions to be recorded at the detailed transaction level. DLA recorded transactions at a summary level for certain budgetary and proprietary accounts. As a result, each summary-level record contained multiple individual transactions. A reconciliation is not performed between detailed transactions posted to the proprietary accounts and the summarized postings to the corresponding budgetary accounts.

C. **Lack of or Inadequate Documentation to Substantiate AP and Expense Transactions.** DLA was unable to provide documentation to support the existence of accounts payable balances, or expense transactions that occurred are accurately recorded in the financial statements. Specifically, documentation was not available to support the transactions and balances for various accounts, such as accounts payable, negative payables, UDO (paid and unpaid), and upward and downward adjustments to delivered and undelivered orders.

D. **Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** DLA does not have policies, procedures and controls to effectively implement accounting standards. Specifically, DLA has not implemented or applied the accounting set forth by SFFAS No. 1, *Accounting for Selected Assets and Liabilities,* No. 4, *Managerial Cost Accounting Standards and Concepts* and No. 5, *Accounting for Liabilities of the Federal Government*. For example:

- DLA processes allow for payment without receipt, thus resulting in a negative payable balance. This occurs when payment is made prior to the goods receipts being posted in the general ledger, and it results in an understatement of expenses and payables and a misstatement of UDO.

- Accounts payable and accrued liabilities are not recorded appropriately. For example, DLA applied the straight-line method to calculate the accrual amount but did not perform any assessment to determine whether this is an appropriate methodology. Particularly, for MIPRs that do not have a fixed monthly cost, the straight-line method is not appropriate.

Recommendations

Consider the following corrective actions related to the conditions described above:

A. **Lack of or Inadequate Documentation of UDO, AP, ULO and Expenses Accounting Policies, Procedures and Controls.** Update and finalize the PCMs that document the end-to-end processes for UDO, AP, ULO and expenses.

- **UDO.** The documentation should include the process to review the validity of significantly aged UDO, including a process to write off residual UDO for completed transactions.

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- **Accounts Payable.** The documentation should include the process to evaluate the validity of accounts payable, including significantly aged AP and negative payables; the process to record invoices in the general ledger and submit to DFAS for payment timely; and the process to pay invoices timely or assess interest penalties for late payment in accordance with the Prompt Payment Act.

- **ULO.** The documentation should include the process to review the validity of significantly aged ULO, including the process to write off residual ULO for completed transactions.

B. **Lack of or Inadequate Controls Over UDO, AP, Expenses and Cash Disbursement Process**

- **UDO.** Design and implement controls to approve and record obligations in a timely manner; controls to record upward and downward adjustments to UDO accurately and timely; and controls to close invalid UDOs in a timely manner.

- **Vendor Contracts.** Design and implement controls to execute contracts in accordance with the FAR and record obligations timely for contracts, including IQCs.

- **AP and Cash Disbursements.** Design and implement controls to post goods receipts in a timely manner; review invoices prior to payment; and review payments, including payments that fail to post systematically, and ensure that they are posted in a timely manner.

- **Expenses Recorded in the Appropriate Period.** Design and implement controls to record expense transactions appropriately and accurately and in the period that the transaction occurred, and controls to monitor expense transactions at or near period-end.

- **Transactions Recorded at the Detailed Level.** Design and implement controls to comply with the FFMIA and reconcile the transaction-level detail to the summarized postings in each account.

C. **Lack of or Inadequate Documentation to Substantiate AP and Expense Transactions.** Develop documentation to support that AP and corresponding budgetary balances exist, or that expense transactions occurred and are accurately recorded in the financial statements.

D. **Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** Design and implement policies and procedures to record expenses incurred in the proper period and classify costs and payables in accordance with SFFAS No. 1, No. 4 and No. 5.

V. Financial Reporting

Financial reporting encompasses all aspects of operations affecting DLA's ability to produce reliable financial statements and disclosures. This process starts with establishing an effective governance structure to identify and assess risk and continues with developing a control environment that is effective and efficient to manage identified risks. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. However, deficiencies exist in DLA's processes related to the accumulation and presentation of financial position and results of operations.

A. **Lack of or Inadequate Documentation of Financial Reporting and Budgetary Processes.** DLA has not completely documented the end-to-end processes related to funds management. For example, the documentation does not sufficiently include a description of the process to record budget authority, the transfer process or the Treasury warrant process.

B. **Lack of Controls Over Compliance with the TFM United States Standard General Ledger (USSGL).** DLA does not have controls to configure the posting logic in the general ledger to be compliant with the USSGL, nor does it have controls to link business events to the correct posting logic. As a result, transactions are not recorded appropriately. For example, DLA inappropriately uses a general ledger account (negative payables) to track payments made without goods received and inappropriately combines entries to record the movement of budgetary funds through the apportionment and allotment process, which should be recorded separately.

C. **Lack of or Inadequate Controls Over Financial Reporting Processes.** DLA lacks or has inadequate controls, including the design of controls, over the following:

- **Beginning Balances for Budgetary Accounts.** DLA does not have controls to verify the accuracy of the beginning balances for budgetary accounts, such as Total Actual Resources Collected and Contract Authority Carried Forward accounts. As a result, DLA is unable to substantiate beginning balances recorded on the financial statements.

- **Trading Partner Transactions.** DLA does not have controls in place to validate and reconcile trading partner eliminations. Adjustments made to accounts receivable, accounts payable, revenue, expenses and undisbursed funds are not appropriately supported. A complete reconciliation is not performed at the agreement level to the trading partner adjustments that are being made. As a result, trading partner adjustments are recorded in the Defense Departmental Reporting System (DDRS) as "top-side" adjustments and are identified as "unsupported" by DFAS.

- **Contingent Liabilities.** DLA does not have adequate controls to identify and account for contingent legal liabilities that should be recorded or disclosed in the financial statements.

- **Financial Statement Close Process.** DLA does not have adequately designed controls around the annual close and reconciliation processes, such as the following: the monthly or quarterly reconciliation between the unadjusted trial balance (UTB) and the adjusted trial balance (ATB), including suballottee balances, is not performed sufficiently and timely; the information used in the reconciliation of UTB to ATB is not complete and accurate; and the review of the procedures performed during the financial statement close process is not adequate. In addition, DLA has not designed processes or controls to implement new accounting standards.

- **Budgetary to Proprietary Tie Points.** DLA does not have adequately designed controls around the tie-point process. There are reconciliation issues between the budgetary and proprietary tie points. As a result, DFAS records unsupported monthly and quarterly JV in the general ledger and DDRS to reconcile DLA's budgetary accounts to the proprietary accounts.

- **Monthly or Quarterly JV Adjustments.** DLA does not have controls to review and approve JV adjustments recorded in the general ledger and DDRS by DLA and DFAS for completeness, accuracy and validity. As a result, a comprehensive listing of adjustments made is not maintained to allow DLA to determine the appropriateness of each JV adjustment, including those recorded by their service provider.

- **Financial Statement Review Process.** The level of review of the financial statements and footnote disclosures was insufficient to detect and correct misstatements in the financial statements and related disclosures. As a result, inaccurate balances and disclosures were reported in the financial statements and notes. For example, line items are not appropriately classified between federal and nonfederal; supporting documentation did not support the balances recorded in the notes; and the financial statements are not prepared in conformity with U.S. GAAP as described in Note 1, Significant Accounting Policies, which did not sufficiently describe changes or noncompliance in U.S. GAAP reporting.

- **Receipt of Budgetary Funding.** DLA does not have adequate controls to identify variances in the reconciliation of budgetary funding, including the reconciliation to the public law.

D. **Lack of or Inadequate Documentation to Substantiate Budgetary Execution.** DLA is unable to provide detailed listings for budgetary accounts at the purchase order (PO) or sales order (SO) level that reconcile to the general ledger, such as delivered and undelivered orders and unfilled customer orders.

Recommendations

Consider the following corrective actions related to the conditions described above:

A. **Lack of or Inadequate Documentation of Financial Reporting and Budgetary Processes.** Document the funds management process and controls to accurately reflect all aspects of the end-to-end budget to execute process, including processes and controls performed by DLA and service providers.

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B. **Lack of Controls Over Compliance with the TFM USSGL.** Design and implement controls to configure posting logic to be compliant with the USSGL; link business events to the correct posting logic; and post transactions as intended.

C. **Lack of or Inadequate Controls Over Financial Reporting Processes.**

- **Beginning Balances for Budgetary Accounts.** Design and implement control activities to accurately state the beginning balance for carryforward budgetary accounts.

- **Trading Partner Transactions.** Design and implement controls to perform a reconciliation at the agreement level to validate trading partner eliminations, which includes identifying, researching and resolving variances between DLA general ledger data and trading partners.

- **Contingent Liabilities.** Design and implement controls related to litigation to identify, estimate, record and disclose contingent liabilities in the financial statements.

- **Financial Statement Close Process.** Develop and implement controls around the annual close and reconciliation process, which includes a complete, accurate and timely reconciliation of the UTB to the ATB, including suballottee balances, and processes and controls to analyze the impact of new accounting standards.

- **Budgetary to Proprietary Tie Points.** Design and implement controls to reconcile budgetary to proprietary tie points and investigate variances.

- **Monthly or Quarterly JV Adjustments.** Design and implement controls to review and approve JV adjustments recorded in the general ledger and DDRS by DLA and DFAS for completeness, accuracy and validity prior to posting.

- **Financial Statement Review Process**. Design and implement controls to sufficiently review the quarterly financial statements and disclosures; to detect and correct misstatements; and to review that the financial statements and disclosures are complete and prepared in accordance with U.S. GAAP.

- **Receipt of Budgetary Funding**. Design and implement controls to perform an adequate reconciliation of the amounts recorded in the general ledger to the Consolidated Appropriations Act and the final report on budget execution and budgetary resources.

D. **Lack of or Inadequate Documentation to Substantiate Budgetary Execution.** Develop and implement procedures to generate complete and accurate listings of budgetary accounts at the purchase order and sales order level that reconcile to the general ledger.

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VI. Oversight and Monitoring

Oversight and monitoring relate to DLA's lack of establishment and implementation of a sufficient enterprise-wide control environment as required by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management Internal Control*.

A. **Lack of or Inadequate Documentation Around the OMB A-123 Program**. DLA has not documented the end-to-end process to oversee and monitor the enterprise-level risks and controls, including the OMB A-123 program. Specifically, DLA has not performed and documented a sufficient risk assessment at the enterprise and business process level to assess and document reporting matters, such as the complexity of programs, accounting estimates, related-party transactions and the extent of manual processes; a complete and accurate population of its assessable units, business processes and relevant controls that are responsive to and mitigate risks, including fraud risks; and an assessment and plan for timely remediation of audit findings.

B. **Lack of or Inadequate Controls Around System-Generated Reports.** DLA lacks or has inadequate controls to verify the accuracy and completeness of system-generated reports required in the execution of controls.

C. **Insufficient Oversight and Monitoring of Third-Party Service Providers.** Service organizations undergo examinations of internal controls over systems and processes supporting their customers. The results of these examinations are documented in SOC 1 reports and include the independent service auditor's report, the service organization's management assertions and identified Complementary User Entity Controls (CUECs) that users of the service organization (e.g., DLA and its suballottees) should have in place to supplement the service organization's internal controls. DLA does not perform sufficient oversight and monitoring of SOC 1 reports and does not sufficiently design, implement or monitor CUECs over its service providers.

D. **Insufficient Oversight and Monitoring of Funding Executed by Others.** Review controls are not designed effectively to monitor for example, the execution of funding awarded to grantees for the Procurement Technical Assistance Center (PTAC) program or allotted to the Defense Microelectronic Activity (DMEA) for the procurement of inventory. Specifically, DLA does not perform a sufficient review of transactions that are recorded on their financial statements.

Recommendations

Consider the following corrective actions related to the conditions described above:

A. **Lack of or Inadequate Documentation Around the OMB A-123 Program.** Document the end-to-end process to oversee and monitor the enterprise-level risks and controls, including the OMB A-123 program. Perform and document a sufficient risk assessment at the enterprise and business process level to assess and document reporting matters. Document a complete and accurate population of its assessable units and business processes. Identify and assess the risks

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in each business process and design and implement relevant controls that are responsive to and mitigate these risks, including fraud risks. Perform an assessment and establish and execute the plan to remediate the audit findings timely.

B. **Lack of or Inadequate Controls Around System-Generated Reports.** Design and implement controls to verify the accuracy and completeness around system-generated reports used in the execution of controls. For example, the procedures should include: footing system generated reports; performing a tie-out of system generated reports to the general ledger system; verifying that the parameters used to generate the reports or data are appropriate; judgmentally selecting a sample of transactions or balances in the report; and validating that the transactions are accurate.

C. **Insufficient Oversight and Monitoring of Third-Party Service Providers.** Design and implement controls around the SOC 1 review process and validate that CUECs are properly identified, designed and are operating effectively.

D. **Insufficient Oversight and Monitoring of Funding Executed by Others.** Design and implement internal controls to review that transactions executed by others, but recorded in DLA's financial statements, are complete and accurate, and are supported by appropriate documentation.

VII. Information Systems

Information systems controls are a critical component of the federal government's operations to manage the integrity, confidentiality and reliability of its programs and activities and assist with reducing the risk of errors, fraud or other illegal acts. Information management security, access controls, segregation of duties, and configuration management controls are fundamental to the integrity of financial data and can help manage risks such as unauthorized access, changes to critical data, and prevent compromised data. The nature, size, and complexity of DLA's operations require DLA to administer its programs under a decentralized business model by using numerous geographically dispersed operating locations and complex, extensive information systems.

DLA has made progress in remediating several prior year control deficiencies in the areas of least privileged access and segregation of duties. However, several repeat control deficiencies in the design and operation of information systems controls continue to remain unresolved.

The deficiencies relate to the following areas:

- Access Controls
- Configuration Management
- Segregation of Duties Controls
- Security Management / Governance Over Implementation of Security Controls

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Access Controls

Access controls include those related to protecting system boundaries, user identification and authentication, authorization, protecting sensitive system resources, audit and monitoring, and physical security. When properly implemented, access controls can help ensure that critical systems assets are physically safeguarded and that logical access to sensitive computer programs and data is granted to users only when authorized and appropriate. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

The identified access control weaknesses in aggregate represent a significant risk to the DLA financial statements, Information Technology (IT) environment, and financial applications. Absent or ineffective preventative controls and compensating detective controls expose financial systems and financial data to inappropriate access, unauthorized inputs, and inaccurate entries, resulting in significant risk to the financial statements.

The identified access control weaknesses that represent a significant risk to the DLA financial management information systems environment include the following:

- Access was not restricted to authorized users with a business need, was not reviewed and documented prior to provisioning, and was not assigned in accordance with the principle of least privilege.

- User access and activity was not monitored and tracked for routine access recertification, revalidation of privileged access, and terminated or inactive users.

Configuration Management

Configuration management involves the identification and management of security features for all hardware and software components of an information system at a given point and systematically controls changes to that configuration during the system's life cycle. By implementing configuration management controls, DLA can ensure that only authorized applications and software programs are placed into production through establishing and maintaining baseline configurations and monitoring changes to these configurations. Weaknesses in such controls can compromise the integrity of sensitive data and increase the risk that such data may be inappropriately used and disclosed.

The identified configuration management and change control weaknesses in aggregate represent a significant risk to the DLA financial statements, IT environment, and financial applications. Absent or ineffective controls expose financial systems and financial data to unexpected impact from changes, inappropriate or unauthorized changes, and application errors in production.

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The identified change control weaknesses that represent a significant risk to the DLA financial management information systems environment include the following:

- Both routine and emergency changes are not reviewed, approved, and tested in a non-production environment prior to release. The impact and functionality of configuration changes are not assessed prior to implementation.

- System configurations, baseline code, and production environments are not monitored and inspected for unauthorized changes.

- Users have access privileges enabling them to bypass the configuration management process and make changes directly to production.

Segregation of Duties Controls

An effective control environment guards against a particular user having incompatible functions within a system. Segregation of duties controls provide policies, procedures, and an organizational structure to prevent one or more individuals from controlling key aspects of computer-related operations and, thereby, conducting unauthorized actions or gaining unauthorized access to financial management information systems.

The identified segregation of duties and conflicting role weaknesses in aggregate represent a significant risk to the DLA financial statements, IT environment, and financial applications. Absent or ineffective controls around segregation of duties allow users to circumvent processes and automated controls in place, obtain unnecessary or elevated access, and impact the integrity of financial data.

The identified weaknesses that represent a significant risk to the DLA financial management information systems environment include the following:

- Segregation of duties within the user provisioning process is not completed consistently across all applications. Management did not identify segregation of duties conflicts that consider both IT and business process roles and activities. Conflicting roles were not inspected and rationalized prior to provisioning.

- Application program management has not completely identified sensitive (financial transactions) roles in order to identify and implement appropriate segregation of duties.

Security Management / Governance Over Implementation of Security Controls

An entity-wide information security management and internal control program is the foundation of a security control structure to address security risks. The security management program should establish a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures. Without a well-designed program, security controls may be inadequate; responsibilities may be unclear, misunderstood, or improperly implemented; and controls may be inconsistently applied.

Such conditions may lead to insufficient protection of sensitive or critical resources and disproportionately high expenditures for controls over low-risk resources.

The identified security management and governance weaknesses in aggregate represent a significant risk to the DLA financial statements, IT environment, and financial applications. Absent or ineffective controls around internal controls and governance compound data integrity risk by not monitoring third parties and not remediating known gaps timely.

The identified security management and internal control weaknesses that represent a significant risk to the DLA financial management information systems environment include the following:

- SOC reports are not monitored and reviewed to assess CUECs, the impact of service organization findings, identification of compensating controls, and resolution of control gaps. In addition, service level agreements (SLAs) are not reviewed and updated in a timely manner.

- Management internal control procedures do not identify financially significant risks, establish and implement controls, track known risk exposures, and remediate control gaps.

Recommendations

Implement controls to address deficiencies in access controls, configuration management, segregation of duties and security management procedures to include:

Access and Segregation of Duties Controls

- Restrict access to authorized users in accordance with the least privilege principle. Review and approve all access, including justification of business needs.

- Routinely monitor and revalidate access needs for business users, privileged users, and inactive users.

- Identify and document conflicting roles, enforce established segregation of duties processes, and assess conflicts during account provisioning and management. Segregate conflicting roles where possible, and if unavoidable, document business rationale and monitor user activity.

Configuration Management

- Review, approve, and test changes prior to implementation, to include user testing and functionality assessments. Monitor source code, configurations, and production environments for unauthorized changes.

- Segregate conflicting roles between development and production environments.

Security Management / Governance over Implementation of Security Controls

- Document risks and controls in place, identify gaps, and complete corrective actions to strengthen the internal control environment. Improve documentation, test and validate controls, and remediate findings.

- Establish a process to evaluate and incorporate service provider reports, findings, and controls into management's security documentation, governance process, and application control environment.

Appendix B – Significant Deficiency

I. Environmental Liabilities

ELs are comprised of cleanup costs associated with the restoration of sites that DLA manages. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. However, we identified the following deficiency in internal controls, which, when aggregated, we consider to be a significant deficiency.

A. **Inadequate Controls Over Estimation Processes.** DLA does not have adequately designed controls around their analysis to retrospectively review the estimate, which includes comparing actual costs to estimates to validate the estimation methodology.

Recommendations

Consider the following corrective actions related to the deficiencies identified above:

A. **Inadequate Controls Over Estimation Processes.** Design and implement adequate controls to compare actual costs to estimates to see if any changes to the estimation methodology are necessary.

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Report of Independent Auditors on Compliance and Other Matters Based on an Engagement to Audit the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Director of the Defense Logistics Agency and
The Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the General Fund of the Defense Logistics Agency (DLA), which comprise the balance sheet as of September 30, 2020, and the related statement of net cost, statement of changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2020. Our report disclaims an opinion on such financial statements because DLA was not able to provide sufficient appropriate audit evidence due to matters discussed further in the Basis for Disclaimer of Opinion paragraph.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of DLA, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements, as well as the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA) (P.L. 104-208). However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion.

The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03, as described below. 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.

Our Report on Internal Control Over Financial Reporting dated November 13, 2020, includes additional information related to the financial management systems and internal controls that were found not to comply with the requirements, relevant facts pertaining to the noncompliance, and our recommendations to the specific issues presented.

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Building a better working world

As referenced in the Fiscal Year (FY) 2020 DLA Statement of Assurance, DLA provides no assurance that the internal controls over operations, financial systems, reporting and compliance are operating effectively in compliance with the Federal Managers' Financial Integrity Act (FMFIA), Section 4; FFMIA of 1996, Section 803; and OMB Circular No. A-123.

FFMIA

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

(a) Federal financial management system requirements

EY identified as part of the Financial Information Systems material weakness, contained in the Report on Internal Control Over Financial Reporting, noncompliance with federal financial management system requirements for multiple systems. Weaknesses identified include those associated with user access, configuration management/change controls, segregation of duties and security management. These financial system deficiencies prevent DLA from being compliant with federal financial management system requirements and inhibit DLA's ability to prepare complete and accurate financial reporting.

(b) Noncompliance with applicable federal accounting standards

As referenced in Note 1 to the financial statements, DLA self-identified that the design of their financial and nonfinancial systems does not allow DLA to comply with applicable federal accounting standards, including not being able to collect and record financial information as required by U.S. generally accepted accounting principles. EY also identified noncompliance with federal accounting standards during our testing, which was included in our Report on Internal Control Over Financial Reporting.

(c) Noncompliance with USSGL posting logic at the transaction level

EY also identified noncompliance with USSGL posting logic during our testing, which was included in our Report on Internal Control Over Financial Reporting.

FMFIA

Federal Managers' Financial Integrity Act (FMFIA) requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the entity's system of internal control,

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and prepare related reports. The Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (commonly referred to as the "GAO Green Book") issued under the authority of FMFIA, establishes five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring. To determine if an entity's internal control system is effective, the Green Book requires management to assess the design, implementation and operating effectiveness of the five components of the entity's internal control system.

DLA has not yet implemented a formal internal control program that would allow it to substantially comply with FMFIA and the related GAO Green Book requirements, leading to inadequate control environment, risk assessment and monitoring processes.

DLA was not able to provide evidence that they are in compliance with significant aspects of OMB Circular A-123, which implemented FMFIA. DLA provided a FY 2020 Statement of Assurance, however there was not sufficient evidence that DLA fully completed an organizational risk assessment, identified relevant risks related to the financial statement assertions, documented the internal control standards as it relates to those assertions, performed internal control testing, and reported and tracked control deficiencies at the control level for each process identified. DLA provided evidence demonstrating that DLA has started to implement a testing strategy, however, DLA is unable to provide evidence that the extent of testing and review performed is sufficient to meet the requirements of FMFIA.

Management's Response to Findings

DLA's responses to the findings identified in our engagement and relevant comments from DLA's management responsible for addressing the noncompliance are provided in the accompanying letter dated November 13, 2020. Management's response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no 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 entity's compliance. This report is an integral part of an engagement to perform an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 13, 2020

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MANAGEMENT'S RESPONSE TO AUDIT REPORTS

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

NOV 13 2020

MEMORANDUM FOR OFFICE OF THE INSPECTOR GENERAL. DEPARTMENT OF DEFENSE

SUBJECT: Fiscal Year (FY) 2020 Financial Statement Audit – General Fund

Thank you for the opportunity to comment on Ernst & Young, LLP, Independent Auditor Reports on the Defense Logistics Agency's (DLA), General Fund (GF) financial statements for Fiscal Year 2020. We acknowledge and concur with the material weaknesses and the disclaimer of opinion.

DLA acknowledges the material weaknesses and control deficiencies identified in the areas of financial systems, internal controls, and business processes that impact financial reporting, and will continue working to resolve the material weaknesses and strengthen internal controls around operations, reporting, and financial systems by prioritizing remediation efforts that will effect positive progress toward a favorable opinion.

DLA will continue working to enhance and mature the design and operating effectiveness of its internal controls to improve the reliability of the GF financial statements. We look forward to working collaboratively with the Office of Inspector General in support of future audits to improve financial management and stewardship.

M C Skubic

M. C. SKUBIC
VADM, SC, USN
Director

INTRODUCTION TO PRINCIPAL FINANCIAL STATEMENTS

The principal financial statements and the accompanying notes (financial statements) included in this report are prepared pursuant to the requirements of the CFO Act of 1990 (Pub. L. 101-576), and expanded by GMRA (Pub. L. 103-356) and other applicable legislation. Other reporting requirements include the OMB Circular A-136, as amended. The responsibility for the integrity of the financial information included in these financial statements rests with the management of DLA GF. The IPA was engaged to perform the audit of DLA GF's financial statements and disclaimed an opinion on these financial statements. The Audit Reports, and Management's Response to the Audit Reports, accompany the unaudited financial statements.

The DLA GF financial statements consist of the following:

The Balance Sheets present those resources owned or managed by DLA GF that represent future economic benefits (assets), amounts owed by DLA GF that will require payments from those resources or future resources (liabilities), and residual amounts retained by DLA GF comprising the difference (net position) as of September 30, 2020 and 2019.

The Statements of Net Cost present the net cost of DLA GF operations for the years ended September 30, 2020 and 2019. DLA GF's net cost of operations is the gross cost incurred by DLA GF activities, less any exchange revenue earned and inter-entity eliminations from DLA GF activities.

The Statements of Changes in Net Position present the change in DLA GF's net position resulting from the net cost of DLA GF's operations, budgetary financing sources, and other financing sources for the years ended September 30, 2020 and 2019.

The Combined Statements of Budgetary Resources present how and in what amounts budgetary resources were made available to DLA GF, the status of these resources, and the net outlays of budgetary resources for the years ended September 30, 2020 and 2019.

The Notes to the Principal Financial Statements provide detail and clarification for amounts in the principal financial statements.

Fueling at Sea

The littoral combat ship USS Omaha pulls alongside the aircraft carrier USS Theodore Roosevelt for a fueling in the Pacific Ocean, Dec. 2, 2019. The Theodore Roosevelt was conducting routine training. **Photo By: Navy Petty Officer 3rd Class Terence Deleon Guerrero**

Defense Logistics Agency – General Fund
BALANCE SHEETS
As of September 30, 2020 and 2019
(dollars in thousands)

		Unaudited FY2020		Unaudited FY2019
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 2)	$	1,600,757	$	1,421,378
Accounts Receivable		11,948		11,782
Total Intragovernmental Assets		**1,612,705**		**1,433,160**
Accounts Receivable		15		2
General Property, Plant, and Equipment (Note 3)		609,780		728,672
Other Assets		88		88
TOTAL ASSETS	**$**	**2,222,588**	**$**	**2,161,922**
LIABILITIES (Note 4)				
Intragovernmental				
Accounts Payable	$	21,158	$	40,483
Other Liabilities (Note 5)		3,067		1,949
Total Intragovernmental Liabilities		**24,225**		**42,432**
Accounts Payable		34,180		30,592
Environmental and Disposal Liabilities (Note 6)		77,707		81,169
Other Federal Employment Benefits (Note 7)		2,864		3,123
Other Liabilities (Note 5)		10,083		10,144
TOTAL LIABILITIES		**149,059**		**167,460**
Commitments and Contingencies				
NET POSITION				
Unexpended Appropriations		1,563,503		1,361,054
Cumulative Results of Operations		510,026		633,408
TOTAL NET POSITION		**2,073,529**		**1,994,462**
TOTAL LIABILITIES AND NET POSITION	**$**	**2,222,588**	**$**	**2,161,922**

The accompanying notes are an integral part of these statements.

Defense Logistics Agency – General Fund
STATEMENTS OF NET COST
For the Years Ended September 30, 2020 and 2019
(dollars in thousands)

	Unaudited FY2020	Unaudited FY2019
Operation and Maintenance		
Gross Cost	$ 368,612	$ 361,295
Less: Earned Revenue	(32,341)	(27,258)
Net Cost	**336,271**	**334,037**
Procurement		
Gross Cost	5,765	2,839
Less: Earned Revenue	-	-
Net Cost	**5,765**	**2,839**
Research, Development, Test & Evaluation		
Gross Cost	367,428	320,787
Less: Earned Revenue	(35,237)	(48,215)
Net Cost	**332,191**	**272,572**
Family Housing and Military Construction		
Gross Cost	16,476	93,365
Less: Earned Revenue	-	(869)
Net Cost	**16,476**	**92,496**
Total Gross Cost	**758,281**	**778,286**
Less: Total Earned Revenue	**(67,578)**	**(76,342)**
NET COST OF OPERATIONS	**$ 690,703**	**$ 701,944**

The accompanying notes are an integral part of these statements.

Defense Logistics Agency – General Fund
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2020 and 2019
(dollars in thousands)

	Unaudited FY2020	Unaudited FY2019
Unexpended Appropriations		
Beginning Balances	$ 1,361,054	$ 1,374,142
Budgetary Financing Sources		
Appropriations Received	1,089,846	901,829
Appropriations Transferred-in/out	7,435	16,476
Other Adjustments	(32,867)	(44,628)
Appropriations Used	(861,965)	(886,765)
Total Budgetary Financing Sources	**202,449**	**(13,088)**
Total Unexpended Appropriations	**1,563,503**	**1,361,054**
Cumulative Results of Operations		
Beginning Balances	633,408	505,740
Budgetary Financing Sources		
Appropriations Used	861,965	886,765
Other Adjustments	(1,024)	(13,208)
Other Financing Sources		
Transfers-in/out Without Reimbursement	(315,236)	(47,335)
Imputed Financing	2,323	3,390
Other	19,293	-
Total Financing Sources	**567,321**	**829,612**
Net Cost of Operations	**690,703**	**701,944**
Net Change	**(123,382)**	**127,668**
Total Cumulative Results of Operations	**510,026**	**633,408**
TOTAL NET POSITION	**$ 2,073,529**	**$ 1,994,462**

The accompanying notes are an integral part of these statements.

Defense Logistics Agency – General Fund

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2020 and 2019

(dollars in thousands)

	Unaudited FY2020	Unaudited FY2019
BUDGETARY RESOURCES		
Unobligated Balance From Prior Year Budget Authority, Net	$ 432,305	$ 566,711
Appropriations	1,096,081	910,586
Spending Authority From Offsetting Collections	77,247	66,497
TOTAL BUDGETARY RESOURCES	**$ 1,605,633**	**$ 1,543,794**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments	$ 989,892	$ 1,112,894
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	503,770	310,568
Unexpired Unobligated Balance, End of Year	503,770	310,568
Expired Unobligated Balance	111,971	120,332
Total Unobligated Balance, End of Year	615,741	430,900
TOTAL BUDGETARY RESOURCES	**$ 1,605,633**	**$ 1,543,794**
OUTLAYS, NET		
Outlays, Net	$ 884,010	$ 877,512
AGENCY OUTLAYS, NET	**$ 884,010**	**$ 877,512**

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS (Unaudited)

Note 1: Summary of Significant Accounting Policies (Unaudited)

A. Reporting Entity

Created in 1961, DLA is a component of the U.S. DoD and reports to the Office of the Under Secretary of Defense for Acquisition and Sustainment through the Assistant Secretary of Defense for Sustainment. DLA provides materials and services to components of DoD (including the U.S. Army, Navy, and Air Force), other Federal Agencies, and public entities. DLA accomplishes its mission and goals through the operations of the WCF, GF, and TF. These financial statements and accompanying notes herein only refer to the activities of DLA GF.

Congress annually appropriates DLA GF amounts to DLA, which also grants authority to the OUSD and its Components to obligate those funds to support mission requirements. In FY2020 DLA GF receives four appropriations, which include O&M; RDT&E; PDW; and MILCON.

B. Basis of Presentation and Accounting

Basis of Presentation and Accounting: The DLA GF fiscal year ends September 30. The accompanying financial statements account for all resources for which DLA GF is responsible. These financial statements present the financial position, results of operations, changes in net position, and the combined budgetary resources of DLA GF, as required by the CFO Act of 1990, expanded by the GMRA of 1994, and other applicable legislation. The financial statements are prepared from the books and records of DLA GF activities in accordance with U.S. GAAP promulgated by the FASAB[6] and presented in the format prescribed by the OMB Circular A-136, except as identified in Note 1.C., *Departures from U.S. GAAP*, and in the following paragraphs.

The DLA GF financial statements reflect both accrual and budgetary accounting transactions, except as identified in Note 1.C., *Departures from U.S. GAAP*. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. Budgetary accounting is based on concepts set forth by OMB Circular A-11, which provides instructions on budget execution. Budgetary accounting is designed to recognize the budgetary resources and the related status of those budgetary resources, including the obligation and outlay of funds according to legal requirements, which in many cases is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of Federal funds.

However, DLA GF is unable to fully prepare financial statements in conformity with and implement all elements of U.S. GAAP (refer to Note 1.C., *Departures from U.S. GAAP*), the form and content requirements for Federal government entities specified by OMB Circular A-136, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. In addition, the financial management systems used by DLA GF are unable to meet all full accrual and budgetary accounting requirements as many of the financial and nonfinancial feeder systems and processes were not designed to collect and record financial information on the full accrual accounting basis as required by U.S. GAAP. These systems were designed to support reporting requirements for maintaining accountability over assets, reporting the status of Federal appropriations, and recording information on a budgetary basis, rather than preparing financial statements in accordance with U.S. GAAP.

Therefore, DLA GF is continuing the necessary actions required to bring its financial and nonfinancial systems and processes to generate financial statements and the accompanying notes in accordance with U.S. GAAP and in compliance with the reporting requirements of OMB Circular A-136. DLA is assessing financial feeder systems and processes and their conformance to existence, completeness, and accuracy requirements as required by U.S. GAAP and OMB Circular A-136. As DLA GF identifies non-conforming data issues, the Agency will continue to implement interim mitigation processes to address these limitations. In addition, DLA GF is remediating material weaknesses found in all end-to-end business process cycles pertaining to reconciliations and adequacy of the supporting documentation identified through audits and other compliance reporting.

[6] FASAB is the official body for setting accounting standards of the U.S. government

Gearing Up

A new recruit assigned to Alpha Company, 1st Recruit Training Battalion, gets his gear after arriving at Marine Corps Recruit Depot, San Diego, June 1, 2020. As new recruits arrive, they will enter a 14-day staging period, during which they will be medically screened and monitored, and attend classes to prepare them for recruit training. **Photo By: Marine Corps Cpl. Brooke C. Woods**

Combined Statements of Budgetary Resources: The budgetary accounting concepts are recognized in the Combined Statements of Budgetary Resources. The Combined Statements of Budgetary Resources present: (1) budgetary resources for the fiscal year; (2) status of those budgetary resources (includes obligated[7] amounts and unobligated[8] amounts for the fiscal year); and (3) Outlays[9], Net for the fiscal year, which is comprised of Outlays less Offsetting Receipts (cash transactions). DLA GF's budgetary resources[10] include unobligated balances of resources from prior years and new resources, consisting of appropriations and spending authority from offsetting collections.

Intragovernmental and Non-Federal Transactions: Statement of Federal Financial Accounting Standards (SFFAS) 1, ***Accounting for Selected Assets and Liabilities***, distinguishes between Intragovernmental and non-Federal assets and liabilities. Intragovernmental assets and liabilities arise from transactions among Federal entities. Intragovernmental assets are claims other Federal entities owe to DLA GF. Intragovernmental liabilities are claims DLA GF owes to other Federal entities. Whereas non-Federal assets and liabilities arise from transactions with public entities. The term public entities encompasses domestic and foreign persons and organizations outside the U.S. Government. Non-Federal assets are claims of DLA GF against public entities. Non-Federal liabilities are amounts that DLA GF owes to public entities. Currently, DLA GF is unable to accurately map its trading partners to separate Intragovernmental and non-Federal transactions in accordance with Treasury Financial Manual (TFM), Volume I, Part 2, Central Accounting and Reporting, Chapter 4700, ***Federal Entity Reporting Requirements for the Financial Report of the United States Government.***

The DLA GF engages in transactions with other DoD and Federal entities that generate inter-DoD and intragovernmental balances; however, DLA GF is unable to reconcile and resolve differences between balances and transactions with other DoD and Federal entities in accordance with OMB Circular A-136 requirements and TFM 4700 guidance. The reconciliation process is not fully implemented (refer to Note 1.C., ***Departures from U.S. GAAP***, related to Intragovernmental/Intra-departmental and non-Federal Transactions).

[7] Per OMB Circular A-11, Section 20, "Obligation means a legally binding agreement that will result in outlays, immediately or in the future."

[8] Per OMB Circular A-11, Section 20, "Unobligated amount means the cumulative amount of budget authority that remains available for obligation under law in unexpired accounts. The term "expired balances available for adjustment"only refers to unobligated amounts in expired accounts."

[9] Per OMB Circular A-11, Section 20, "Outlay means a payment to liquidate an obligation (other than the repayment to the Treasury of debt principal)… Outlays are a measure of Government spending."

[10] Per OMB Circular A-11, Section 20, "Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years."

Intra-departmental Transactions: DoD reporting entities reconcile with their trading partners at the detail transaction level. Detail transactions provide support for reported balances requiring elimination with trading partners. DLA GF is ultimately responsible for the accuracy of its trading partner data and initiating actions to reconcile balances with its trading partners; however, DLA GF is unable to resolve the reconciling differences in amounts reported for the buyer/seller transactions reciprocal category with ODOs, (refer to Note 1.C., *Departures from U.S. GAAP*, related to Intragovernmental/Intra-departmental and non-Federal Transactions). A DoD reporting entity unable to provide detail transactions at the appropriate time of the financial statement reporting cycle must adjust its balance to match the seller's or buyer's supportable data.

Inter-fund Transactions: Inter-fund transactions and balances among DLA GF appropriations are eliminated from the Balance Sheets, the Statements of Net Cost, and the Statements of Changes in Net Position. The Combined Statements of Budgetary Resources is presented on a combined basis in accordance with OMB Circular A-136; therefore, inter-fund transactions have not been eliminated from this statement. DLA GF presents the Statements of Net Cost based on appropriations rather than program costs, which is not in accordance with OMB Circular A-136 (refer to Note 1.C., *Departures from U.S. GAAP*, related to Statements of Net Cost).

Classified Activities: 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.

Use of Estimates: The DLA GF management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses and disclosures in the notes. DLA GF's estimates are based on historical experience, current events and other assumptions that are believed to be reasonable under the circumstances. However, uncertainties associated with these estimates exist. Significant estimates reported in the financial statements include: (1) EL, (2) accounts payable accrual, (3) undelivered orders, and (4) Federal Employees' Compensation Act (FECA) liability as of the date of these financial statements.

C. Departures from U.S. GAAP

Financial management systems and operations continue to be evaluated and modified as DLA GF strives to remediate its material weaknesses and record and report its financial activity in accordance with U.S. GAAP. Therefore, DLA GF is determining the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with U.S. GAAP. However, due to the financial management systems and operational limitations, the known departures from U.S. GAAP described below have been identified that impact DLA GF financial statements although other departures from U.S. GAAP may exist that have not been identified.

Definition of Reporting Entity: The DLA GF has not completed analyzing material applicable business relationships with other organizations to identify consolidation entities, disclosure entities, or related parties in accordance with SFFAS 47, *Reporting Entity* (effective FY2018). As a result, DLA GF is unable to determine if there are consolidation entities that are required to be consolidated and disclosed in DLA GF financial statements or disclosure entities and related parties, where the nature and magnitude of such relationships, are required to be disclosed in a Disclosure Entities and Related Parties note to the financial statements.

Statements of Net Cost: The DLA GF does not have policies and compliant processes in place to present its major program costs aligned with DLA GF mission and goals by responsibility segments in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, and OMB Circular A-136.

Intragovernmental/Intra-departmental and Non-Federal Transactions (Note 1.B.): The DLA GF does not have compliant processes in place to properly report and distinguish between intragovernmental, intra-departmental, and non-Federal transactions in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*.

Inter-Entity Cost (Note 1.R.): The DLA GF does not have compliant processes in place to recognize all significant inter-entity costs related to inputs of its goods or services provided to entities for a fee or user charge in accordance with SFFAS 55, *Amending Inter-Entity Cost Provisions* (effective FY2019). Generally, the fees and user charges should recover the full costs of those goods and services. Thus, the cost of inter-entity goods or services needs to be recognized by the receiving entity in order to determine fees or user charges for goods and services sold.

Reconciliation of Net Cost to Net Outlays (Note 9): The DLA GF does not have an established policy for the reconciliation of net cost to net outlays in accordance with SFFAS 53, *Budget and Accrual Reconciliation.*

Fund Balance with Treasury (Note 1.F. and Note 2): The DLA GF is not able to account for Fund Balance with Treasury in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, due to its inability to identify and reconcile the reported differences between DLA GF's accounting system and Treasury. Monthly unsupported journal vouchers are made to adjust the Fund Balance with Treasury balances in DLA GF financial statements to match US Treasury records.

Accounts Receivable, Revenue, and Unfilled Customer Orders (Notes 1.G. and 1.R.): The DLA GF does not have policies and compliant processes in place to: (1) recognize revenue and record the related accounts receivable, net and unfilled customer order (UCO) balances from goods sold and services provided in the proper period; (2) identify, evaluate, record, and report an allowance for doubtful accounts related to intragovernmental receivables in accordance with SFFAS 1 and Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*; and (3) adjust revenue to the extent that realization of the full amount is not probable in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities,* and/or SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.*

General Property, Plant and Equipment (Note 1.H. and Note 3): The DLA GF does not have policies and compliant processes in place to account for general PP&E at historical cost, in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 10, *Accounting for Internal Use Software*. Supportable general PP&E beginning balances have not been established for general equipment, Construction-in-Progress (CIP), and Internal Use Software (IUS) in Development using the alternative valuation methods permitted by SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment* (effective FY2017). In addition, DLA GF does not have compliant processes in place to account for impairment of facilities and equipment in accordance with SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use.* More specifically:

Transferred assets: The DLA GF is unable to determine the valuation of real property and general equipment assets previously transferred from the Military Services in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*;

Construction-in-Progress Balances: The DLA GF does not have the proper policies and compliant processes to identify aged CIP balances in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment;*

Internal-Use Software in Development: The DLA GF does not have the proper policies and compliant processes to identify IUS in Development balances in accordance with SFFAS 10, *Accounting for Internal Use Software*; and

Capitalization: The DLA GF does not properly follow the policy and procedures for capitalization thresholds to effectively implement and consistently apply the threshold in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 10, *Accounting for Internal Use Software*.

Leases (Note 1.I.): The DLA GF does not have policies and compliant processes in place to identify, evaluate, record, and report capital and operating leases in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 10, *Accounting for Internal Use Software*. As such, DLA GF does not have any capital or operating leases reported or disclosed as of September 30, 2020 and 2019.

Wavy Ride

Marines operate assault amphibious vehicles during a rehearsal exercise at Hat Yao beach, Thailand, Feb. 27, 2020.

Photo By: Marine Corps Sgt. Audrey Rampton

Accounts Payable, Expenses, and Undelivered Orders (UDO) (Note 1.L., Notes 4 and 8): The DLA GF does not have policies and compliant processes in place to account for accounts payable, expense accruals, and the related UDOs in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, and SFFAS 5, *Accounting for Liabilities of The Federal Government*. More specifically:

Negative payable: The DLA GF processes allow for payment without receipt, thus resulting in a negative payable. This occurs when a payment is made prior to the goods receipts being posted in DLA GF's accounting system. This results in an understatement of current year expenses and payables, and an overstatement of UDOs;

Undelivered Orders: The DLA GF does not have sufficient policies and procedures in place to record obligations at the time contracts are awarded. In addition, DLA GF is unable to support the UDO balance in the accounting system; and

Right of Offsets: The DLA GF does not have policies and compliant procedures in place to evaluate whether a right of offsets exist within the contract agreements that will allow DLA to properly recognize assets and liabilities in accordance with Financial Accounting Standards Board Accounting Standards Codification 210.20, *Balance Sheet-Off Setting*, as prescribed by SFFAS 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board.*

Environmental and Disposal Liabilities (Note 1.M. and Note 6): The DLA GF does not have policies and compliant processes in place to reconcile asset listings. DLA accounts for costs related to cleanup, asset closure, and asbestos associated with general PP&E in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government;* SFFAS 6, *Accounting for Property, Plant, and Equipment*; and Federal Financial Accounting and Auditing Technical Release 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government.*

Commitments and Contingencies (Note 1.K.) The The DLA GF did not complete its assessment of commitments and contingencies in accordance with SFFAS 5, *Accounting for Liabilities of The Federal Government* and SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government.*

Public-Private Partnerships: The DLA GF has not completed analyzing all the applicable business relationships to determine if these arrangements or transactions indicate the existence of Public-Private Partnerships (P3) relationships, risk-sharing arrangements or transactions lasting more than five years between public and private sector entities, in accordance with SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, (effective FY2019). As a result, DLA GF is unable to determine the nature of such partnerships, if applicable, and related Federal funding amounts required to be disclosed in a P3 note to the financial statements.

D. Pronouncements Recently Issued but Not Yet Effective

FASAB has issued the following pronouncements that may affect future financial presentation, as well as financial management practices and operations of DLA GF upon implementation. DLA GF has not completed the process of evaluating the effects of adopting this pronouncement and is unable to determine the materiality of changes that adopting will have on its financial position, results of operations, changes in net position, and combined budgetary activity.

FASAB Statement No	SFFAS 54	SFFAS 57 (paragraphs 3 – 8, 11, and 12)
FASAB Standard	Leases: An Amendment of SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting of Property, Plant, and Equipment*	Omnibus Amendments FY2019
Adoption Required in FY	Deferred to FY2024	Effective FY2024

SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*, defers SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*, until FY2024; earlier implementation is not permitted. SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*, revises the current Federal financial reporting standards for lease accounting and requires that Federal lessees recognize a lease liability and a leased asset at the commencement of the lease term, unless it meets any of the scope exclusions or the definition/criteria of short-term leases, or contracts or agreements that transfer ownership, or intragovernmental leases.

E. Appropriations and Funding

The DLA GF receives allotted funding through the annual appropriations received by the OUSD(C). DoD's annual appropriations are apportioned by OMB. Apportionment is part of the government-wide system for the administrative control of funds. Unless expressly exempted or automatically apportioned by OMB, all DoD appropriated, collected, and recovered resources require OMB approval through the apportionment/reapportionment process before they are available for distribution and legal obligation by OUSD(C). Following the approval of apportionment/reapportionment requests by OMB, OUSD(C) allocates funds to the Military Services and ODOs. Funds distributed by OUSD(C) may be further subdivided through sub-allocation and sub-allotment to lower levels within the organizations or across organizations for execution.

The DLA GF receives its budgetary resources through sub-allotments from OUSD(C). These sub-allotments received by the DLA GF annually are reported in the Statements of Budgetary Resources and included in the appropriations line as part of DLA GF's budgetary resources. These budgetary resources provide the funding necessary to incur obligations, pay for goods and services, and are available for obligations based on the period of availability as described below. Any budgetary resources remaining at the end of the period of availability are held in 'an expired status' for five years. Existing obligated balances can be used to make payments, but unobligated balances are not available for new obligations. Budgetary resources, including any related obligations and payables, are cancelled at the end of the five-year expiration period.

O&M appropriation (funds available year(s): 1) funds Administration and Service-Wide Activities such as DoD programs, DoD EBS, DLA HQ programs, and Environmental Programs. These programs are associated with DLA logistics mission as well as programs assigned to DLA GF from DoD for budget administration purposes. DLA GF functions as either the executive agent responsible for program oversight and policy guidance or the budget administrator responsible for administrative support for these programs.

Procurement Defense-Wide appropriation (funds available year(s): 3) funds mission essential equipment, including automated data processing, telecommunications equipment, and passenger carrying vehicles that afford a high degree of efficiency, effectiveness, and productivity in the accomplishment of DLA GF's logistics mission.

RDT&E appropriation (funds available year(s): 2) funds the development of major upgrades to increase the performance of existing systems, the purchase of test articles, and the developmental testing and/or initial operational testing and evaluation prior to system acceptance. In addition, the RDT&E appropriation develops, manages, and implements innovative microelectronic solutions to enhance DoD mission capabilities. These capabilities are leveraged to develop low-volume, high mix fabrication processes for state-of-the-art technologies that meet DoD's performance and reliability needs for legacy microelectronics that are unavailable from commercial foundries. RDT&E also helps ensure that advanced logistics concepts and business processes are used to accomplish the Agency's mission. The Logistics R&D program identifies the best commercial business practices and tailors them, as necessary, into the most effective business processes for DLA. The ManTech R&D program provides the critical link between invention and application. DLA sub-allots RDT&E authority to the DMEA.

Family Housing and Military Construction

Family Housing O&M appropriation (funds available year(s): 1) funds the routine O&M of 24 MFH units. Routine operation and maintenance includes management costs, utility costs and cyclical maintenance such as painting and renovations. Allocated funding for Family Housing ended in FY2019, all remaining obligated and unobligated balances will be cancelled by FY2025. All excess MFH units have been demolished or repurposed as administrative space as of September 30, 2020. Repurposed excess MFH units cannot be funded with MFH funds, and DLA GF does not require O&M funds to maintain MFH in FY2021 and forward.

MILCON appropriation (funds available year(s): 5) funds the construction of facilities that support DLA GF's mission. These include DoD fuel infrastructure projects, and distribution and disposition facilities. DLA GF sub-allots MILCON authority to USACE and NAVFAC, which are DLA's primary design and construction agents for the MILCON program.

Storm Preps

Louisiana National Guardsmen load 50,000 masks and 2,000 gloves aboard two UH-60 Black Hawk helicopters in Baton Rouge, La., ahead of Tropical Storm Cristobal, June 6, 2020. The equipment would be used during search and rescue missions by both the soldiers and those being rescued. **Photo By: TBD**

F. Fund Balance with Treasury

The DLA GF does not maintain cash in a commercial bank, but rather in the U.S. Treasury. DLA GF's FBwT includes the amount available for DLA GF to pay current liabilities and finance authorized purchases, except as restricted by law. The disbursing offices of DFAS, USACE, GSA, and the Department of State's financial service centers process DLA GF's cash collections, disbursements, and adjustments.

In recent years, DLA GF implemented Treasury Direct Disbursing (TDD), which provides DLA GF the capability to transmit directly from the accounting system to Treasury for disbursements. With the implementation of TDD, DLA GF has a unique accounting code, which allows DLA GF to properly identify the transactions.

On a monthly basis, DLA GF adjusts the FBwT account balance to bring the cash balance to be in agreement with the U.S. Treasury cash balance reported on the Central Accounting and Reporting System (CARS) using the Cash Management Report (CMR). The CMR provides a summary cash position for each ODO's FBwT account by fiscal year and appropriation at the limit level. The adjustments represent the undistributed disbursements and collections amounts that have been reported to Treasury, but have not yet been posted to DLA GF's accounting system. Undistributed amounts can be a result of timing, invalid line of accounting, invalid TAS information, and unsupported and unreconciled differences.

The DLA GF accounting service provider, DFAS, uses suspense accounts to hold transactions temporarily prior to identifying the correct appropriation. Suspense account items represent the amounts that are reported to Treasury, but have not yet been classified to a DLA TAS. The transactions in suspense accounts include unidentified collections, disbursements, Intragovernmental Payment and Collection Transactions at Month End. With the suspense account, there is a significant effort by DFAS to allocate the expenditures or collections to the individual ODOs.

(Refer to Note 1.C., ***Departures from U.S. GAAP***, related to Fund Balance with Treasury, and Note 2, ***Fund Balance with Treasury***.)

G. Accounts Receivable

Accounts receivable represents amounts due to DLA GF by other Federal Agencies (intragovernmental) and the public (non-Federal). DLA GF's accounts receivable arise from sales of materials and services.

The policy pertaining to allowance for doubtful accounts receivables with the public is based on a systematic methodology of grouped aged receivables. DLA GF does not currently have material receivables with the public and does not recognize a corresponding allowance for doubtful accounts. DLA GF will be implementing Technical Bulletin 2020-1, ***Loss Allowance for Intragovernmental Receivables***, in FY2021.

(Refer to Note 1.C., ***Departures from U.S. GAAP***, related to Accounts Receivable, Revenue, and Unfilled Customer Orders.)

H. General Property, Plant and Equipment

The DLA GF PP&E consists of IUS under development and Real Property CIP. These PP&E categories are not subject to amortization or depreciation.

The DLA GF transfers the amounts in the CIP account to the appropriate PP&E account when the assets are placed in service. Additional service costs are transferred at the final acceptance of the assets. Due to identified deficiencies in policies and procedures related to CIP, DLA GF is not able to reconcile the recorded CIP balances.

The DLA GF has not yet finalized the valuation process for PP&E. Accordingly, DLA GF has not made an unreserved assertion that the opening balances of PP&E for FY2020 are presented fairly in accordance with SFFAS 50, ***Establishing Opening Balances for General Property, Plant, and Equipment***

(Refer to Note 1.C., ***Departures from U.S. GAAP***, related to General Property, Plant and Equipment, and Note 3, ***General Property, Plant and Equipment***.)

I. Leases

As of the date of these financial statements, DLA GF has not completed the process of developing policies and procedures to identify, calculate, record and report capital and operating leases in accordance with SFFAS 5 ***Accounting for Liabilities of The Federal Government,*** and SFFAS 6, ***Accounting for Property, Plant, and Equipment***. (Refer to Note 1.C., ***Departures from U.S. GAAP***, related to Leases.)

J. Other Assets

Other assets include those assets not reported elsewhere in DLA GF Balance Sheets, such as civil service employee pay, travel advances and prepayments made in advance of the receipt of goods and services. For advances and prepayments, DLA GF's policy is to expense and/or properly classify the asset when the related goods and services are received. The total amount of other assets as of September 30, 2020 and 2019 consisted of $88.0 thousand and $88.0 thousand, respectively.

K. Commitments and Contingencies

In accordance with SFFAS 5, ***Accounting for Liabilities of the Federal Government***, as amended by SFFAS 12, ***Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government.*** DLA GF recognizes contingent liabilities in DLA GF's Balance Sheets and Statements of Net Cost when the loss is determined to be probable and reasonably estimable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury. DLA GF evaluates all contingent liabilities based on three criteria: probable, reasonably possible, and remote.

The DLA GF recognizes that the estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recorded. If no amount within the range is a better estimate than any other amount, the minimum amount of the range is recorded and the range and a description of the nature of the contingency are disclosed.

The DLA GF does not record an accrual for contingent liabilities if it is not probable and reasonably estimable, but does disclose those contingencies that are reasonably possible in Note 6, ***Environmental and Disposal Liabilities***, of the financial statements. DLA GF does not disclose or record contingent liabilities where the loss is considered remote.

As of the date of these financial statements, DLA GF had no Commitments and Contingencies that were reasonably possible or remote. The related probable contingent liabilities related to EL have been recognized in the financial statements as of September 30, 2020 and 2019. (Refer to Note 1.C., ***Departures from U.S. GAAP***, related to Commitments and Contingencies, and Note 6, ***Environmental and Disposal Liabilities***).

L. Liabilities

Liabilities represent probable and measurable future outflows of resources as a result of past transactions or events and are recognized when incurred, regardless of whether there are budgetary resources available to pay the liabilities. However, liabilities cannot be liquidated without legislation providing resources and legal authority.

Liabilities Covered and Not Covered by Budgetary Resources: Liabilities covered by budgetary resources include those liabilities for which Congress appropriated funds and are otherwise available to pay amounts due as of the Balance Sheet dates. Liabilities not covered by budgetary resources are amounts owed in excess of available, congressionally appropriated funds and, therefore, no budgetary resources are available to pay amounts due as of the Balance Sheet dates (refer to Note 4, ***Liabilities Not Covered by Budgetary Resources***).

Current and Noncurrent Liabilities: The DLA GF discloses its other liabilities between current and noncurrent liabilities in accordance with SFFAS 1, ***Accounting for Selected Assets and Liabilities***. Current liabilities represent liabilities that DLA GF expects to settle within 12 months of the Balance Sheet dates. Noncurrent liabilities represent liabilities that DLA GF does not expect to be settled within 12 months of the Balance Sheet dates.

Accounts Payable: Accounts Payable includes amounts owed but not yet paid to Intragovernmental and non-Federal entities for goods and services received by DLA GF. DLA GF estimates and records accruals when services and goods are performed or received (i.e., Mechanization of Contract Administration Services (MOCAS) accrual related to contract financing and Negative Payable Accrual to adjust the timing issues that exist within EBS when an invoice is received and posted without a goods receipt). DLA GF also accrues liabilities incurred at month-end but not yet recorded using data from Third Party Payment Systems, GPC, various feeder systems, and estimates of costs incurred when goods or services received but not invoiced.

Advances from Others: Advances from Others are cash received in advance of goods or services that have not been fully rendered and reported as Other Liabilities in the Balance Sheets. (Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses and Undelivered Orders, Note 4, *Liabilities Not Covered by Budgetary Resources*, and Note 5, *Other Liabilities*.)

M. Environmental and Disposal Liabilities

Environmental and Disposal Liabilities (EL) are a probable and reasonably estimable future outflow or expenditure of resources that exists as of the financial reporting date for environmental cleanup costs resulting from past transactions or events.

The DLA GF is responsible for accurate reporting of the EL and expense for the real property and/or equipment that it records and reports in its financial statements as assets, regardless of ownership by any Federal Agency. DLA GF identifies and estimates accrued EL through its annual cost-to-complete (CTC) process. DLA GF accrued EL are comprised of environmental cleanup costs associated with restoration of environmental sites on real property that it does not own but has received appropriated funds to execute and manage. These environmental sites may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, clean closure of assets, and post-closure costs related to the Agency's operations that result in hazardous waste. Due to noted deficiencies, DLA GF is not able to reconcile the population of real property assets that encompass the environmental sites closure and asbestos liabilities. (Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities and Note 6, *Environmental and Disposal Liabilities*.)

N. Payroll and Annual Leave Accruals

Accrued payroll consists of salaries, wages, and other compensation earned by employees, but have not yet been disbursed as of the Balance Sheets dates. DLA GF accrues the cost of unused annual leave, including restored leave, compensatory time, and credit hours as earned and reduces the accrual when leave is taken. The payroll and annual leave accrual liability is accrued based on the latest pay period data for reporting purposes (refer to Note 5, *Other Liabilities*).

O. Other Federal Employment Benefits

The FECA (Public Law 103-3) provides income and medical cost protection to covered Federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from DLA GF for these paid claims. The FECA liability consists of two elements.

The first element, accrued FECA liability, is based on actual future payments for claims paid by DOL but not yet reimbursed by DLA GF. DLA GF reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a one to two-year period between payment by DOL and reimbursement to DOL by DLA GF. As a result, DLA GF recognizes an intragovernmental liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by DLA GF (refer to Note 4, *Liabilities Not Covered by Budgetary Resources*, and Note 5, *Other Liabilities*).

The second element, actuarial FECA liability, is the estimated liability for future payments and is recorded as a liability with the public, not covered by budgetary resources. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value. In FY2020, the methodology for billable projected liabilities was revised to include, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY2019 methodology used a traditional paid loss development method with the FECA Case Reserve Model run concurrently to, among other things, test the validity of the FECA Case Reserve Model (refer to Note 5, *Liabilities Not Covered by Budgetary Resources*, and Note 7, *Other Federal Employment Benefits*).

P. Pension Benefits

Based on the effective Federal government start date, the DLA GF's civilian employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit plan and contribution plan. The employee pension benefit is managed at the OUSD level. The measurement of the service cost requires the use of an actuarial cost method and assumptions. The Office of Personnel Management (OPM) administers these benefits and provides the factors that DLA GF applies to calculate and recognize imputed costs, as reported in its Statements of Net Cost, and a corresponding imputed revenue in the Statements of Changes in Net Position. DLA GF is not responsible for and does not report CSRS or FERS assets, accumulated plan benefits, or liabilities applicable to its employees. OPM is responsible for and reports these amounts.

Q. Net Position

Net position is the residual difference between assets and liabilities and consists of unexpended appropriations and cumulative results of operations.

Unexpended Appropriations: Unexpended appropriations consist of unobligated and undelivered order balances. Unobligated balances are amounts of budgetary resources available for obligation, which have not been rescinded or withdrawn. Undelivered orders are the amount of obligations incurred for goods and/or services ordered, but not yet received. DLA GF unexpended appropriations primarily consist of direct appropriations.

Cumulative Results of Operations: Cumulative results of operations includes the net difference since inception between: (1) expenses and losses, (2) revenue, gains, and (3) other financing sources.

R. Revenue and Other Financing Sources

Exchange and Non-exchange Revenue: The DLA GF classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue arises when DLA GF provides goods or services to intragovernmental or non-Federal entities in exchange for inflows of resources. Exchange revenue is presented in the Statements of Net Cost and serves to offset the costs of these goods and services. Exchange revenue from services in the O&M appropriation include support for Continuity of Operations; Law Enforcement Support Office; Morale, Welfare and Recreation; and Defense Travel System Support. Exchange revenue from services

Caribbean Cruise

The USS Little Rock travels in the Caribbean Sea, Feb. 16, 2020. The littoral combat ship is deployed to the U.S. Southern Command area of responsibility to support Campaign Martillo, an effort targeting illicit trafficking routes in coastal waters along Central America. **Photo By: Navy Petty Officer 3rd Class Marianne Guemo** in the RDT&E appropriation include support for the Next Generation Resource Management System; Mapping EBS; and Defense Information System Security.

Non-exchange revenue is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. Non-exchange revenue is considered to impact the cost of DLA GF's operations and is reported in the Statements of Changes in Net Position as a financing source.

Other Financing Sources: Other financing sources, other than exchange and non-exchange revenue, include additional inflows of resources that increase results of operations during the reporting period. DLA GF's other financing sources come from unexpended appropriation transfers and non-expenditure transfer-in initiated by OUSD, and recognized as financing sources when used. Other financing sources also include: (1) transfers-in/out without reimbursement, and (2) imputed financing with respect to costs subsidized by another Federal entity.

Transfers-in/out without reimbursement: Transfers-in/out without reimbursement include intragovernmental transfers of capitalized assets. The amount of the transfer is the book value of the transferring entity and if the book value is not known, the amount should be the estimated fair value at the date of transfer.

Imputed Financing and Imputed Cost: In certain cases, DLA GF receives goods and services from other Federal entities at no cost or at a cost less than the full cost to the providing entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by DLA GF are recognized as imputed cost in the Statements of Net Cost and are offset by imputed financing in the Statements of Changes in Net Position. DLA GF recognizes the following imputed cost and related imputed financing: (1) employee benefits administered by the OPM (i.e., retirement, health, life insurance benefits); and (2) claims settled by the Treasury Judgment Fund. In accordance with SFFAS 55, *Amending Inter-Entity Costs Provisions*, unreimbursed costs of goods and services other than those identified above are not included in DLA GF financial statements.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Revenue, and Unfilled Customer Orders.)

S. Expenses

Expenses are recognized when there are outflows, usage of assets, or incurrences of liabilities (or a combination) from carrying out activities related to DLA GF appropriations and missions, for which benefits do not extend beyond the present operating period. For financial reporting purposes, operating expenses are recognized in the period incurred. (Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders.)

Fuel Sample

Navy Petty Officer 1st Class Joel McKee collects a fuel sample from a fuel filter separator in Bahrain, May 26, 2020. **Photo By: Navy Petty Officer 1st Class Kory Alsberry**

Note 2: Fund Balance with Treasury (Unaudited)

Fund Balance with Treasury as of September 30, 2020 and 2019, respectively, consists of the following (dollars in thousands):

	FY2020	FY2019
Status of Fund Balance Treasury		
Unobligated Balance:		
Available	$ 503,770	$ 310,568
Unavailable	111,971	120,332
Obligated Balance not yet Disbursed	985,016	990,478
Total Fund Balance with Treasury	**$ 1,600,757**	**$ 1,421,378**

Status of Fund Balance with Treasury presents the budgetary and proprietary balances that constitute DLA GF FBwT. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations. Unobligated and obligated balances differ from the related amounts reported in the Combined Statements of Budgetary Resources because budgetary balances are supported by amounts other than FBwT (e.g., budgetary receivables). Cancelled funds have been returned to the Treasury as of September 30, 2020.

Unobligated Balance – Available includes the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations and can be used for future obligations.

Unobligated Balance – Unavailable includes the cumulative amount of budget authority and funds not available for obligation from offsetting collections.

Obligated Balance Not Yet Disbursed includes funds that have been obligated for goods and services not re-ceived, and those received but not paid.

Non-budgetary FBwT consists of FBwT in unavailable receipt accounts and clearing accounts that do not have bud-get authority and non-budgetary FBwT such as non-fiduciary deposit funds. As of September 30, 2020 and 2019, DLA GF does not have a balance for non-budgetary FBwT.

Other Information includes the following tables summa-rizing the undistributed collections and disbursements between U.S. Treasury and DLA GF as of September 30, 2020 and 2019, respectively.

2020 Adjustments of Undistributed Collections and Disbursements (dollars in thousands)			
Transaction Type	**Treasury Balance based on CMR**	**DLA GF Trial Balance**	**Balances Not Yet Recorded in DLA Accounting System - Undistributed**
Collections	$ 225,673	$ 236,400	$ (10,727)
Disbursements	$ 3,119,816	$ 3,111,332	$ 8,484

2019 Adjustments of Undistributed Collections and Disbursements (dollars in thousands)			
Transaction Type	**Treasury Balance based on CMR**	**DLA GF Trial Balance**	**Balances Not Yet Recorded in DLA Accounting System - Undistributed**
Collections	$ 264,565	$ 260,618	$ 3,947
Disbursements	$ 3,016,409	$ 3,008,684	$ 7,725

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Fund Balance with Treasury.)

Note 3: General Property, Plant and Equipment (Unaudited)

General Property, Plant and Equipment as of September 30, 2020 and 2019, respectively, consists of the following (dollars in thousands):

FY2020			
	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Major Asset Classes			
Construction-in-Progress	$ 508,728	$ -	$ 508,728
Internal-Use Software in Development	101,052	-	101,052
Total General PP&E	**$ 609,780**	**$ -**	**$ 609,780**

FY2019			
	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Major Asset Classes			
Construction-in-Progress	$ 581,361	$ -	$ 581,361
Internal-Use Software in Development	147,311	-	147,311
Total General PP&E	**$ 728,672**	**$ -**	**$ 728,672**

The DLA GF maintains CIP and Internal-Use Software in Development. The CIP mainly consists of projects from USACE and NAVFAC. The accumulated CIP balances will be transferred to other entity or funds upon completion of the project and removed from DLA GF accounting records. As of September 30, 2020, DLA GF continues to review the CIP balance reported by the construction agents to DFAS and adjustments are made as applicable by DLA GF and DFAS.

The Internal-Use Software in Development mainly consists of projects related to DAI systems.

The table below discloses current year activity for General Property, Plant and Equipment as of September 30, 2020 (dollars in thousands):

FY2020	
General PP&E - Beginning Balances	$ 728,672
Capitalized Acquisitions	231,025
Disposals	(34,681)
Transfers in/out without reimbursements	(315,236)
General PP&E - Ending Balances	**$ 609,780**

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to General Property, Plant and Equipment, Net, and Leases)

Note 4: Liabilities Not Covered by Budgetary Resources (Unaudited)

Liabilities not Covered by Budgetary Resources as of September 30, 2020 and 2019, respectively, consist of the following (dollars in thousands):

	FY2020	FY2019
Intragovernmental Liabilities		
Other	$ 2,422	$ 1,468
Total Intragovernmental Liabilities	**2,422**	**1,468**
Non-Federal Liabilities		
Accounts Payable	6,791	5,941
Other Federal Employment Benefits	2,864	3,123
Environmental and Disposal Liabilities	69,111	73,122
Other	5,873	5,318
Total Non-Federal Liabilities	**84,639**	**87,504**
Total Liabilities Not Covered by Budgetary Resources	**87,061**	**88,972**
Total Liabilities Covered by Budgetary Resources	**61,998**	**78,488**
Total Liabilities	**$ 149,059**	**$ 167,460**

Other Intragovernmental Liabilities primarily consist of unemployment compensation liabilities and the accrued FECA liability based on DOL records.

Accounts Payable include amounts owed but not yet paid to non-Federal entities for goods and services received by DLA GF.

Other Federal Employment Benefits are comprised of the current year FECA actuarial liability based on DOL records.

Environmental and Disposal Liabilities consist of probable and reasonably estimable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events. As of September 30, 2020 and 2019, the total liabilities covered by budgetary resources for the EL consists of $8,596.0 thousand and $8,047.0 thousand, respectively.

Other Non-Federal Liabilities consist of current year unfunded annual leave earned by civilian employees but not yet paid. Unfunded annual leave includes restored leave, compensatory time, and credit hours as earned.

(Refer to Note 1.C., ***Departures from U.S. GAAP***, related to Accounts Payable, Expenses, and Undelivered Orders; Note 5, ***Other Liabilities***; Note 6, ***Environmental and Disposal Liabilities;*** and Note 7, ***Other Federal Employment Benefits***.)

Note 5: Other Liabilities (Unaudited)

Other Liabilities as of September 30, 2020 and 2019, respectively, consist of the following (dollars in thousands):

FY2020	Current	Non-Current	Total
Intragovernmental Other Liabilities			
FECA Reimbursement to DOL	$ 74	$ 315	$ 389
Employer Contribution and Payroll Taxes Payable	645	-	645
Other Liabilities	2,033	-	2,033
Total Intragovernmental Other Liabilities	**2,752**	**315**	**3,067**
Non-Federal Other Liabilities			
Accrued Funded Payroll and Benefits	1,352	-	1,352
Advances from Others	-	1,220	1,220
Accrued Unfunded Annual Leave	5,873	-	5,873
Contract Holdbacks	1,236	36	1,272
Employer Contribution and Payroll Taxes Payable	366	-	366
Total Non-Federal Other Liabilities	**8,827**	**1,256**	**10,083**
Total Other Liabilities	**$ 11,579**	**$ 1,571**	**$ 13,150**

FY2019	Current	Non-Current	Total
Intragovernmental Other Liabilities			
FECA Reimbursement to DOL	$ 76	$ 319	$ 395
Employer Contribution and Payroll Taxes Payable	481	-	481
Other Liabilities	1,073	-	1,073
Total Intragovernmental Other Liabilities	**1,630**	**319**	**1,949**
Non-Federal Other Liabilities			
Accrued Funded Payroll and Benefits	1,923	-	1,923
Advances from Others	-	1,680	1,680
Accrued Unfunded Annual Leave	5,318	-	5,318
Contract Holdbacks	675	32	707
Employer Contribution and Payroll Taxes Payable	516	-	516
Total Non-Federal Other Liabilities	**8,432**	**1,712**	**10,144**
Total Other Liabilities	**$ 10,062**	**$ 2,031**	**$ 12,093**

FECA Reimbursement to DOL include the accrued FECA liability paid by DOL but not yet reimbursed by DLA GF.

Employer Contribution and Payroll Taxes Payable includes the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities related to unemployment insurance programs. These programs provide unemployment benefits to eligible workers who become unemployed through no fault of their own and meet certain other eligibility requirements.

Accrued Funded Payroll and Benefits includes salaries, wages, and other compensation earned by employees but not yet disbursed.

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

Accrued Unfunded Annual Leave includes restored leave, compensatory time, and credit hours as earned.

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

(Refer to Note 1.C., D*epartures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders.)

Note 6: Environmental and Disposal Liabilities (Unaudited)

Environmental and Disposal Liabilities as of September 30, 2020 and 2019, respectively, consist of the following (dollars in thousands):

	FY2020	FY2019
Environmental and Disposal Liabilities		
Accrued Environmental Restoration Liabilities:		
Active Installations - Installation Restoration Program and Building Demolition and Debris Removal	$ 77,707	$ 81,169
Total Environmental and Disposal Liabilities	**$ 77,707**	**$ 81,169**

The DLA GF EL are comprised of two primary elements: (1) existing obligations supporting the Defense Environmental Restoration Account (DERA) and BRAC funded environmental restoration programs, and (2) the CTC which includes anticipated future cost necessary to complete environmental restoration sites.

In FY2020 and FY2019, DLA GF utilized the Remedial Action Cost Engineering & Requirements (RACER) software to generate the CTC estimates of anticipated future costs. Cost estimates were generated for 74 Accrued Environmental Restoration Liabilities Active Installations – Installation Restoration Program (IRP) EL sites and one BRAC Installations – IRP site. While DLA GF is responsible for recording BRAC Installations – IRP EL, it is reported in the DoD Component Level Statements under Consolidated ODO GF.

Types of Environmental and Disposal Liabilities:

The DLA GF is responsible for cleanup requirements of DERP eligible sites managed under Active IRP and BRAC IRP. Costs under the Accrued Environmental Restoration Liabilities and BRAC Installations line items represent the cost to correct past environmental problems that are funded from the Environmental Restoration and BRAC Accounts in accordance with the DoD Manual (DoDM) 4715.20 – DERP Management (March 2012) and the DoD 7000.14-R Financial Management Regulation (FMR) Volume 4, Chapter 13 – Environmental and Disposal Liabilities (April 2018). All clean-up is conducted in coordination with regulatory Agencies, other responsible parties, and current property owners.

The DLA GF reportable EL is under Accrued Environmental Restoration Liabilities and BRAC Installations and includes the following line items:

Accrued Environmental Restoration Liabilities: Includes Active Installations – IRP EL associated with remedial actions eligible for funding under the DERP. These remedial actions may address hazardous substances, pollutants, and contaminants as defined in the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA); hazardous waste or hazardous constituents addressed under the Resource Conservation and Recovery Act (RCRA) corrective action process or other Federal or state statutes and regulations; and military munitions or Waste Military Munitions (WMM), chemical residues from military munitions, and munitions scrap at locations other than operational ranges associated with an active installation, when the environmental restoration activity is incidental to the IRP environmental restoration activity.

BRAC Installations: Includes IRP EL associated with the costs to address environmental cleanup at bases that are realigning or closing resulting from past activities which are part of DERP. While DLA GF is responsible for recording BRAC Installations – IRP EL, it is reported in the DoD Component Level Statements under Consolidated ODO GFs.

The DLA GF assessed its Closure, Asbestos, and General Equipment inventories and does not currently have reportable DLA GF EL for these or any other EL categories as listed on the DoD FMR Volume 6B, Chapter 10, *Note to the Financial Statements*, Paragraph 1017, Figure 10-31, *Environmental and Disposal Liabilities* (March 2020).

Applicable Laws and Regulations for Cleanup Requirements: The DLA GF is required to clean up contamination resulting from past waste disposal practices, leaks, spills, and other prior activities, which may have created a public health or environmental risk. DLA GF is required to comply with the following laws and regulations where applicable: CERCLA; the Superfund Amendments and Reauthorization Act (SARA); RCRA; and other applicable Federal, State, and local laws and regulations. Required cleanup may at times extend beyond Installation boundaries onto privately owned property or onto sites where DLA GF is named as a potentially responsible party by a regulatory Agency. DLA GF reports EL in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and Federal Financial Accounting Technical Release 2, *Determining Probable and Reasonable Estimable for Environmental Liabilities in the Federal Government.*

Methods for Assigning Estimated Total Cleanup Cost to Current Operating Periods: The DLA Site Identification (ID) process tracks environmental events such as spills and releases in an Environmental Event Repository and evaluates each event annually for inclusion in the CTC estimates if applicable. The DLA GF EL estimates are created annually for all projected requirements and are finalized and approved by July, in accordance with the DoD 7000.14-R FMR Volume 4, Chapter 13, *Environmental and Disposal Liabilities* (April 2018). The estimates are then reevaluated through a roll forward review to identify any material changes to previously approved estimates to ensure accuracy as of the financial reporting date of September 30, 2020. Processes are conducted in accordance with DLA EL policies and procedures; DoDM 4715.20, *DERP Management* (March 2012); the DoD 7000.14-R FMR Volume 4, Chapter 13, *Environmental and Disposal Liabilities* (April 2018); and the OUSD memorandum for *Strategy for Environmental & Disposal Liabilities Audit Readiness* (September 30, 2015).

Revised CTC estimates and prior year obligations are reported in the balance as of September 30, 2020. As of the reporting date, no material changes in total estimated cleanup costs were identified through the roll forward review due to changes in laws, technology or plans. In addition, DLA GF is not aware of any changes to estimates that would result from inflation, deflation, technology, plans, and/or pending changes to applicable laws and regulations. EL estimates will be reevaluated each year and may change in the future due to changes in laws and regulations, changes in agreements with regulatory agencies, and advances in technology.

Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental and Disposal Liabilities: The stated total DLA GF EL includes prior year obligations and the estimate of future costs necessary to complete requirements. DLA GF has instituted extensive controls to ensure that these estimates are accurate and reproducible. The cost estimates produced through the EL process are considered accounting estimates, which require certain judgments and assumptions that are reasonable based upon information available at the time the estimates are calculated. Actual cost may materially vary from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. DLA GF EL can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimated parameters.

Continued on next page –

The DLA utilizes a formalized Site ID process to identify, track, and evaluate environmental events where the potential for an out-year EL exists but the EL is not probable and measurable. These environmental events will be re-evaluated in the following fiscal year to determine if any changes have taken place and sufficient information or data is available to create an estimate of future costs that would be included in the EL balance.

(Refer to Note 1.C., ***Departures from U.S. GAAP***, related to Environmental and Disposal Liabilities, Commitments and Contingencies.)

FY2020			
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Environmental Contingencies			
Probable	$ 77,707	$ -	$ -
Reasonably Possible		$ -	$ -

FY2019			
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Environmental Contingencies			
Probable	$ 81,169	$ -	$ -
Reasonably Possible		$ -	$ -

Note 7: Other Federal Employment Benefits (Unaudited)

Other Federal Employment Benefits as of September 30, 2020 and 2019, respectively, consist of the following (dollars in thousands):

FY2020	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Other Federal Employment Benefits			
FECA	$ 2,864	$ -	$ 2,864
Total Other Federal Employment Benefits	**$ 2,864**	**$ -**	**$ 2,864**

FY2019	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Other Federal Employment Benefits			
FECA	$ 3,123	$ -	$ 3,123
Total Other Federal Employment Benefits	**$ 3,123**	**$ -**	**$ 3,123**

Actuarial Calculations: The DLA GF actuarial liability for workers' compensation benefits is developed by the DOL's Office of Worker's Compensation Programs (OWCP) and provided to DLA GF at the end of each FY. The liability includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments (COLAs) and medical inflation factors are also applied to the calculation of projected future benefits.

Actuarial Cost Method and Assumptions: DOL selected the COLA factors, Consumer Price Index Medical (CPIM) factors, and discount rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years for FY2020 and FY2019, respectively. Using averaging renders estimates that reflect historical trends over five years. The FY2020 and FY2019 methodologies for averaging the COLA rates used OMB provided rates for the current and prior four years; the FY2020 methodology also considered updated information for the current year that was provided by program staff. The FY2020 and FY2019 methodologies for averaging the CPIM rates used OMB provided rates for the current and prior four years; the FY2020 methodology also considered updated information for the current year that program staff obtained from the Bureau of Labor Statistics public releases for CPIM. 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 FY2020 and FY2019, respectively.

Interest rate assumptions utilized for FY2020 discounting were as follows:

Year 1: 2.4% and thereafter (wage benefits)

Year 1: 2.3% and thereafter (medical benefits)

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (CPIMs) were applied to the calculation of projected future benefits.

The actual rates for these factors for the charge back year (CBY) 2020 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:

CBY	COLA	CPIM
2021	1.9%	3.2%
2022	2.1%	3.2%
2023	2.2%	3.6%
2024	2.2%	4.0%
2025	2.3%	3.9%

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 reasonably well.

The DOL Office of Inspector General issued in July 2020 a report that found that most OWCP programs are experiencing or expecting delays and resource management issues as a result of increasing claims and social distancing mandates brought on by the COVID-19 pandemic. In general, there have been downward trends in the number of open claims and closed claims and payments; based on the average of the prior five chargeback CBYs, the number of open claims, closed claims, and payments have decreased. Federal employees who contract COVID-19 while in the performance of their Federal duties are entitled to workers' compensation coverage pursuant to FECA, which could affect future claims and payments.

Note 8: Undelivered Orders (Unaudited)

Undelivered Orders (UDOs) for the years ended September 30, 2020 and 2019, respectively, consist of the following (dollars in thousands):

	FY2020	FY2019
Intragovernmental Undelivered Orders		
Unpaid	$ 531,601	$ 457,850
Total Intragovernmental Undelivered Orders	**531,601**	**457,850**
Non-Federal Undelivered Orders		
Unpaid	461,417	513,756
Prepaid/Advanced	-	1
Total Non-Federal Undelivered Orders	**461,417**	**513,757**
Total Undelivered Orders	**$ 993,018**	**$ 971,608**

UDOs represent the amount of goods and/or services ordered to perform DLA GF's mission objectives that have not been received. Unpaid UDOs represent obligations for goods and services that have not been received or paid. Whereas, paid UDOs represent obligations for goods and services that have been paid for in advance of receipt. For the years ended September 30, 2020 and 2019, respectively, DLA GF does not have balances for prepaid/advanced intragovernmental UDOs.

Due to system limitations, DLA GF estimates the allocation of intragovernmental and non-Federal unpaid UDOs based on funded liabilities reported on the Balance Sheets excluding payroll and employee benefit liabilities. The allocation of non-Federal prepaid/advanced UDOs is based on advances and prepayments reported in other assets.

Certain prior year amounts have been reclassified in the presentation of Note 8, *Undelivered Orders*, to adjust the allocation between intragovernmental and non-Federal unpaid UDOs. The reclassifications had no net effect on the note disclosures as previously reported.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders, and Intragovernmental/Intra-departmental and non-Federal Transactions.)

Note 9: Reconciliation of Net Cost to Net Outlays (Unaudited)

Reconciliation of Net Cost to Net Outlays for the years ended September 30, 2020 and 2019, respectively, consist of the following (dollars in thousands):

FY2020			
	Intragovernmental	Non-Federal	Total
NET COST	**$ 143,553**	**$ 547,150**	**$ 690,703**
Components of Net Cost That are Not Part of Net Outlays			
General PP&E Disposals	-	(34,681)	(34,681)
Offset to Capitalized Assets	-	-	-
Net Losses	-	(1)	(1)
Increase in Assets			
Accounts Receivable	166	13	179
(Increase)/Decrease in Liabilities			
Accounts Payable	19,325	(3,588)	15,737
Environmental and Disposal Liabilities	-	3,462	3,462
Other Federal Employment Benefits	-	259	259
Other Liabilities:			
FECA Reimbursement to DOL	6	-	6
Employer Contribution and Payroll Taxes Payable	(164)	150	(14)
Accrued Funded Payroll and Benefits	-	571	571
Advances from Others	-	460	460
Accrued Unfunded Annual Leave	-	(555)	(555)
Contract Holdbacks	-	(565)	(565)
Other	(960)	-	(960)
Other Financing Sources			
Imputed Financing	(2,323)	-	(2,323)
Total Components of Net Cost That are Not Part of Net Outlays	**16,050**	**(34,475)**	**(18,425)**
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of PP&E	-	231,025	231,025
Other		(19,293)	(19,293)
Total Components of Net Outlays That are Not Part of Net Cost	**-**	**211,732**	**211,732**
NET OUTLAYS	**$ 159,603**	**$ 724,407**	**$ 884,010**
Outlays, Net, Statements of Budgetary Resources			**884,010**
Reconciling Difference			**$ 0**

Continued on next page –

FY2019	Intragovernmental	Non-Federal	Total
NET COST	**$ 151,595**	**$ 550,349**	**$ 701,944**
Components of Net Cost That are Not Part of Net Outlays			
General PP&E Disposals	-	-	-
Offset to Capitalized Assets	-	274,875	274,875
Net Losses	-	(118,250)	(118,250)
Increase in Assets			
Accounts Receivable	1,551	1	1,552
(Increase)/Decrease in Liabilities			
Accounts Payable	(15,513)	22,884	7,371
Environmental and Disposal Liabilities	-	7,101	7,101
Other Federal Employment Benefits	-	723	723
Other Liabilities:			
FECA Reimbursement to DOL	49	-	49
Employer Contribution and Payroll Taxes Payable	(67)	(86)	(153)
Accrued Funded Payroll and Benefits	-	(331)	(331)
Advances from Others	-	(1,046)	(1,046)
Accrued Unfunded Annual Leave	-	(399)	(399)
Contract Holdbacks	-	(433)	(433)
Other	306	-	306
Other Financing Sources			
Imputed Financing	(3,390)	-	(3,390)
Total Components of Net Cost That are Not Part of Net Outlays	**(17,064)**	**185,039**	**167,975**
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of PP&E	-	7,593	7,593
Other	-	-	-
Total Components of Net Outlays That are Not Part of Net Cost	**-**	**7,593**	**7,593**
NET OUTLAYS	**$ 134,531**	**$ 742,981**	**$ 877,512**
Outlays, Net, Statements of Budgetary Resources			**877,512**
Reconciling Difference			**$ 0**

The Net Cost to Net Outlays Reconciliation schedule is intended to facilitate reporting of the Federal deficit reconciliation to the President's Budget within the Consolidated Financial Report of the United States Government.

The Net Cost to Net Outlays Reconciliation schedule reconciles the Net Cost (reported in the Statements of Net Cost) to the Net Outlays (reported in the Statements of Budgetary Resources). The reconciliation clarifies the relationship between budgetary

Continued on next page –

and proprietary accounting information. Examples of the reconciling items identified are: (1) Transactions which did not result in an outlay but did result in a cost; and (2) Unpaid expenses included in the net cost in this reporting period but not yet included in outlays. Components of net cost that are not part of net outlays are most commonly (1) the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write-down of assets (due to revaluations); (2) the temporary timing differences between outlays/receipts and the operating expense/revenue during the period; and (3) costs financed by other entities (imputed inter-entity cost).

More specifically, for FY2020, the key differences between the net cost and net outlays reconciliation for DLA GF include; (1) the offset to capitalize assets, which are reclassified expenses for capitalized purchases that have no impact on net outlays; and (2) the acquisition of capital assets, which are capitalized expenditures paid for, that have no impact on net cost. For FY2019, net losses primarily represented CIP adjustments.

Any reconciling difference would be attributable to limitations of financial and nonfinancial management processes and systems that support the financial statements, as disclosed in Note 1.B., *Basis of Presentation and Accounting.* In addition, DLA GF does not have an established policy to identify and reconcile net cost to net outlays and/or identify components of net cost or net outlays that have not been properly accounted for. As such, DLA GF will continue to investigate and resolve the causes of any reconciling differences as SFFAS 53, *Budget and Accrual Reconciliation*, continues to be implemented.

The prior year presentation was modified to the current year presentation to facilitate the: (1) comparability between years for related activity; and (2) understanding of amounts reported in the reconciliation above to the principal financial statements and other related notes. The modification in the presentation had no net effect on the reconciliation as previously reported

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to the Reconciliation of Net Cost to Net Outlays.)

Florida Formation

The Blue Angels, the Navy's flight demonstration squadron, fly with the team's new C-130J Super Hercules over Naval Air Station Pensacola, Fla., Aug. 17, 2020. The Blue Angels' previous C-130 "T" model served the team for 17 years and was retired in May 2019. **Photo By: Navy Petty Officer 2nd Class Cody Hendrix**

REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

Combining Statements of Budgetary Resources

The Combining Statements of Budgetary Resources combines the availability, status, and outlays of DLA GF budgetary resources. The below tables provide the Combining Statements of the Budgetary Resources disaggregated by DLA GF programs for the years ended September 30, 2020 and 2019, respectively. As the Combining Statements of the Budgetary Resources are prepared at appropriation level, DLA GF presented the programs by appropriation. However, for reporting purposes, due to the material and size of Family Housing, DLA GF combined the Family Housing Program with MILCON in its Statements of Net Cost for presentation purposes.

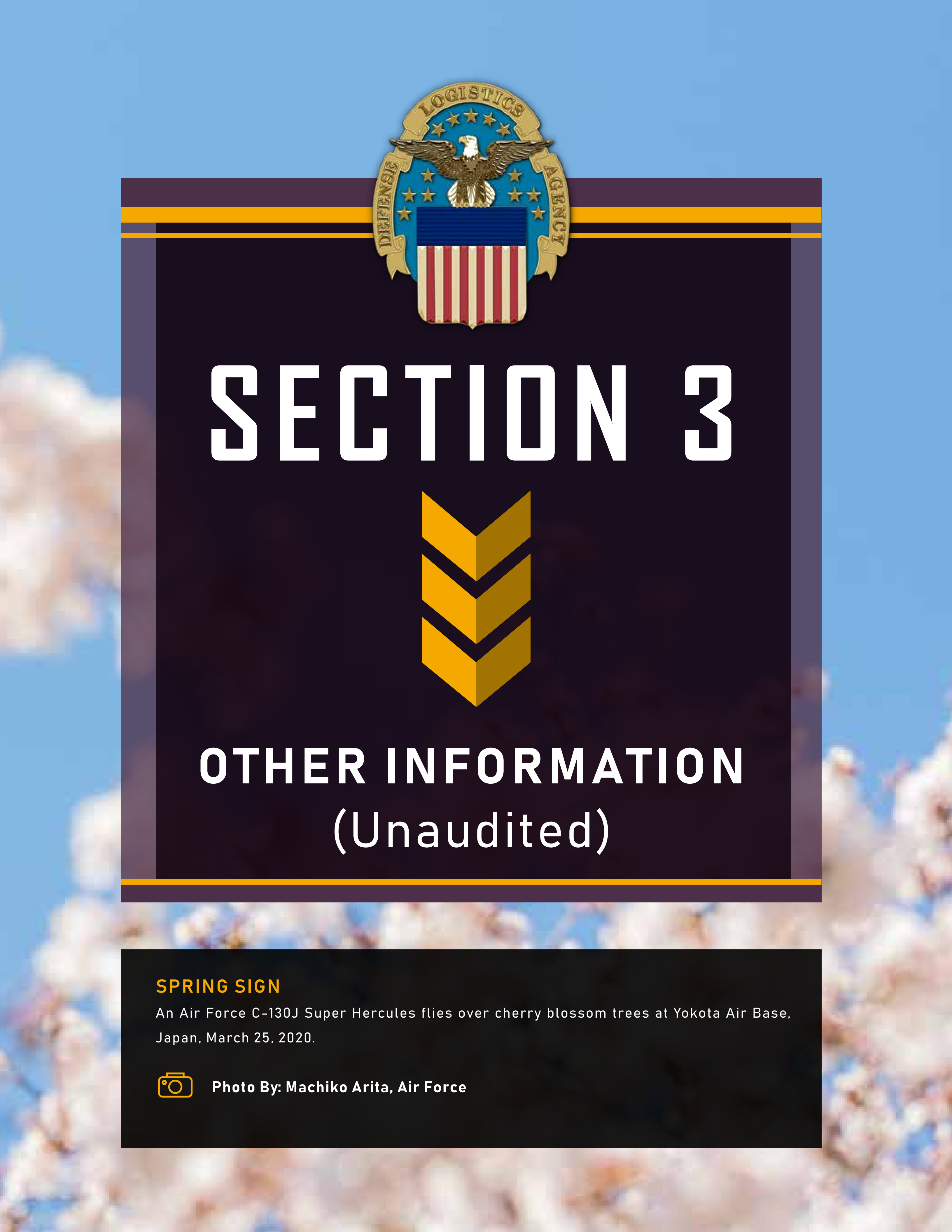
Defense Logistics Agency – General Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2020
(dollars in thousands)

	Operation and Maintenance	Procurement	Research, Development, Test & Evaluation	Family Housing	Military Construction	FY2020 Total
BUDGETARY RESOURCES						
Unobligated Balance From Prior Year Budget Authority, Net	$ 94,815	$ 5,845	$ 61,409	$ 615	$ 269,621	$ 432,305
Appropriations	415,991	8,471	317,970	-	353,649	1,096,081
Spending Authority From Offsetting Collections	27,229	-	50,018	-	-	77,247
TOTAL BUDGETARY RESOURCES	**$ 538,035**	**$ 14,316**	**$ 429,397**	**$ 615**	**$ 623,270**	**$ 1,605,633**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments	$ 455,071	$ 12,889	$ 373,038	$ -	$ 148,894	$ 989,892
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	1,081	754	48,706	-	453,229	503,770
Unexpired Unobligated Balance, End of Year	1,081	754	48,706	-	453,229	503,770
Expired Unobligated Balance	81,883	673	7,653	615	21,147	111,971
Total Unobligated Balance, End of Year	82,964	1,427	56,359	615	474,376	615,741
TOTAL BUDGETARY RESOURCES	**$ 538,035**	**$ 14,316**	**$ 429,397**	**$ 615**	**$ 623,270**	**$ 1,605,633**
OUTLAYS, NET						
Outlays, Net	$ 374,140	$ 3,643	$ 282,174	$ 615	$ 223,438	$ 884,010
AGENCY OUTLAYS, NET	**$ 374,140**	**$ 3,643**	**$ 282,174**	**$ 615**	**$ 223,438**	**$ 884,010**

Defense Logistics Agency – General Fund
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2019
(dollars in thousands)

	Operation and Maintenance	Procurement	Research, Development, Test & Evaluation	Family Housing	Military Construction	FY2019 Total
BUDGETARY RESOURCES						
Unobligated Balance From Prior Year Budget Authority, Net	$ 91,759	$ 1,249	$ 56,140	$ 813	$ 416,750	$ 566,711
Appropriations	375,950	6,589	337,267	1,709	189,071	910,586
Spending Authority From Offsetting Collections	27,569	-	38,928	-	-	66,497
TOTAL BUDGETARY RESOURCES	**$ 495,278**	**$ 7,838**	**$ 432,335**	**$ 2,522**	**$ 605,821**	**$ 1,543,794**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments	$ 393,574	$ 1,958	$ 372,152	$ 1,687	$ 343,523	$ 1,112,894
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	14,525	4,880	50,349	22	240,792	310,568
Unexpired Unobligated Balance, End of Year	14,525	4,880	50,349	22	240,792	310,568
Expired Unobligated Balance	87,179	1,000	9,834	813	21,506	120,332
Total Unobligated Balance, End of Year	101,704	5,880	60,183	835	262,298	430,900
TOTAL BUDGETARY RESOURCES	**$ 495,278**	**$ 7,838**	**$ 432,335**	**$ 2,522**	**$ 605,821**	**$ 1,543,794**
OUTLAYS, NET						
Outlays, Net	$ 340,143	$ 5,190	$ 288,357	$ 529	$ 243,293	$ 877,512
AGENCY OUTLAYS, NET	**$ 340,143**	**$ 5,190**	**$ 288,357**	**$ 529**	**$ 243,293**	**$ 877,512**

SECTION 3 | OTHER INFORMATION (Unaudited)



SECTION 3

OTHER INFORMATION
(Unaudited)

SPRING SIGN

An Air Force C-130J Super Hercules flies over cherry blossom trees at Yokota Air Base, Japan, March 25, 2020.

Photo By: Machiko Arita, Air Force

IN THIS SECTION

SECTION 3
Other Information (Unaudited)

Precision Vision
Members of the U.S. Air Force Honor Guard train in front of the Lincoln Memorial in Washington, Oct. 7, 2019 . **Photo By: Air Force Staff Sgt. Christopher Muncy**

MANAGEMENT CHALLENGES

DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060-6221

September 14, 2020

MEMORANDUM FOR VICE ADMIRAL MICHELLE C. SKUBIC, DIRECTOR, DLA

SUBJECT: Major Management and Performance Challenges Facing the Defense Logistics Agency

Although significant progress has been made in the management of the organization and the reduction of challenges facing the organization, the Office of the Inspector General (OIG) sees ten areas where major challenges remain. The ten challenge areas are:

a. Contracting Officers Representatives. Based on two recently completed audits, OIG found significant concerns about the quality of contracting officers representatives work. Contracting officers representative files almost always contained inadequate evidence supporting monitoring of contractors. These results are important to DLA because the preponderance of our supplies and services are acquired through contract. Given the significant number of DLA contracts, in order to improve audit readiness, it is essential to improve contracting officer representative performance and quality of work.

b. Financial Liability Investigations. Based on numerous OIG investigations, financial liability investigations of property losses were inadequate and failed to hold responsible officials accountable for failure to maintain accountability of property under their control. In addition to including this on the Inspector General's management challenges letter, the OIG audit division has included an audit on this topic on the FY 2021 to FY 2023 audit and inspection plan.

c. Supply Chain Security, Risk Management and Nonconforming Inventory. While there are other causes, inadequate supply chain security or supply risk management are two of the causes that introduce nonconforming inventory into the DLA supply system. Regardless of the manner in which nonconforming inventory is inducted into the system, the potential risks to the warfighter remain the same. DLA must operationalize its supply chain security strategy by synchronizing, across the Enterprise, people, processes and tools to create an effective supply chain security posture. Additionally, the lack of domestically-based integrated supply chains increase risk to the process.

d. Activity Pricing and Cost Recovery Rate. Until DLA develops an accounting system that is sufficiently designed to assign and record accurate costs, then assigning costs to appropriate cost centers will be difficult and making decisions will be based on unauditable and potentially incorrect information.

e. DLA Cybersecurity and Resilient Networks. DLA's reliance on employees teleworking via less secure home networks in order to conduct daily business exposes the organization to new and increasing computer security threats. Specifically there are concerns with ensuring DLA's cyberspace operating environment remains secure and resilient in the midst of a contested operating environment, and with IT Continuity of Operations (COOP) plans for DLA's critical business system portfolio. With the increased telework associated with the pandemic, additional effort needs to make sure that employees remain as productive as possible and that new software, as well as major updates, are conducted in as seamless a manner as possible, while also encouraging employees to take personal responsibility for network security.

f. Evidential matter. Both financial and operating audit work continues to show that DLA's ability to locate appropriate evidential matter for audit readiness is just as important as appropriately processing the transaction.

g. Knowledge management. Knowledge management is the cross disciplinary / organizational process of creating, sharing, using, and managing the information of an organization. DLA needs to move from a tacit or ad hoc knowledge management mentality to a more proactive approach that synchronizes institutional knowledge, records management, information technology, and information product development to appropriately summarize our vast data into useful and actionable knowledge that management can act upon. Improved knowledge management will require a multi-organizational effort synchronizing both internal and external (DISA) efforts.

h. Business Process Documentation. DLA needs to sustain a robust organizational approach to address business process documentation in a manner that covers inception to conclusion. Over the past several years, there has been improvement in creating process maps that document processes from beginning to end (to include inputs from other organizations as well as handoffs to others). However, much remains to be done in: the identification of risks associated with a process, management evaluation and either acceptance or addressing the risk, and implementation of internal controls associated with all phases of the process.

i. Special Emphasis Programs. DLA has at least three special emphasis programs – PTAP (Procurement Technical Assistance Program), NWRM (Nuclear Weapons Related Material), and the strategic reserve – that, while currently in good shape, requires continual management emphasis.

j. Sales of DoD Property. Insufficient policy and oversight of DLA sales of property requires action to establish clear policy guidelines and oversight authority. This concern was formally recognized in a finding in FY18 during an Agency Management review and has not been corrected to date. Three components of DLA are involved in sales of DoD property: Disposition Services (which conducts the majority of sales,) Energy, and Strategic Materials. DLA Headquarters has limited expertise within the staff. Sales procedures and process are impacted by law and rules from several governmental agencies. Unclear policy proponency and corresponding lack of oversight of execution within DLA is an area of risk that requires mitigation and remediation.

It is necessary to address these challenges facing the organization in order for DLA to provide the best value to the taxpayer and the best support to the warfighter. Additionally, addressing each of these challenges will improve the internal control structure of DLA and thereby help the organization in implementing audit requirements, including actionable and supportable financial data.

WILLIAM A. RIGBY
Inspector General

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The audit reports on the FY2020 and FY2019 DLA GF financial statements identified seven and seven material weaknesses respectively for DLA GF. Table 1 below provides a summary of the financial statement audit results for FY2020 and FY2019. Although the material weaknesses overall are not resolved, DLA is continuing to develop CAPs to resolve specific findings associated with the material weaknesses.

Table 1: FY2020 Summary of the Financial Statement Audit

Audit Opinion	Disclaimer				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Property, Plant & Equipment	1	-	-	-	1
Fund Balance with Treasury	1	-	-	-	1
Accounts Receivable and Revenue	1	-	-	-	1
Accounts Payable and Expenses	1	-	-	-	1
Financial Reporting	1	-	-	-	1
Oversight and Monitoring	1	-	-	-	1
Information Systems	1	-	-	-	1
Total Material Weaknesses	7	-	-	-	7

The DLA's FY2019 SOA package followed the structure of the financial statement audit NFRs for documenting the individual material weaknesses associated with ICOR and ICOFS. DLA's FY2019 SOA package included a total of 233 ICOR material weaknesses (consolidated into seven material weaknesses for AFR presentation), 78 ICOFS non-conformances (consolidated into four non-conformances for AFR presentation), and three ICOR-O material weaknesses across the GF, TF, and WCF.

For FY2020, the SOA package is only required to include self-identified material weaknesses and significant deficiencies for internal DoD reporting because the financial statement audit NFRs are already being reported and tracked separately. Per the June 2019 DoD Financial Improvement and Audit Remediation Report, financial statement audit findings and Corrective Action Plans (CAPs) "are entered into a centralized database managed by the ODCFO."

DLA's FY2020 Material Weaknesses and Significant Deficiencies template included a total of three self-identified material weaknesses in the area of ICO. In FY2019, the seven ICOR material weaknesses and four ICOFS non-conformances were based on financial statement audit NFRs across all funds in the SOA package. However, DLA has determined these audit identified ICOR material weaknesses and ICOFS non-conformances are still present and have not been remediated in FY2020. The audit identified ICOR material weaknesses have been reassessed to align to DLA GF: therefore, the Plan-to-Stock: Inventory material weakness, which is not applicable to DLA GF, has been removed from the ICOR material weaknesses in FY2020. The DLA Audit Task Force continues to separately track financial statement audit findings and CAPs related to the ICOR material weaknesses and ICOFS non-conformances and report these to the ODCFO.

The three self-identified FY2020 ICOR-O material weaknesses, summarized in the table below, are consistent with the ICOR-O material weaknesses reported by DLA in the FY2019 AFR.

Table 2 summarizes DLA's FY2020 material weaknesses associated with DLA GF.

Table 2: Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Acquire-to-Retire: Property, Plant and Equipment	1	-	-	-	-	1
Oversight and Monitoring	1	-	-	-	-	1
Financial Reporting	1	-	-	-	-	1
Fund Balance with Treasury	1	-	-	-	-	1
Plan-to-Stock: Inventory	1	-	-	-	1	-
Order-to-Cash: Accounts Receivable and Revenue	1	-	-	-	-	1
Procure-to-Pay: Accounts Payable and Expenses	1	-	-	-	-	1
Total Material Weaknesses	7	-	-	-	1	6

Table 2: Summary of Management Assurances						
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Supply Operations: Lack of policy and procedures in place over the management and oversite of First Article Test Exhibits	1	-	-	-	-	1
Contract Administration: Non-verification of supplier invoices	1	-	-	-	-	1
Business Process Controls: Lack of procedures over the scrap management program	1	-	-	-	-	1
Total Material Weaknesses	3	-	-	-	-	3

Table 2: Summary of Management Assurances						
Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems do not conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Security Management	1	-	-	-	-	1
Access Controls	1	-	-	-	-	1
Segregation of Duties	1	-	-	-	-	1
Configuration Management	1	-	-	-	-	1
Total Non-Conformances	4	-	-	-	-	4

Based on DLA management's analysis of relevant FFMIA compliance indicators available at the time of this report, DLA identified a lack of compliance associated with all three FFMIA Section 803(a) requirements across all funds summarized in the table below.

Table 2: Summary of Management Assurances		
Compliance with Section 803(a) of the FFMIA		
	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at the Transaction Level	Lack of compliance noted	Lack of compliance noted

Sally Supplies

Sailors arrive with equipment and supplies at Naval Air Station Pensacola, Fla., Sept. 19, 2020, while supporting disaster relief efforts following Hurricane Sally. **Photo By: Navy Petty Officer 2nd Class Anderson W. Branch**

PAYMENT INTEGRITY

The Improper Payments Information Act of 2002 (IPIA) (Pub. L. 107-300), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Pub. L. 111-204) and IPERIA: (Pub. L. 112-248), requires Agencies to review and assess all programs and activities they administer and identify those determined to be susceptible to significant improper payments (IPs), estimate the annual amount of IPs, and submit those estimates to Congress. In accordance with DoD 7000.14-R FMR, Volume 4, Chapter 14, Improper Payments, DoD components that entitle (i.e. process or compute) payments conduct risk assessments of their payment processes and random post-payment reviews to estimate IPs.

The OUSD(C) Accounting & Finance Policy Directorate (A&FP) compiles the Department-wide results annually as part of DoD's AFR. As DLA's Service Provider, DFAS entitles payments and provides the results of post-payment reviews to OUSD(C) A&FP on behalf of its customers. IPIA defines an IP as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes duplicate payments, any payment made to an ineligible recipient, any payment for an ineligible good or service, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts.

In accordance with the IPIA, as amended (31 U.S.C. 3321 note), and Appendix B of the OMB Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, dated August 27, 2019, DoD reports payment integrity information (i.e., IPs) at the Agency-wide level in the consolidated DoD AFR. In addition, DoD provides data for display on https://paymentaccuracy.gov. For detailed reporting on DoD payment integrity, refer to the OI section of the consolidated DoD AFR at: https://comptroller.defense.gov/ODCFO/afr2020.aspx

Ship Trio

The guided missile destroyer USS Gravely, top, the fast combat support ship USNS Supply and the guided missile destroyer USS Forrest Sherman conduct a refueling at sea in the Atlantic Ocean, Sept. 7, 2019. The ships were underway following a sortie due to Hurricane Dorian earlier in the week. **Photo By: Petty Officer 3rd Class Rebekah M. Rinckey**

Mercy Salute
Navy Lt. Pamela Resurreccion salutes the flag during morning colors aboard the hospital ship USNS Mercy in Los Angeles, April 30, 2020. The Mercy deployed to serve as a referral hospital for non-COVID-19 patients admitted to shore-based hospitals, allowing those hospitals to focus on COVID-19 cases.. **Photo By: Navy Petty Officer 2nd Class Ryan M. Breeden**

FRAUD REDUCTION REPORT

On June 30, 2016, Congress enacted the FRDAA. The FRDAA requires Agencies to conduct an evaluation of fraud risks; use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; collect and analyze data from reporting mechanisms on detected fraud to monitor fraud trends and continuously improve fraud detection through the use of data analytics; and use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response. Fraud risk is a principle of risk assessment, which is one of the five components of entity level internal controls in accordance with the Green Book and OMB Circular A-123.

OMB Circular A-123 requires DLA to establish financial and administrative controls, through the Agency risk profile, that address identified fraud risks around payroll, beneficiary payments, grants, large contracts, IT and security, asset safeguards, purchase, travel and fleet cards as well as collect and analyze data to help detect and monitor fraud. The ERM Project Management Office conducted enterprise-wide training on risk assessments that emphasized the minimum requirements for fraud. DLA aligned its risk categories to the DoD risk categories that facilitated the identification, measurement, and reporting of risks as well as the development of DLA's risk profile. In the Fraud Risk category, DLA reported a total of 20 fraud risk events. Table 3 below summarizes DLA's overall risk ranking for the Fraud Risk categories:

Table 3: Summary of Fraud Risk Ranking

Risk Category	Low Risk Events	Medium Risk Events	High Risk Events	Total Risk Events
Fraud Risk	9	9	2	**20**

In FY2020, DLA is reporting fraud risks from the following sub-categories: ***Large Contracts, Purchase, Payroll, Travel, Fleet Cards, Beneficiary Payments, Asset Safeguards, Grants, Information Technology & Security, and Other***. Fraud risks related to focus areas not previously mentioned are identified as "Other".

In accordance with the Fraud Reduction and Data Analytics Act of 2015, DLA facilitated fraud risk identification in the aforementioned susceptible areas. DLA aligned fraud risks related to DLA business processes in Table 4 below:

Continued on next page -

Table 4: Fraud Risks		
Fraud Risk Sub-Category	Risk Description	Overall Risk Ranking
Other	Fraud, Waste, Abuse, and Contract Failure: Fraud, waste, abuse, or mismanagement.	HIGH
Other	Counterfeit Parts: Counterfeit material within DoD acquisition systems and DoD life-cycle sustainment processes.	HIGH
Other	Compromised Commercial and Government Entity (CAGE) Codes: CAGE Codes for fraud schemes involving CAGE Compromise (i.e., Hopping or Jacking). CAGE Hopping is where a vendor receives a contract but delivers nonconforming parts or no parts at all, then “hops” to a new CAGE code before they get caught. CAGE Jacking is where a vendor registers a new CAGE code in the name of an existing business, substitutes their banking data for the legitimate business' data, then when awarded a contract under the guise of the legitimate business, sends invoices and gets paid, then either delivers nonconforming parts or no parts at all.	MEDIUM
Large Contracts	Fair and Reasonable Pricing: *Overpricing* - This encompasses inflated prices charged by the vendor for services or supplies rendered. *Bid Rigging* - This encompasses collusive price-fixing behavior in which competitors coordinate their bids on procurement contracts to guarantee the selection of a particular vendor.	MEDIUM
Payroll	Fictitious payroll payments to ghost employees and continued payments to separated employees due to administrative errors.	MEDIUM
Payroll	Unauthorized payroll adjustments	MEDIUM
Travel	Employees creating fictitious employees and travel vouchers for payment.	MEDIUM
Travel	Employees accessing the travel database and stealing social security numbers to open fraudulent bank accounts and deposit unauthorized travel reimbursements.	MEDIUM
Beneficiary Payments	Payments made for deceased and/or fictitious beneficiaries and false documentation submission to prolong disability payments.	MEDIUM

Table 4: Fraud Risks		
Fraud Risk Sub-Category	Risk Description	Overall Risk Ranking
Information Technology and Security	Segregation of Duties: If the system has not documented specific Segregation of Duties policies and procedures, then there is a risk that staff and users will be unaware of guidance for ensuring proper Segregation of Duties in the system.	MEDIUM
Other	Knowledgeable employee doesn't report known or suspected fraud, waste or abuse to the Office of the Inspector General (OIG) Hotline Program.	MEDIUM
Purchase	GPC: Illegal, improper purchases, or improper payments.	LOW
Fleet Cards	Lack of or insufficient controls to monitor the utilization of fleet cards may lead to the risk of employees' misuse of the fleet card to purchase fuel for personal usage.	LOW
Asset Safeguards	Improper Handling of Controlled Materials: There is a risk of losing accountability of classified or AA&E shipments caused by not confirming drivers' clearance.	LOW
Asset Safeguards	Improper Handling of Controlled Materials: Not properly safeguarding classified material at the time of receipt.	LOW
Asset Safeguards	Improper Handling of Controlled Materials: Failure to take the proper precautions when transporting classified material.	LOW
Asset Safeguards	Improper Handling of Controlled Materials: Failure to check door seals and taking proper action when seals are broken or missing.	LOW
Asset Safeguards	Receipt and Acceptance: Inventory receipt and acceptance could be subject to a misstatement of actual inventory quantities received versus actual inventory quantities recorded.	LOW
Grants	Risk that cooperative agreement award recipients will use award funding for expenses that are not in the scope of the agreement. The aggregate value of DLA's 91 annual cooperative agreement awards is about $43 million. No individual award exceeds $1 million.	LOW
Other	Potential Fraud resulting from noncompliance with the standards of conduct and the Agency ethics program.	LOW

The DLA is in the process of implementing financial and administrative controls to mitigate the above fraud risks. DLA appointed a CRO and is in process of developing and implementing an ERM and Internal Control program to address the full spectrum of DLA's risk portfolio and key internal controls across all organizational and business aspects. Once fully established, DLA will be able to modernize and integrate risk management and internal control activities into an ERM framework resulting in improved mission delivery, reduced costs, and corrective actions focused toward key risks. Furthermore, DLA developed and is progressing with corrective actions to address the shortfalls in the OMB Circular A-123 Program, and senior leaders at all levels of the organization are committed to incremental improvements to establishing a risk based control environment. Additionally, DLA outsourced, developed, and implemented OMB Circular A-123 training and specialized workshops for senior executives, assessable unit managers, process cycle integrators and process health organizations to ensure the workforce possesses the requisite skills to develop, implement, and sustain a robust system of risk and internal controls throughout the Agency.

Pentagon Flyover

The Air Force and Navy flight demonstration squadrons, the Thunderbirds and the Blue Angels, fly over the Pentagon, May 2, 2020, as part of "America Strong," a collaborative salute from the two services to honor health care workers, first responders, service members and other essential personnel during the COVID-19 pandemic. **Photo By: Air Force Tech. Sgt. Ned T. Johnston**

GRANTS PROGRAM

The DLA GF provides cooperative agreements through the PTAP and strives to perform timely close out of awards for which the period of performance has expired. DLA GF is currently collaborating with the DoD Agencies administering awards to facilitate the timely closeout of four remaining awards.

Table 5 below summarizes the total number of Federal grant and cooperative agreement awards (amounts in quantity) and the balances (amounts in dollars) for which closeout has not yet occurred but the period of performance has elapsed by more than two years for the year ended September 30, 2020.

Table 5: Cooperative Agreements

Risk Category	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	-	-	-
Number of Grants/Cooperative Agreements with Undisbursed Balances	4	-	-
Total Amount of Undisbursed Balances	$255,127	$-	$-

The DLA GF is unable to validate the completeness and accuracy of the cooperative agreements disclosed above due to limitations of financial and nonfinancial management processes and systems that support the financial statements, as disclosed in Note 1.B., *Basis of Presentation and Accounting.*

APPENDIX

APPENDIX

FORWARD FOCUS

Navy Seaman Natasha Roberts stands lookout aboard the USS Ronald Reagan in the South China Sea, Oct. 1, 2019.

Photo By: Navy Petty Officer 2nd Class Tyra M. Campbell

APPENDIX A: SUMMARY OF FMFIA DEFINITIONS AND REPORTING

Category	Definition	Reporting
Control Deficiency	**A.** Exists when the design, implementation, or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to achieve control objectives and address related risks. **B. Deficiency in Design:** A deficiency in design exists when: (1) a control necessary to meet a control objective is missing (2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. **C. Deficiency in Implementation**: A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system. **D. Deficiency in Operation:** A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.	Internal to the organization and not reported externally. Progress against CAPs must be periodically assessed and reported to Agency management.
Significant Deficiency	A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet is important enough to merit attention by those charged with governance.	Internal to the organization and not reported externally. Progress against CAPs must be periodically assessed and reported to Agency management.

Appendix A: Summary of FMFIA Definitions and Reporting (continued)

Category	Definition	Reporting
Material Weakness	**A.** A material weakness is a significant deficiency that the Agency Head or Director determines to be significant enough to report outside of the Agency as a material weakness. In the context of the Green Book (http://www.gao.gov/greenbook), non-achievement of a relevant principle and related component results in a material weakness. **B. Internal Control Over Operations:** A material weakness in internal control over operations might include , but is not limited to conditions that: • Impacts the operating effectiveness of entry-level controls; • Impairs fulfillment of essential operations or missions; • Deprives the public of needed services; or • Significantly weakens established safeguards against fraud, waste, loss, unauthorized use, or misappropriation of funds, property, assets, or conflicts of interest. **C. Internal Control Over Reporting:** A material weakness in internal control over external financial reporting is a deficiency, or a combination of deficiencies, in internal control, in that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected before issuance. **D. Internal Control Over Compliance:** A material weakness in internal control over compliance is a condition where management lacks a process that reasonably ensures preventing a violation of law or regulation that has direct and material effect on financial reporting or significant effect on other reporting or achieving Agency objectives.	Material weaknesses and a summary of corrective actions must be reported to OMB and Congress through the AFR or other management reports. Progress against CAPs must be periodically assessed and reported to Agency management.

APPENDIX B: J/D CODES, DLA HQ PROGRAM SUPPORT STRUCTURE, ROLES AND RESPONSIBILITIES

The following are DLA Enterprise-wide J/D Codes and DLA HQ Program Support Structures:

DLA HUMAN RESOURCES (J1) provides the full range of human resource services to include Operational, Human Performance, Talent Management, Performance Management, Labor Relations and Human Resources Policy for the DLA workforce. DLA Human Resources recruits, hires, trains, and sustains a mission-ready workforce for DLA and Human Resources customers, using world-class policies, processes, programs, and tools.

DLA LOGISTICS OPERATIONS (J3) is responsible for the end-to-end supply chain management of DLA's supply chains, providing logistics and materiel process-management policy, guidance, and oversight. J3 integrates strategic, operational, and tactical perspectives, as well as command and control functions for contingency operations and logistics supply chain planning. J3 maximizes the readiness and logistics combat power by leveraging enterprise solutions to support DLA's global customer base.

DLA INFORMATION OPERATIONS (J6) as DLA's knowledge broker, provides comprehensive, best practice IT support to the DoD/DLA Logistics Business Community, resulting in customer support; efficient and economical computing; data management; electronic business; telecommunication services; key management; and secure voice systems for DoD, DLA, and geographically separated operating locations. The Director of Information Operations serves as DLA's CIO. DLA Information Operations also manages DLA's R&D IT program.

DLA ACQUISITION (J7) is responsible for planning, organizing, directing, and managing the procurement and contract administration functions for DLA acquisition in support of both internal operations and other supported activities. The Director of DLA Acquisition also serves as the Agency's Component Acquisition Executive. DLA Acquisition provides oversight of DLA Contracting Services Office.

DLA FINANCE (J8) is responsible for obtaining and allocating resources; analyzing execution; and providing fiscal guidance and advice to support the Agency, its business areas, and its MSCs in accomplishing DLA's mission. DLA Finance prepares the AFRs and guides DLA in its Audit Remediation efforts. The Director of Finance also serves as DLA's CFO.

DLA JOINT RESERVE FORCE (J9) provides DLA with trained, ready, and available reservists from the Army, Air Force, Navy, and Marine Corps for worldwide contingency operations and support of ongoing operations, surge requirements, and logistics planning.

DLA OFFICE OF SMALL BUSINESS PROGRAMS (DB) provides small business advocacy and promotes small business utilization to strengthen the competency, capability, and commitment of the industrial base that fulfills DLA's mission as the Nation's Combat Logistics Support Agency. DLA Office of Small Business Programs is responsible for implementation of the Procurement Technical Assistance Program to expand the number of businesses capable of participating in contracts with DoD, other Federal Agencies, state and local governments, and government prime contractors.

DLA GENERAL COUNSEL (DG) delivers professional, candid, and independent legal advice and services to DLA.

DLA COMMAND CHAPLAIN (DH) serves as the program manager for religious support logistics. This office provides the DLA Director and the staff a clear picture of workforce morale as affected by religion, ensuring the free exercise of religion to support the Warfighter and the employees in the workplace at DLA.

DLA INSTALLATION MANAGEMENT (DM) provides enterprise-wide Agency policy, program, and worldwide operational support in environmental management; safety and occupational health; installation management; public safety; forms and policy management; and morale, welfare, and recreation for DLA.

DLA EQUAL EMPLOYMENT OPPORTUNITY AND DIVERSITY OFFICE (DO) provides DLA senior leadership, staff, and subordinate commands enterprise-wide respondent and subject matter expertise on all Equal Employment Opportunity Compliance oversight, Affirmative Employment and Diversity and Inclusion.

DLA PUBLIC AFFAIRS (DP) provides public affairs support, communication strategy development, and engagement guidance to DLA senior leadership, staff, and subordinate commands. The DLA Public Affairs office develops and administers internal news and information; manages DLA social media and public engagement policies, and develops programs that communicate DLA's role as a Combat Support Agency that adds value to the Defense Department, military services, CCMDs and the American people.

DLA TRANSFORMATION (DT) directorate synchronizes strategy, policy, and process to support the Warfighter, strengthen alliances and drive innovation. DT manages DLA's strategic plan, executive governance forums, and the Agency-wide deployment of Enterprise Process Management, Continuous Process Improvement, Enterprise Organizational Alignment, and Enterprise Policy Management programs.

DLA OFFICE OF THE INSPECTOR GENERAL (OIG) coordinates and synchronizes GAO and Department of Defense Office of Inspector General (DoDIG) audits with all DLA components; tracking, monitoring, and assessing the implementation of audit corrective actions and communicating completion results. They sustain strategic engagement with the Defense Counsel on Integrity and Efficiency and their subcommittees, as well as relationships with DoDIG Criminal Investigative Services, Military Criminal Investigation Services, and other Law Enforcement Agencies. DLA OIG also conducts administrative investigations and crime vulnerability assessments that align with Agency risks and strategic goals. The DLA OIG internal audit plan is derived from DLA's ERM efforts, and also encompasses external audit projects derived from GAO's high risk list.

Replenishment Run

Navy Seaman Apprentice William Caliman and Petty Officer 3rd Class Hunter Boyce move away from an MH-60S Seahawk as it lifts cargo from the flight deck of the USS Theodore Roosevelt during a replenishment in the Pacific Ocean, July 1, 2020. **Photo By: Navy Seaman Erik Melgar**

APPENDIX C: ABBREVIATIONS & ACRONYMS

A&FP	Accounting & Finance Policy Directorate
A/BO	Approving/Billing Officials
ADA	Anti-Deficiency Act
AFR	Agency Financial Report
A/OPC	Agency/Organization Program Coordinators
APR	Annual Performance Report
ASC	Accounting Standards Codification
BRAC	Base Realignment and Closure
CAGE	Compromised Commercial and Government Entity
CAPs	Corrective Action Plans
CARS	Central Accounting and Reporting System
CBY	Charge Back Year
CCEs	Cross-Cutting Efforts
CCMD	Combatant Command
CCMDs	Combatant Commands
CCs	Critical Capabilities
CERCLA	The Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officers
Charge Card Act	Charge Card Abuse Prevention Act
CIO	Chief Information Officer
CIP	Construction-in-Progress
CMR	Cash Management Report
COLA	Cost of Living Adjustments
COTS	Commercial Off-The-Shelf
COVID-19	Coronavirus-19
CPIM	Consumer Price Index Medical
CRO	Chief Risk Officer
CSRS	Civil Service Retirement System
CTC	Cost-to-Complete
DATA Act	Digital Accountability and Transparency Act of 2014
DAI	Defense Agencies Initiative
DCAA	Defense Contract Audit Agency
DCAS	Defense Contract Administration Services
DCIA	Debt Collection Improvement Act
DeCA	Defense Commissary Agency
DERA	Defense Environmental Restoration Account
DERP	Defense Environmental Restoration Program
DFAS	Defense Financial and Accounting Services
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DMEA	Defense Microelectronics Activity
DoD	Department of Defense
DoDM	DoD Manual
DoDIG	Department of Defense Office of Inspector General
DOL	Department of Labor
DSA	Defense Supply Agency
DSS	Distribution Standard System
DTIA	Defense Technical Information Agency
DQP	Data Quality Plan
DW	Defense-wide
EBS	Enterprise Business System
ECC	Resource Planning Central Component
EL	Disposal Liabilities
ERM	Enterprise Risk Management
ESSM	Evolved Sea Sparrow Missile
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Finanical Management Improvement Act
FFMSR	Federal Financial Management System Requirements
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulations
FPAs	Federal Program Agencies
FRDAA	Fraud Reduction and Data Analytics Act
FY	Fiscal Year

GAO	Government Accountability Office
GAAP	Generally Accepted Accounting Principles
GF	General Fund
GMRA	Government Management Reform Act
GPC	Government Purchase Card
GPRA	Government Performance and Results Act
GSA	General Services Administration
HQ	Headquarters
HFFS	Horizontal Form Fill Seal
IBMC	Base Maintenance Contract
ICOFS	Internal Controls Over Financial Systems
ICOR-O	Internal Control over Operations
ICOR	Internal Control over Reporting
ICP	Industrial Capabilities Program
ID	Identification
IIBM	Improving Industrial Base Manufacturing
IOD	Insight on Demand
IPA	Independent Public Accounting
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	The Improper Payments Information Act of 2002
IPs	Improper Payments
IRP	Installation Restoration Program
IT	Information Technology
ITLI	Improving Technical Logistics Information
IUS	Internal Use Software
JCS	Joint Chiefs of Staff
JLEnt	Joint Logistics Enterprise
LOEs	Lines of Effort
MILCON	Military Construction
MFH	Military Family Housing
MOCAS	Mechanization of Contract Administration Service
MRE	Meals Ready-to-Eat
MSC	Major Subordinate Command
MSR	Minimum Sustaining Rate
MVSS	Maintaining Viable Supply Sources
N204	Dinitrogen Tetroxide
NAVFAC	U.S. Naval Facilities Engineering Command
NDBOP	National Defense Business Operations Plan
NFRs	Notice of Findings and Recommendations
NDAA	The National Defense Authorization Act
NDS	National Defense Strategy
NDU	National Defense University
NSA	National Security Agency
O&M	Operation and Maintenance
OCONUS	Outside the Continental United States
ODCFO	Office of Deputy Chief Financial Officer
ODO	Other Defense Organizations
OI	Other Information
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSBP	Office of Small Business Programs
OSD	Office of the Secretary of Defense
OSHA	Occupational Safety and Health Administration
OUSD	Office of the Under Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
OWCP	Office of Worker's Compensation Programs
P3	Public-Private Partnerships
PDW	Procurement Defense-wide
PMO	Program Management Office
PPE	Personal Protective Equipment
PP&E	General Property, Plant, and Equipment
PPA	Prompt Payment Act
PTACs	Procurement Technical Assistance Centers
PTAP	Procurement Technical Assistance Program
R&D	Research & Development
RA	Risk Assessment
RACER	Remedial Action Cost Engineering and Requirements
RCRA	Resource Conservation and Recovery Act

RDT&E	Research, Development, Test and Evaluation
RMIC	Risk Management and Internal Control
RSI	Required Supplementary Information
SAP	Systems Applications and Product
SARA	Superfund Amendments and Reauthorization Act
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SMC	Senior Management Council
RMIC	Risk Management and Internal Control
SOA	Statement of Assurance
TDD	Treasury Direct Disbursing
TDP	Technical Data Packages
TF	Transaction Fund
TFM	Treasury Financial Manual
TI	Treasury Index
TNC	Treasury Nominal Coupon
U.S.	United States
UCO	Unfilled Customer Order
UDO	Undeliverable Orders
USACE	U.S. Army Corps of Engineers
USSGL	U.S. Standard General Ledger
WCF	Working Capital Fund
WMM	Waste Military Munitions
WMS	Warehouse Management System

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