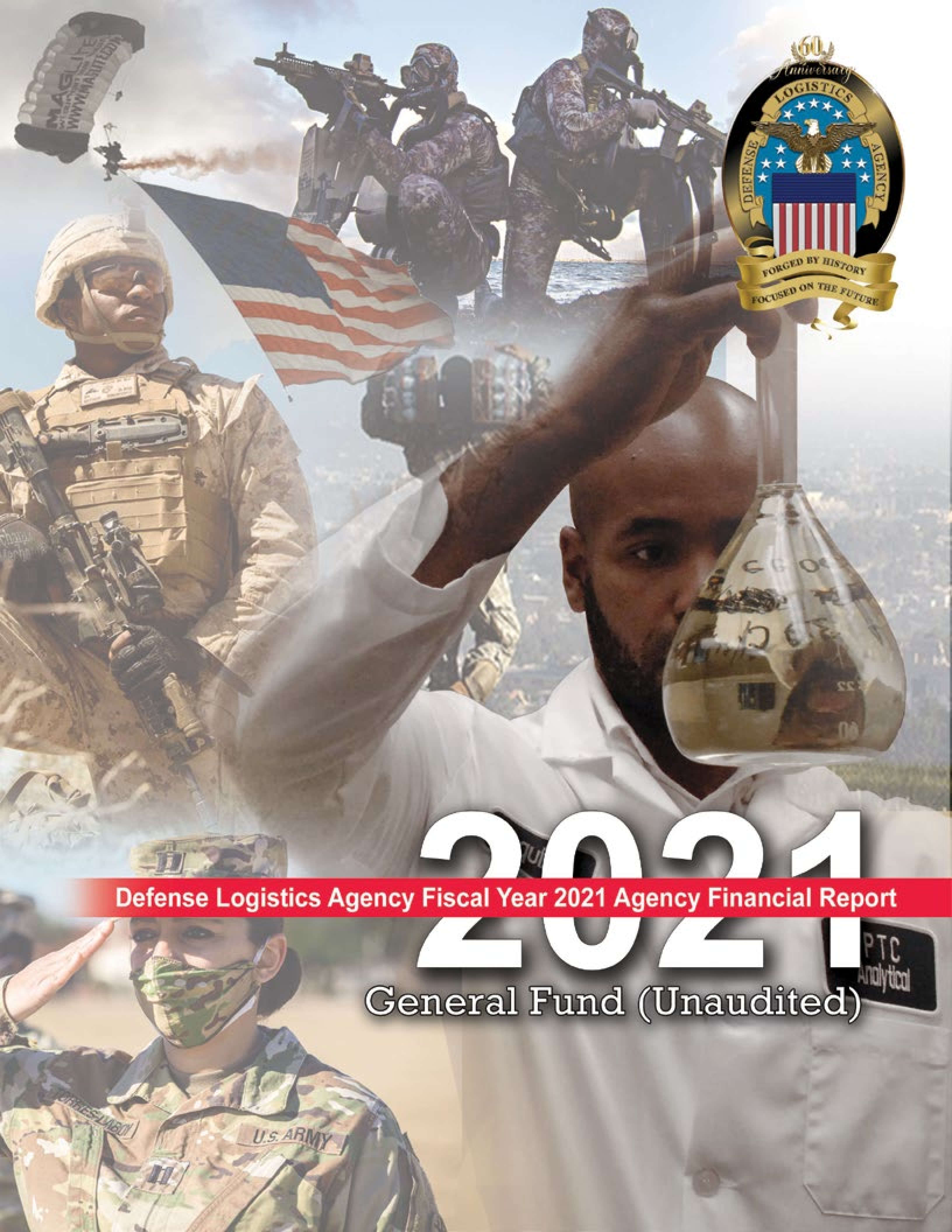

2021

Defense Logistics Agency Fiscal Year 2021 Agency Financial Report

General Fund (Unaudited)

◀ Pallet Partners

Airmen prepare to offload a pallet of bottled water in Galveston, Texas, Feb. 19, 2021. This was Federal Emergency Management Agency's request to airlift 64 tons of bottled water to storm-ravaged areas. Photo Credit: Air Force

▼ Filling Out Paperwork

Soldiers in the Maryland Army National Guard use fellow soldiers' backs in front of them to fill out their medical paperwork to receive the COVID-19 vaccine at the Capitol Complex in Washington, D.C., Jan. 14, 2021. The National Guard will provide support to federal and district authorities leading up to the 59th Presidential Inauguration. Photo Credit: ArmySgt. Chazz Kibler

▲ One Aircraft, Two Missions

U.S. Air Force Senior Airman Shea Taylor, 60th Aerial Port Squadron traffic management inbound technician, unloads skids with N-95 masks Jan. 27, 2021, at Travis Air Force Base, California. The 60th APS palletized one million of N-95 masks bound for Ramstein Air Base, Germany. Photo Credit: U.S. Air Force photo by Chustine Minoda

► Force Fuel

Marine Corps Cpl. Selina Lopez prepares to refuel a UH-1Y Venom during an amphibious combat rehearsal in Tabuk, Saudi Arabia, March 9, 2021. Photo Credit: Marine Corps Lance Cpl. Brendan Mullin

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;
- Reports Consolidation Act of 2000;
- 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 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, 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 performance and management analyses, recommendations, payment integrity reporting, and grants program reporting.

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

Defense Logistics Agency

FY 2021 | General Fund

Vaccination Day

Army Spc. Victoria Yarborough, a health care specialist for the Maryland Army National Guard Medical Detachment, administers a COVID-19 vaccine to a soldier at Camp Fretterd Military Reservation in Reisterstown, Md., Jan. 8, 2021. Maryland National Guard soldiers and airmen are supporting the state's COVID-19 vaccination initiative with mobile vaccination support teams, which are providing medical and logistical support to county health departments during the global pandemic.

Photo Credit: Air Force Staff Sgt. Sarah M. McClanahan, Maryland Air National Guard

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

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Message from the Director

On behalf of the Defense Logistics Agency (DLA), I'm pleased to present the Fiscal Year (FY) 2021 Agency Financial Report. This year, the first of October is not only the beginning of a new fiscal year – it's also the anniversary of DLA's founding in 1961. For over six decades, DLA has served the Warfighter, developing into a dynamic and forward-leaning agency with vast capabilities, fueled by a dedicated and mission-focused workforce. We are "Forged by History, Focused on the Future," and proud to serve as the Nation's Combat Logistics Support Agency.

DLA continued to fulfill our key mission to deliver readiness and lethality to the Warfighter Always and to provide support to our Nation through quality, proactive global logistics. Among the FY21 highlights, DLA's Medical Surgical Prime Vendor Program received the Best-in-Class designation from the Office of Management and Budget having achieved a 3% cost avoidance. DLA's Industrial Hardware Supply Chain completed its transformational initiative alignment ahead of schedule, creating increased effectiveness in logistics support, increased efficiencies through reduced material and operating costs, and improved pricing. DLA quickly acted to support Operation ALLIES REFUGE with food, fuel, clothing, and medicine. The agency continued to support efforts to combat the COVID-19 pandemic by managing, tracking, and distributing personal protective equipment and vaccines to overseas military service members and families and to other Department of Defense customers. DLA supported relief efforts for natural disasters, including from Hurricanes Henri and Ida, flooding in Tennessee, and wildfires in California.

The Agency launched a refreshed Strategic Plan (2021-2026) that reflects current challenges. To deliver world-class support to the Warfighter while maintaining fiscal accountability, DLA is committed to five key lines of effort and three critical capabilities.

This year, our Independent Public Accounting (IPA) firm, Ernst and Young, LLP, issued a Disclaimer of Opinion on DLA's General Fund (GF) Financial Statements. Information obtained through this report will be extremely valuable in our ongoing 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 those areas.

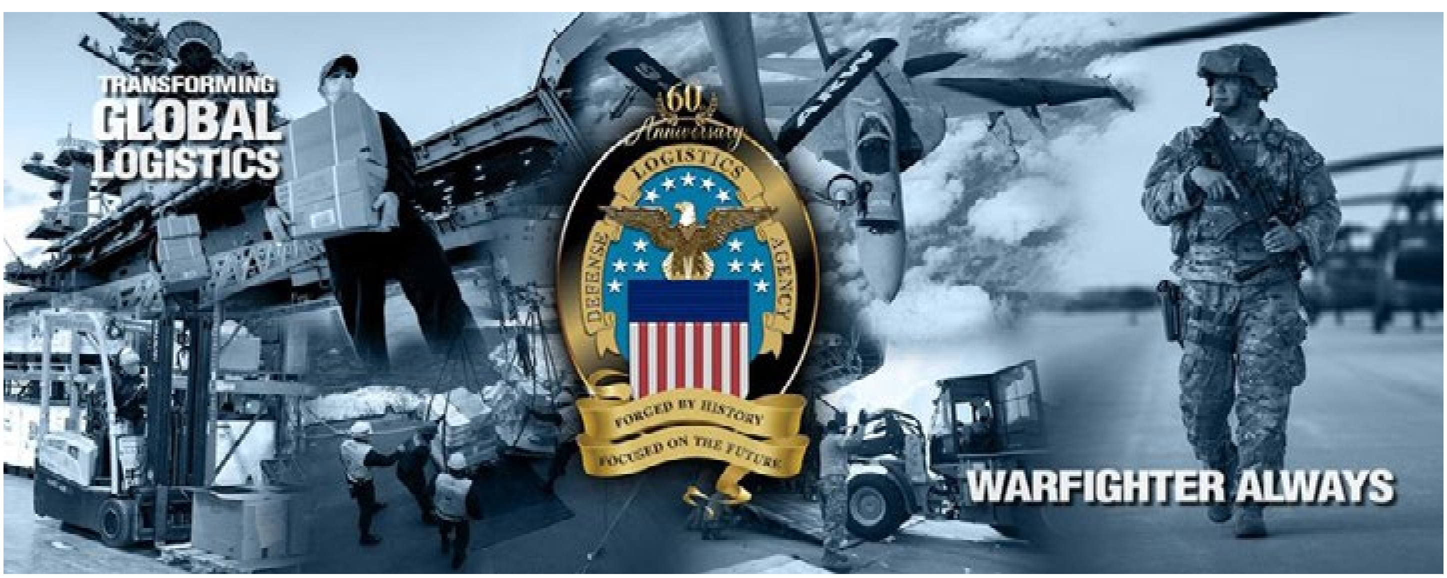
DLA's roadmap to an unmodified audit opinion in the foreseeable future is focused on process improvements, strengthened financial management, and improved monitoring and oversight. DLA will review audit results, identify root causes of conditions, prioritize resources, and develop corrective action plans. This effort will rely on establishing firm internal controls throughout every process, which will better position the agency to address risks effectively and efficiently. In the future, we'll focus on financial and operational system upgrades, 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 our financial statements are complete, accurate and reliable.

DLA CONTINUED TO FULFILL OUR KEY MISSION TO DELIVER READINESS AND LETHALITY TO THE WARFIGHTER ALWAYS AND TO PROVIDE SUPPORT TO OUR NATION THROUGH QUALITY, PROACTIVE GLOBAL LOGISTICS.

In DLA's Diamond Anniversary year, I am proud of our history. From its earliest days, DLA's mission, "…to provide effective logistics support to the operating forces of our military services and do so at the lowest possible cost to the taxpayer," has been our focus. With this report, we reaffirm our commitment to supporting our Warfighters and our Nation through efficient and accountable resource management and making strides toward stronger fiscal transparency and performance.

WARFIGHTER ALWAYS!

M.C. SKUBIC
VADM, SC, USN
Director



SECTION 1

Management's Discussion and Analysis (Unaudited)

Vehicle Management ▶

Airmen from the 378th Expeditionary Logistic Readiness Squadron Vehicle Management conduct maintenance daily to keep the base operational at Prince Sultan Air Base, Kingdom of Saudi Arabia, Sep. 8, 2020. From ambulances to loaders and firetrucks to Humvees, vehicle maintenance can work on and repair about anything with wheels, and even some without.

Photo Credit: U.S. Air Force Staff Sgt. Cary Smith

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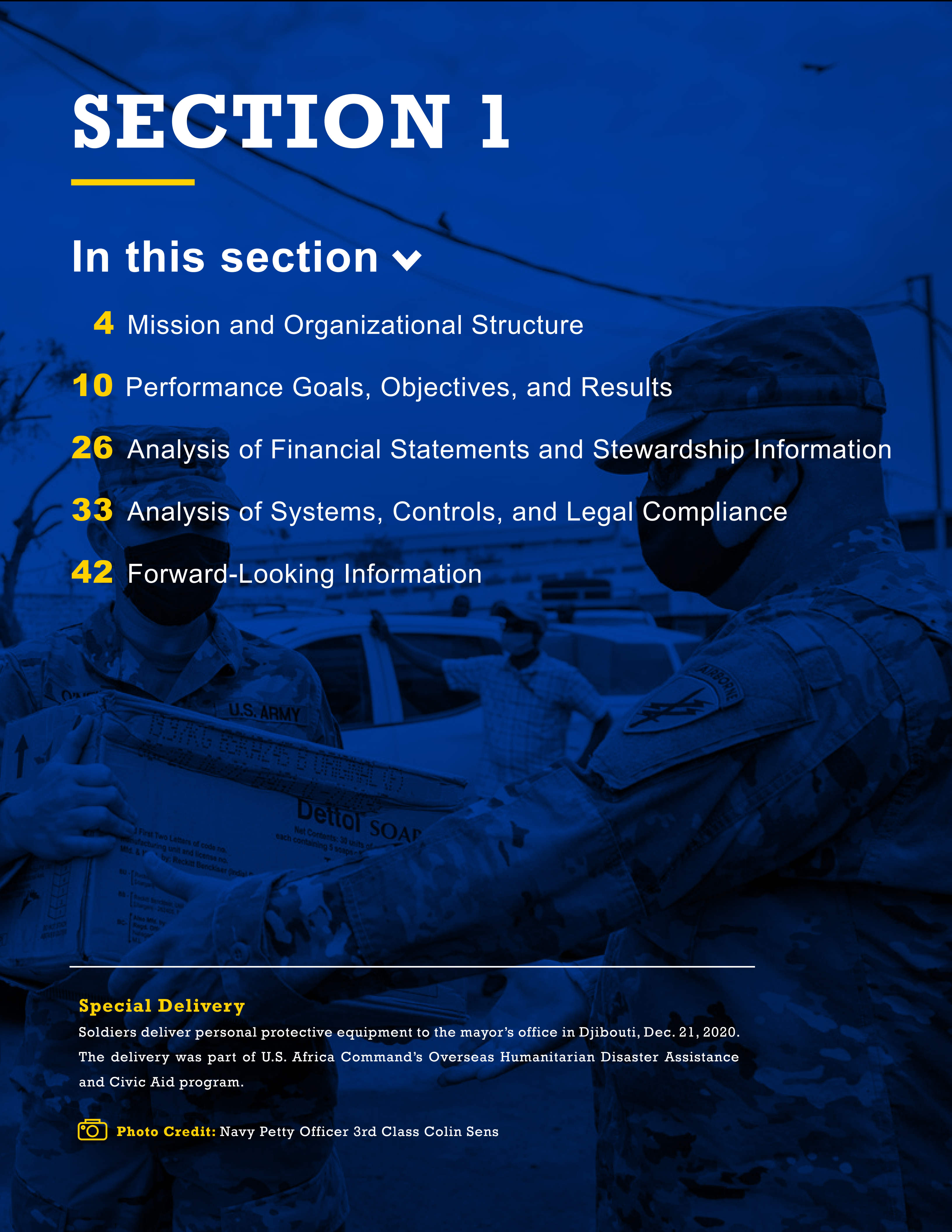
FORKLIFT 50K CONT HNDLR



SECTION 1

In this section

Special Delivery

Soldiers deliver personal protective equipment to the mayor's office in Djibouti, Dec. 21, 2020. The delivery was part of U.S. Africa Command's Overseas Humanitarian Disaster Assistance and Civic Aid program.

Photo Credit: Navy Petty Officer 3rd Class Colin Sens

Mission and Organizational Structure

As the Nation's combat logistics support agency, the Defense Logistics Agency manages the global supply chain – from raw materials to end user to disposition – for the Army, Marine Corps, Navy, Air Force, Space Force, Coast Guard, 11 combatant commands, other Federal agencies, and partner and allied nations.

Forged by History, Focused on the Future:
A Short History of the Defense Logistics Agency

The origins of DLA date back to World War II when America's 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 items common to more than one military service. The Department of Defense (DoD) responded by assigning procurement responsibilities to individual services. The Army became the military's sole buyer of food, clothing, general supplies, and construction supplies; the Navy purchased medical supplies, petroleum, and industrial parts for every service; and only the Air Force provided airlift services.

Although centralizing wholesale stocks, this "single manager" system did not provide the uniform methods recommended by the Hoover Commission. Each single manager operated under its own rules, giving customers as many sets of procedures as there were managers. On October 1, 1961, Secretary of Defense Robert McNamara eliminated this complexity by forming the Defense Supply Agency (DSA). Beginning operations on January 1, 1962, DSA saved money by employing fewer people and keeping less inventory.

DSA faced its first real-world test one year after formation. Restricted to the continental United States, it was perfectly positioned to respond to Soviet Premier Nikita S. Khrushchev's placement of nuclear missiles on Cuba. The agency supported the military during the crisis by supplying fuel and photographic film and the Nation after it, by providing fallout shelter material.

DSA grew substantially following the Cuban Missile Crisis. In 1963 and 1964, it assumed control of additional warehouses and supply centers. In 1965, it consolidated contract management offices under its Headquarters (HQ). Through its Defense Contract Administration Services (DCAS), DSA oversaw most of the Nation's defense contractors, as well as companies manufacturing items for the National Aeronautics and Space Administration (NASA).

The war in Vietnam also fueled DSA's growth. In the summer of 1965, the clothing and textile supply chain doubled its employees to produce enough warm-weather uniforms and jungle boots for the 44 battalions deployed by President Lyndon B. Johnson. Warehouses also increased hiring, adding shifts so they could operate on a 24-hour schedule. When the subsistence supply chain received permission to establish offices in the Pacific, it increased its numbers as well.

DSA received additional responsibilities Outside the Continental United States (OCONUS) in the last years of the war. In 1972, it started conducting property disposal overseas and oversaw the worldwide procurement, management, and distribution of bulk petroleum. In 1973, it began providing food to mess halls and commissaries in Europe. At the same time, the Agency became involved in foreign military sales (FMS). The weapon systems America sold to partner nations needed repair parts, and DSA was the logical provider.

On January 1, 1977, the Department of Defense recognized this expanded mission by renaming DSA the Defense Logistics Agency. Over the next decade and a half, the retitled Agency demonstrated its acquisition prowess by acquiring meals, ready-to-eat; filling the Nation's Strategic Petroleum Reserve; and providing parts for the F-16 Fighting Falcon, the most-manufactured fighter jet in history. Parts production reached all-time highs with the Reagan buildup of the 1980s. In 1986, DLA grew in purpose and scope when Congress designated it a combat support Agency. In 1988, it became even more important to DoD when the General Services Administration (GSA) transferred strategic materials oversight to it. The following year, the Department consolidated nearly all contract administration activities under the Agency. To handle the increased workload, DLA elevated DCAS to a command: the Defense Contract Management Command.

The Agency continued to reorganize in the 1990s. In April 1990, it began overseeing the services' distribution depots. This mission eventually became the responsibility of DLA Distribution. In March 1993, the Agency reengineered its HQ so only 6 organizations, rather than 42, reported directly to the Director. In 1995, as a result of Base Realignment and Closure (BRAC) 88, DLA HQ moved from Cameron Station, VA, to Fort Belvoir, VA. In the mid-1990s, as a result of BRAC 93, the Agency 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

History of **DLA**

1961

The Defense Supply Agency is established.

1965

Active combat units deploy to Vietnam. By 1969, more than 500,000 U.S. troops in the country.

1977

DSA is redesignated the Defense Logistics Agency in recognition of its broadened mission responsibilities.

1986

The Goldwater-Nichols Reorganization Act designates DLA a combat support agency.

1988

DLA assumes management of the nation's strategic stockpile from the General Services Administration and Federal Emergency Management Agency. Headquarters and Defense Fuel Supply personnel learn that they will be moving from Cameron Station to Fort Belvoir.

Support Center collocated with Defense Industrial Supply Center in northern Philadelphia to form Defense Supply Center Philadelphia. Finally, Defense Printing Services, renamed Defense Automated Printing Service, transferred to the Agency in October 1996.

The DLA rose to meet new challenges in the new millennium. The Agency responded rapidly to terrorist attacks in 2001, providing logistical support to multiple commands in Operation ENDURING FREEDOM. Beginning that year, DLA supported the conflict by processing more than 6.8 million requisitions worth more than $6.9 billion, providing $21.2 million in humanitarian support, and supplying in excess of 2.3 billion U.S. gallons of fuel. To sustain service members fighting Operation IRAQI FREEDOM, DLA processed 6.4 million requisitions worth more than $6.89 billion, provided 180.5 million field meals, supplied nearly 2 million humanitarian daily rations, and sourced more than 3 billion U.S. gallons of fuel.

The DLA supported humanitarian and relief missions in addition to military operations in the twenty-first century. In August 2005, it offered food, fuel, and housing to the many Louisianians displaced by Hurricane Katrina. In October and November of 2012, it offered the same services to victims of Hurricane Sandy, one of the worst weather events to strike the eastern coast of the United States. In September 2014, it helped the U.S. Agency for International Development combat the deadly Ebola virus in West Africa, not only providing material but also developing the sustainment footprint. In the later part of the decade, 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.

Since early 2020, DLA has supported the Nation's efforts to fight COVID-19, its most-sustained non-military mission in 60 years. Through the Federal Emergency Management Agency (FEMA), Department of Health and Human Services (HHS), U.S. Army Corps of Engineers (USACE), and military hospitals, the Agency provided personal protective equipment (PPE), ventilators, food, construction material, and repair parts. Among those DLA helped were inhabitants of hard-hit cities, residents of assisted-living facilities, and school children. In addition to supplying mass quantities of scarce goods at low prices, the Agency developed domestically sourced face masks, used additive manufacturing to produce face shields, and tracked PPE data for the entire Federal government. Starting in December 2020, it began distributing vaccines to the military's overseas locations.

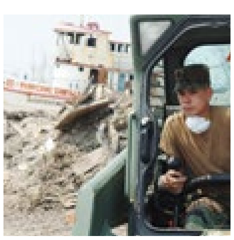
As DLA commemorates its 60th anniversary on October 1, 2021, it continues to provide logistics, acquisition, and technical services to DoD and other customers. As it has for sixty years, the Agency adds effectiveness and efficiency to governmental logistics. Forged in history, it remains focused on supporting Warfighters and the Nation they serve.

1993

DLA forms integrated business units for supply management, distribution, and contract management, reducing the number of organizations reporting directly to the DLA director from 42 to 6.

2005

DLA provides support in the wake of Hurricane Katrina.



2012

DLA delivers more than 6.2 million meals, 172,500 blankets, and 14 million gallons of fuel to areas affected by Hurricane Sandy.

2014–15

DLA helps West Africa combat the Ebola virus by providing goods and services in Operation United Assistance.

2020–21

DLA supports efforts to combat the coronavirus by providing personal protective equipment and ventilators to the American people through the Federal Emergency Management Agency and Department of Health and Human Services. It also acts as a purveyor of information, feeds naval crews on lockdown, reutilizes life-saving equipment, and delivers vaccines to the military's overseas locations.

Mission and Vision

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

MISSION

Deliver readiness and lethality to the Warfighter Always and support our Nation through quality, proactive global logistics.

VISION

As the Nation's Combat Logistics Support Agency and valued partner, we are innovative, adaptable, agile, and accountable – focused on the Warfighter Always.

What DLA Does

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 415 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 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. For the years ended September 30, 2021 and 2020, O&M was appropriated a total of $414.0 million and $416.0 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. For the years ended September 30, 2021 and 2020, PDW was appropriated a total of $390.5 million and $8.5 million, respectively, due to funding for equipment.

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. For the years ended September 30, 2021 and 2020, RDT&E was appropriated a total of $252.9 million and $318.0 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 FY 2021 as DLA GF has divested all 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. For the years ended September 30, 2021 and 2020, MILCON was appropriated a total of $304.8 million and $353.6 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 suballottees on a scheduled basis based on the project phase and related funding categories. In FY 2021 and FY 2020, USACE was sub-allotted a total of $127.9 million and $216.5 million, respectively. In FY 2021 and FY 2020, NAVFAC was sub-allotted a total of $60.5 million and $0.0 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 evaluating 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 FY 2021 APR with its FY 2023 Congressional Budget Justification. The APR is located at: https://dam.defense.gov/Publications/Annual-Performance-Plan-and-Performance-Report/.

The Performance Goals, Objectives, and Results within this section are aligned to DLA's 2021-2026 Strategic Plan and provides a summary of DLA's five Lines of Effort (LOEs) and three Critical Capabilities (CCs). 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: Key strategic priority used to link multiple objectives that when combined achieve an operational or strategic outcome.

Critical Capabilities: Agency enablers which are essential to accomplishing DLA's strategic objectives and LOEs.

Objectives: Specific goals to be achieved and are the most important actions essential to LOEs and Critical Capabilities – the "how" of the strategy.

The key initiatives that have specific Director's emphasis in DLA's Strategic Plan for 2021-2026 are shown in the LOEs and CCs below.

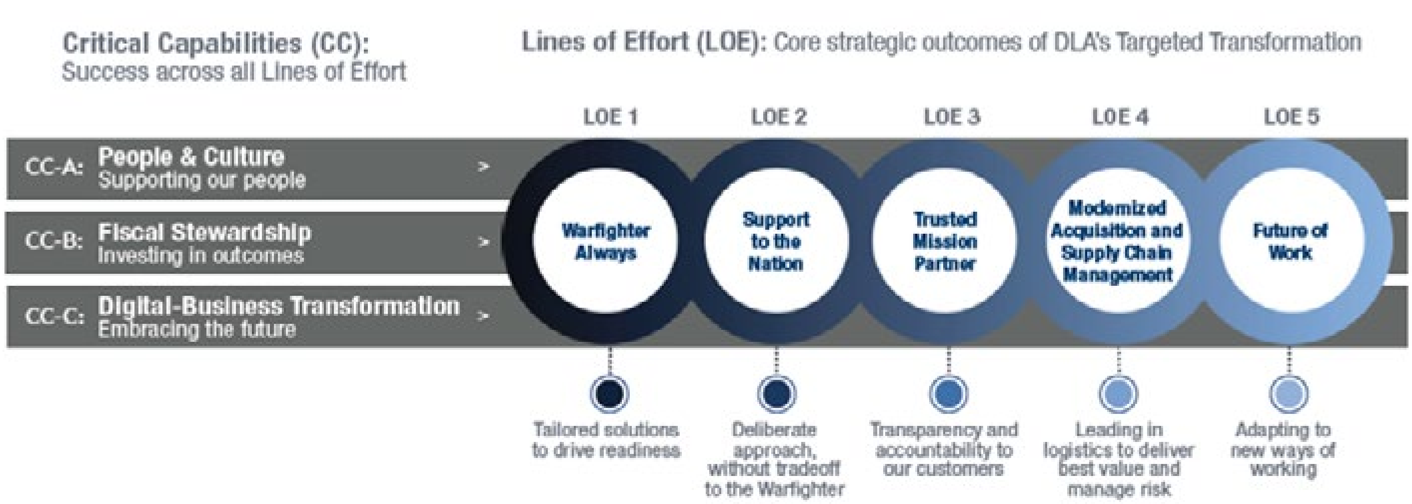


Figure 2: Lines of Effort and Critical Capabilities

The LOEs, CCs and objectives in the section below are derived from DLA's 2021-2026 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 ALWAYS

Objective 1.1: Improve end-to-end readiness and cost-effectiveness in support of Combatant Commander Campaign Plans and Integrated Contingency Plans in competitive and contested logistics environments

Objective 1.2: Partner with customers at the wholesale and retail levels to address Service-specific challenges and develop solutions

Objective 1.3: Proactively support the DoD Nuclear Enterprise and Space Enterprise

DLA's support to the Warfighter is job one. It's our core strategic priority. We must provide the right support in the right places at the right times.

The Military Services and Combatant Commands have unique needs and capabilities requiring customized solutions.

It's imperative for DLA to make smart, disciplined investments in innovative tailored logistics solutions to increase and sustain weapons system and warfighting readiness – including our Nation's strategic deterrent – to meet today's requirements and prepare for the future fight.

LOE 2: SUPPORT TO THE NATION

Objective 2.1: Implement a deliberate, enterprise-wide approach to Whole of Government support

Capitalizing on our scope, scale and skills in acquisition, storage, distribution, and surge capabilities, the Nation has increasingly called upon DLA to provide Whole of Government support.

DoD is redoubling its commitment to a cooperative, whole-of-nation approach to national security that builds consensus, drives creative solutions to crises, to guarantee that we lead from a position of strength.

As part of this effort, this LOE clarifies a deliberate approach to our Whole of Government mission with no cost trade-off to the Warfighter.

LOE 3: TRUSTED MISSION PARTNER

Objective 3.1: Implement customer-centric performance metrics and predictive problem-solving culture

Objective 3.2: Provide greater financial transparency to customers

Objective 3.3: Provide next generation customer service, including a customer feedback mechanism

Building trust begins with understanding our customers' priorities. Through a collaborative, data-driven problem-solving culture, we will pursue viable solutions to these critical challenges.

DLA will improve trust and transparency by enhancing customer-facing tools and software, formalizing customer feedback and increasing collaboration at all levels. We will align performance metrics and targets to ensure we are accountable to our customers.

LOE 4: MODERNIZE ACQUISITION AND SMALL CHAIN MANAGEMENT

Objective 4.1: Expand industry engagement to foster innovation and maximize value for our customers

Objective 4.2: Improve the end-to-end post-award segment to enable collaborative customer support, increase responsiveness, and manage costs

Objective 4.3: Develop a market intelligence capability to manage supply chain risk and drive best value

Objective 4.4: Enhance our acquisition capabilities to improve readiness for contingencies

The global logistics environment is rapidly evolving and increasingly interconnected. DLA must work closely with industry partners to modernize and streamline our acquisition and end-to-end supply chains to deliver increased readiness and maintain our competitive advantage.

Through strong partnerships with our suppliers, and an enhanced focus on market intelligence capabilities, DLA will continue building a diverse, resilient, and agile industrial base to reduce supply chain risk and drive the best value for our customers.

Given the increasing number of global contingencies, this will better position us and our partners to meet the accelerating challenges in an ever-changing world.

At the heart of this LOE is the ability to increasingly harness and analyze business performance data to make informed, risk-based decisions and develop actionable solutions to improve customer outcomes for routine and contingency operations.

LOE 5: FUTURE OF WORK

Objective 5.1: Redefine virtual work models to enable our next generation workforce

Objective 5.2: Assess DLA CONUS facilities footprint to maximize space utilization

Objective 5.3: Build skillsets of the future

The workplace is increasingly virtual, reducing the need for a large physical footprint. Ongoing modernization efforts such as the use of mobile tablets, voice technology, autonomous guided vehicles and other advances to optimize warehouse operations all impact the future of work. DLA will continue adapting to these changes as it attracts and sustains a competitive workforce to drive increased productivity and employee satisfaction.

Creating an optimal work environment for employees that is modern, safe, secure, and well maintained will help increase retention and expand our access to diverse talent pools.

DLA Critical Capabilities

The three Critical Capabilities are fundamental to our successful transformation. They intersect and support the five LOEs with specific underlying objectives, initiatives and metrics.

- **CC-A:** People and Culture
  Supporting our people
- **CC-B:** Fiscal Stewardship
  Investing in outcomes
- **CC-C:** Digital-Business Transformation
  Embracing the future

In these areas, DLA must be ready to act, adapt, reform, and embrace change to improve our organizational efficiency and effectiveness.

Critical Capability A: People and Culture

Objective A1: People

Objective A2: Culture

Our most important asset as an agency is our people. This capability aligns DLA's proven human capital strategies with our mission, LOEs, and objectives.

Our ability to attract, develop, and retain a diverse, skilled, and agile workforce is vital to our continued success.

To achieve a shared vision with the agency's Strategic Plan, all DLA organizations, employees and leaders must work together to fortify the culture, reward high performance, build connections, and prioritize safety of the workforce.

Critical Capability B: Fiscal Stewardship

Objective B1: Auditability

Objective B2: Cost visibility and cash management

Objective B3: Investment to drive efficiency and effectiveness

In an increasingly resource-constrained environment we will drive cost effectiveness while maintaining Service readiness. We must effectively manage our resources while making smart, transformative investments that increase value for our customers and taxpayers.

Through enhanced tools and capabilities, we will improve our cost and cash management for the DLA Working Capital Fund.

We will assess our work processes and the effectiveness of current internal controls to provide greater transparency, improve auditability and prevent fraud, waste, and abuse.

Critical Capability C: Digital Business Transformation

Objective C1: Transformational information technology capabilities

Objective C2: Advanced analytics and automation

Objective C3: Cybersecurity

Objective C4: Technology governance

Technology is changing at an exponential rate, generating new possibilities in logistics and customer support. It is also increasing the capabilities of our competitors, the risks to our supply chains and operations.

We are focusing our IT and digital capability investments on key areas that will enable us to enhance performance, reduce costs, and make more predictive and data-driven decisions.

We will transform our systems and processes to improve transparency, reliability, and security for our employees, customers, and suppliers.

We will work internally and with our partners to ensure the agency's network, systems, and data are protected from emerging and complex cyber threats.

DLA Distribution Norfolk fulfills resupply mission for Operation Pacer Goose

Navy Capt. Tommy Neville, commander of Defense Logistics Agency Distribution Norfolk, Virginia, forefront left, escorts Navy Rear Adm. Jacquelyn McClelland, commander of the Navy Expeditionary Support Group, around DDNV's Pier 8 to watch cargo operations supporting Operation Pacer Goose, the annual resupply mission to Thule Air Base, Greenland. Photo By: DDNV

Performance Measures (Unaudited)

Procurement Technical Assistance Program

This performance measure relates to the objective described above:

Objective 4.1: Expand industry engagement to foster innovation and maximize value for our customers.

Within DLA, the Office of Small Business Programs (OSBP) is responsible for implementation of the Procurement Technical Assistance Program (PTAP). PTAP was established to expand the number of businesses capable of participating in government contracts; it executes cooperative agreements with eligible program participants to establish the Procurement Technical Assistance Centers (PTACs) that assist businesses in pursuing and executing 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. All PTACs are staffed with counselors experienced in government contracting and provide a wide range of services including classes and seminars, individual counseling and easy access to bid opportunities, contract specifications, procurement histories, and other information necessary to successfully compete for government contracts.

At the end of FY 2021, there were 95 PTACs assisting business in 49 states, Washington, D.C., Puerto Rico, Guam, the U.S. Virgin Islands, the Commonwealth of the Northern Marianas, and in regions established by the Indian Affairs bureau of the U.S. Department of the Interior. For FY 2021, DLA OSBP obligated $46.6 million for the PTAC's use. As a cost sharing program, $20.9 million in non-federal funding was also committed by the states and other local entities.

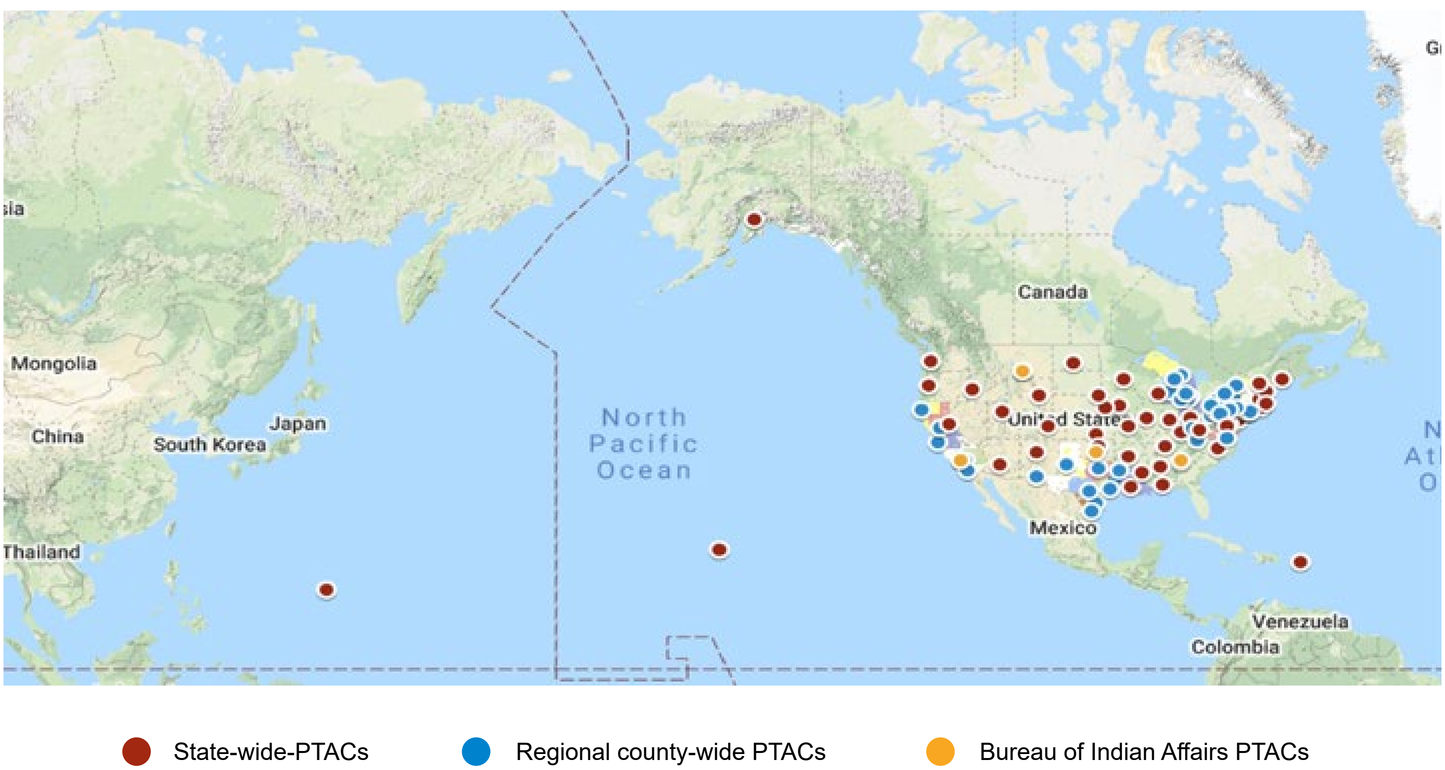


Figure 3: PTAC presence across the U.S., Puerto Rico and Guam

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. FY 2021 and FY 2020 obligations for the PTAP cost sharing program are shown in the below chart, for both distressed and non-distressed areas.

Distressed areas represent areas that have a per capita income of 80.0% or less of the state average; or an unemployment rate that is 1.0% greater than the national average for the most recent 24-month period.

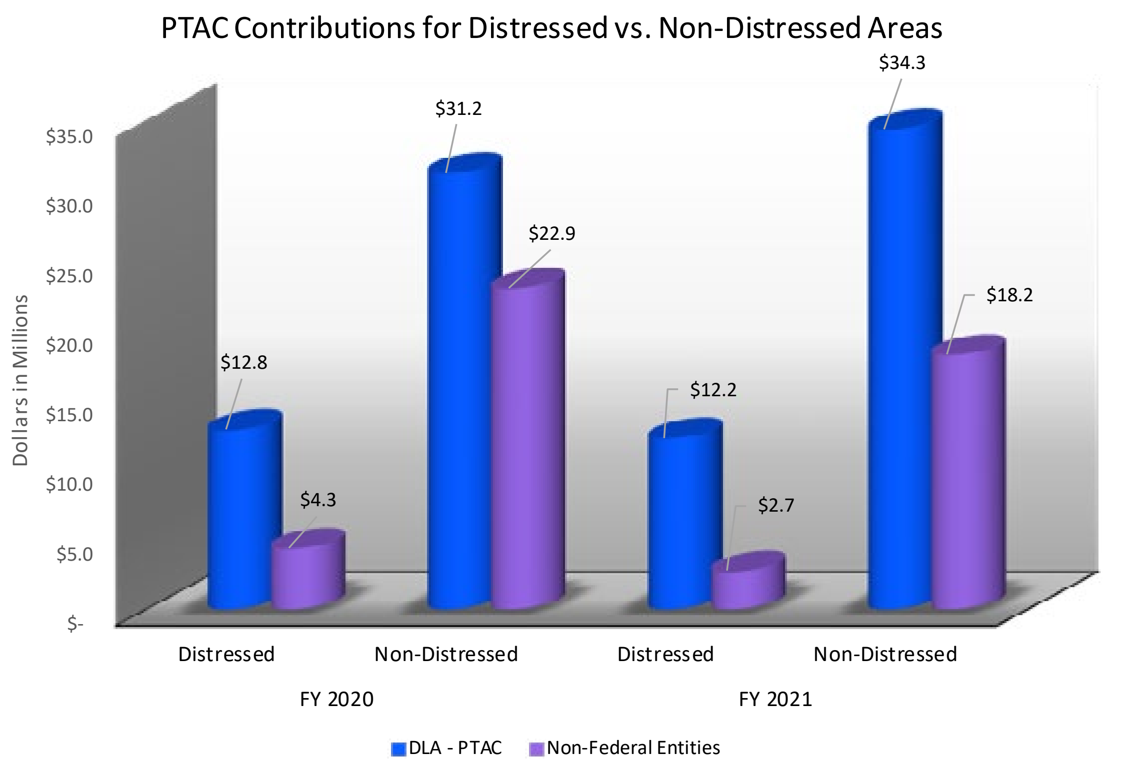


Figure 4: PTAC Contributions for Distressed vs. Non-distressed areas

Midshipman receives the COVID-19 Vaccine

Midshipman 4th Class Matthew Downey receives the COVID-19 vaccine at the U.S. Naval Academy in Annapolis, Maryland, on March 11, 2021. All Defense Department personnel and beneficiaries are eligible for vaccination as of April 19. Photo By: MC2 Nathan Burke/Navy

Warstopper Program

This performance measure relates to the objectives described above:
Objective 1.3: Proactively support the DoD Nuclear Enterprise and Space Enterprise; **Objective 2.1:** Implement a deliberate, enterprise-wide approach to Whole of Government support; **Objective 4.1:** Expand industry engagement to foster innovation and maximize value for our customers **Objective 4.3:** Develop a market intelligence capability to manage supply chain risk and drive best value; and **Objective 4.4:** Enhance our acquisition capabilities to improve readiness for contingencies.

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 including the DoD Nuclear Enterprise items. 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).

Preservation of Capabilities/Capacities

A Warstopper investment can be required to preserve an industrial base capability or capacity that would have closed but is needed for future readiness demand. The two major objectives are: (1) preserving and/or (2) cold start of industrial base capabilities and capacities. The goal is to successfully preserve identified capabilities and capacities within the available funding to prevent more costlier Diminishing Manufacturing Sources and Material Shortages (DMSMS) solutions. These are targets of opportunity as industry closes or discontinues support, typically due to financial reasons. Some opportunities exceed available funding in any specific fiscal year and become an unfunded requirement.

These investments support Objective 1.3, 4.1 and 4.4 by ensuring the ability to acquire critical supplies for military operations and the nuclear enterprise.

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 on their ability to address surge and sustainment to meet readiness demand, and other program administrative duties.

The risk analysis program analyses support Objective 4.3 that enables 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. These risk analyses and studies are an enabler for Objectives 1.3, 2.1, 4.1 and 4.4 by providing information to the appropriate decision makers and shared with other government agencies as appropriate.

DLA Improved Army Rations Give Soldiers an Edge
Enter the Modular Operational Ration Enhancement - MORE. In this photo: An example of the items found in a MORE pack.

Humanitarian Assistance Program

Loadmasters assigned to the 15th Airlift Squadron from Joint Base Charleston, S.C. offload a mobile field hospital from a C-17 Globemaster III at Norman Manley International Airport in Kingston, Jamaica, Sept. 19, 2020. The hospital was procured by DLA Troop Support's Construction and Equipment supply chain for U.S. Southern Command's ongoing assistance, through their Humanitarian Assistance Program, to nations responding to the global pandemic in the Caribbean and Latin America. Photo By: Staff Sergeant Lance Valencia

Defense Agencies Initiative

This performance measure relates to the objectives described above:

Objective 1.1: Improve end-to-end readiness and cost-effectiveness in support of Combatant Commander Campaign Plans and Integrated Contingency Plans in competitive and contested logistics environments; **Objective 2.1:** Implement a deliberate, enterprise-wide approach to Whole of Government support; and **Objective 3.2:** Provide greater financial transparency to customers.

The Defense Agencies Initiative (DAI) is a financial management system of nine integrated business processes as displayed in Figure 5 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. Currently, 27 Defense Organizations use DAI, including Defense Contract Audit Agency (DCAA), Defense Information Services Agency (DISA), United States Marine Corps (USMC), and Missile Defense Agency (MDA). The DAI program continually requires innovation to meet the current dynamic technological and operational environment. As a result, in addition to O&M funding, the program also receives allotments through DLA GF RDT&E appropriations. In FY 2021, DAI was allotted $62.0 million of O&M funds, which represents 15% of DLA's total O&M appropriation of $414.0 million. In FY 2021, DAI was allotted $21.4 million of RTD&E funds, which constitutes 8.5% of DLA's total RDT&E appropriation of $252.9 million.

(continued on next page)

Figure 5: DAI's Nine Integrated Business Processes

For FY 2021, 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, 2020 through June 30, 2021. (Targets O&M and RDT&E)

- DAI targets to provide system performance availability (% system is online and available to end users) (98.0% objective (desired performance level); 95.0% threshold (minimum acceptable performance). As displayed in Figure 7 DAI 2021 system availability exceeded the objective. (Targets O&M)

- DAI successfully 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 O&M and RDT&E)

- DAI is developing and implementing Global Model capabilities to the United States Marine Corps (USMC) in accordance with its implementation plan. (Targets O&M and 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). As displayed in Figure 6, DAI system availability for 2021 exceeded the objective. (Targets O&M and RDT&E)

In FY 2021, DAI received an unmodified opinion on the operating effectiveness of the control objectives stated above. Per the SOC-1 report, DAI system availability exceeded the target objectives. No adverse performance trends were identified during FY 2021. The reported performance information maps to the DAI Performance Baseline requirements. This information is regularly reviewed with using organizations and DAI leadership with a series of system technical reviews ending and Authorization to Proceed (ATP) decisions. The most recent SOC-1's favorable report on internal controls over financial reporting confirms the reliability of the DAI system-developed and reported performance measures for data transmission. In the near future, DAI plans to migrate application hosting from DISA to commercial Cloud hosting. The date of migration is pending final determination by the Functional Sponsor (OSD). The shift to Cloud hosting is planned to improve scalability of the application to allow for growth in using organizations, maximize supportability and reduce cost.

DAI Operating Metrics

	FY 2021 Target	FY 2021 Actual
System Availability	98.0%	99.8%
Timeliness and Accuracy of Data Transfers	98.0%	99.8%

Figure 6: DAI Operating Metrics

Defense Microelectronics Activity

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

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, 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 (MEA-MEB Services), acquisition of microelectronic foundry production (TAPO), accelerated acquisition of microelectronic development solutions in the defense industry (ATSP), and through the development of a microelectronic manufacturing capability at DMEA.

DMEA assists multiple 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 (C- RAM) 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 (AMRAAM), HH-60G Pave Hawk Helicopter, MH-53E Super Stallion Heavy Lift Helicopter, Evolved Sea Sparrow Missile (ESSM), Ohio class submarine fleet, Upgraded Early Warning Radar, among many other programs. DMEA assists the Combatant Commands (COCOMs) including Special Ops, Cyber, Intelligence, and the Radiation-Hard communities.

Manufacturing Technology Program

This performance measure relates to the objectives described above:
Objective 1.1: Improve end-to-end readiness and cost- effectiveness in support of Combatant Commander Campaign Plans and Integrated Contingency Plans in competitive and contested logistics environments; **Objective 1.2:** Partner with customers at the wholesale and retail levels to address Service- specific challenges and develop solutions; **Objective 1.3:** Proactively support the DoD Nuclear Enterprise and Space Enterprise; **Objective 2.1:** Implement a deliberate, enterprise- wide approach to Whole of Government support; **Objective 3.3:** Provide next generation customer service, including a customer feedback mechanism; **Objective 4.1:** Expand industry engagement to foster innovation and maximize value for our customers; **Objective 4.3:** Develop a market intelligence capability to manage supply chain risk and drive best value; **Objective C.1:** Enhanced IT Capabilities; and **Objective C.2:** Advanced Analytics and Automation.

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.

For FY 2021, DLA ManTech focused on the following programs:

Battery Network Program

- Bipolar Lead-acid Prototypes: Designed, assembled, and tested advanced batteries to be used virtually in every armored and automotive military system. This design established a unique bipolar lead-acid technology design for increased power, energy, cycle life, and lighter weight. Prototypes were completed and delivered to the US Army for testing.
- Injection molded nickel-zinc and nickel-cadmium solid-state electrolyte cells: Completed a feasibility for injection molded nickel-zinc and nickel-cadmium solid-state electrolyte cells.

Advanced Microcircuit Emulation Program

- Obsolete Microcircuit Manufacturing Capability: Developed a continuing manufacturing source for obsolete microcircuits requiring TTL-compatible CMOS family of digital microcircuits introduced in the 1990s.

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

(continued on next page)

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.

Additive Manufacturing Program

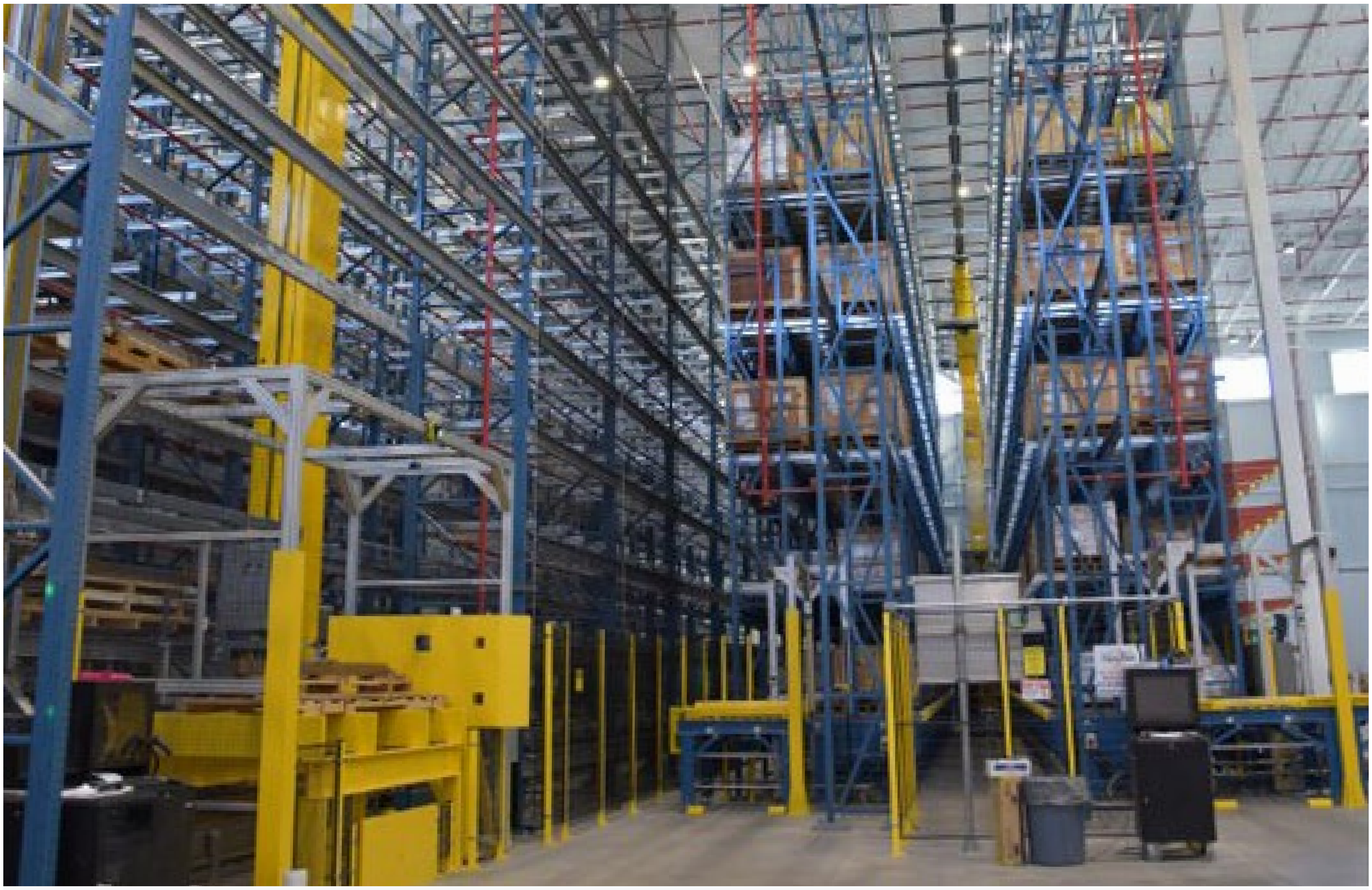
- Creating 3D Technical Data Packages (TDPs) & ANTPQ-36 Fire Finder Waveguide: Advanced and demonstrated 3D Model-based technical data use in procurement for hard-to-source parts; produced hard-to- source waveguides for the AN/TPQ-36 Fire Finder Radar to test for insertion to the supply system.

Subsistence Network Program

- Horizontal Form Fill Seal (HFFS) Material for MRE Bags: 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.

Castings

- Automated Image Analysis: Designed a semi-automated image analysis using Radiographic Testing (RT) to inspect steel castings by improving the robustness of feature detection and rating decisions. The software is available to other R&D projects and the metal casting industry for use through the Steel Founders' Society of America.



New Construction

Material handlings systems inside the newly completed Consolidated Global Warehouse facility at Defense Logistics Agency Maritime Portsmouth. The systems will increase the Defense Logistics Agency Maritime Portsmouth's servicing capability for the submarine fleet. Photo By: Gabriel Mata

Military Construction

This performance measure relates to the objectives described above:

Objective 1.1: Improve end-to-end readiness and cost-effectiveness in support of Combatant Commander Campaign Plans and Integrated Contingency Plans in competitive and contested logistics environments.

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, numerous operations and HQ facilities, and retail gas stations.

For FY 2021, the Facilities Modernization Division within Installation Management brought 14 MILCON projects to completion as of September 30th. The total value of these projects was $193.4 million. Projects ranged in scope from replacing fuel tanks to improving wharf refueling capability. Prices ranged from just over $0.9 million to $40.6 million. The following figures summarize completed DLA MILCON projects. FY 2021 results reflect a restatement of expense and capitalization amounts, adjusting four FY 2020 projects with a combined value of $75.3 million, and increasing FY 2018 results by four projects with a combined value of $127.9 million.

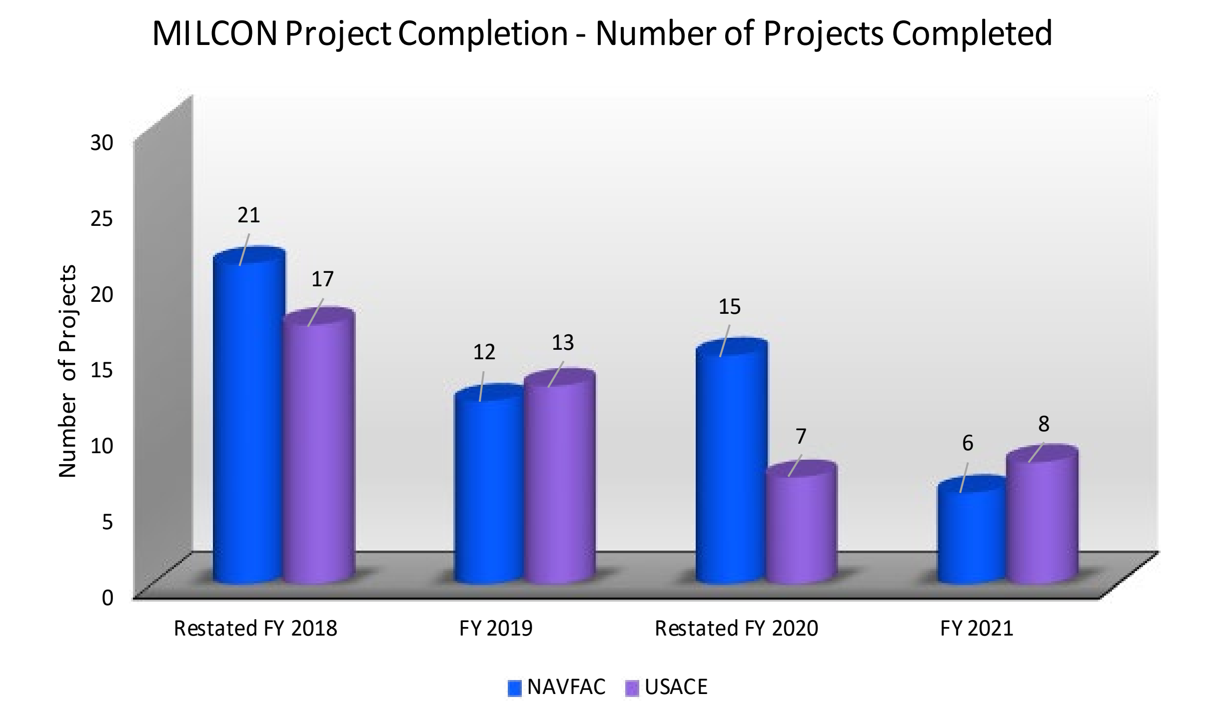


Figure 7: Completed DLA MILCON Projects by Year

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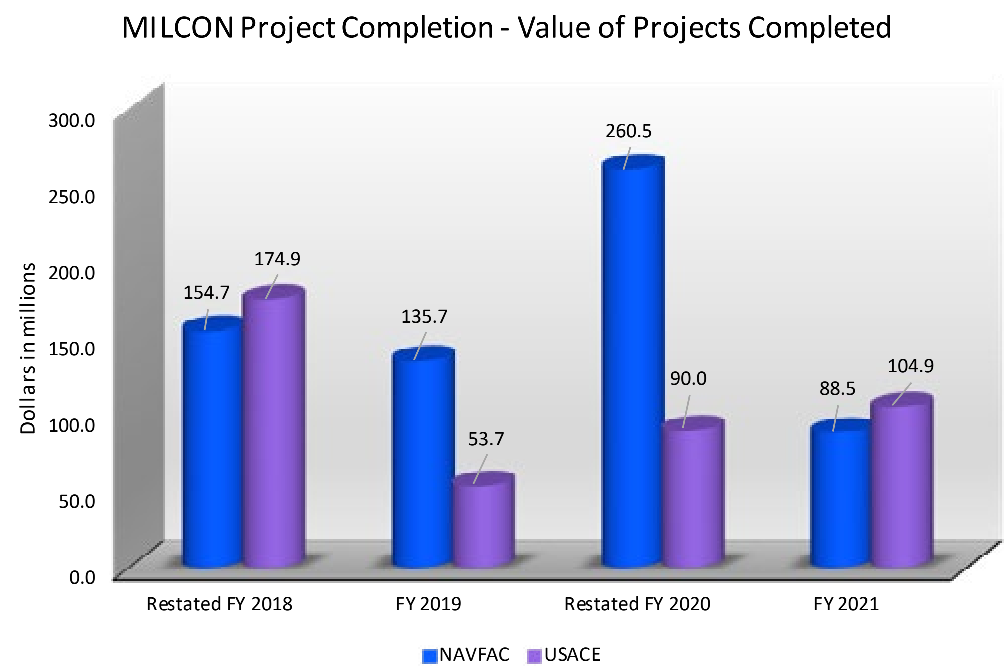
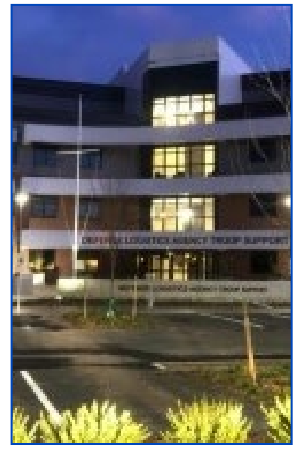


Figure 8: DLA MILCON Value of Completed Projects by Year

MILCON Projects Completed in FY 2021 (Amounts in $)					
FY (Authorized)	Project Description	Installation / Location Name	Country	Actual Completion Date	Construction Cost
2017	Construct Warehouse & Open Storage	Red River Army Depot, TX	USA	Q2	$ 2,355,833
2013	Replace Hydrant Fuel System	Grissom AFB, IN	USA	Q2	40,601,903
2016	Construct Fuel Pipeline North to South Side	Spanghahlem AB	Germany	Q2	5,812,125
2017	Construct Truck Offload & Loading Facilities	Iwakuni	Japan	Q2	7,331,436
2018	Replace Pre-Filter Facility	Eielson AFB, AK	USA	Q2	4,433,413
2013	Upgrade Fuel Pipeline	Andersen AFB, Guam	Guam	Q2	7,803,983
2017	Improve Wharf Refueling Capability	Diego Garcia, DG	Marshall Islands	Q2	31,100,509
2015	Replace HQs at Philadelphia - Phase 2	Philadelphia, PA	USA	Q2	915,238
2019	Consolidated Warehouse Replacement	Portsmouth, ME	USA	Q4	14,057,476
2015	Replace Fuel Storage Tanks	Guantanamo Bay	Cuba	Q4	11,025,846
2017	Construct Fuel Truck Offload Facility	Andersen AFB, Guam	Guam	Q4	23,564,257
2018	Construct Tanker Truck Delivery System	Seymour Johnson AFB, NC	USA	Q4	23,146,235
2019	Operations Facility Replacement	Joint Base Elmendorf Richardson, AK	USA	Q4	12,133,259
2015	Replace Access Control Point	DLA Aviation Richmond VA	USA	Q4	9,079,604
FY 2021 Total					**$ 193,361,117**

Figure 9: Completed DLA MILCON Projects by Location

DLA considers a MILCON project completed when the Construction in Process (CIP) ledger account has been reduced for the first time, reflecting the transfer of the asset to the receiving entity. Additional costs will continue to accrue in the CIP account after beneficial occupancy has occurred, while the construction contract work is being finalized. Once the contractor-submitted final invoice is paid and release of all claims has been confirmed, the project is readied for closure by the design and construction agent. A final Report of Transfer and Acceptance of Real Property (DoD Form DD1354) is produced at project closure, documenting all project costs.



Sample of Completed DLA MILCON Projects

Top Left: Improve Wharf Refueling Capability, Diego Garcia, Marshall Islands

Top Middle: Replace Hydrant Fuel System, Grissom Air Force Base, IN

Top Right: Replace HQs, Philadelphia, PA

Bottom Left: Construct Fuel Pipeline North to South Side, Spangdahlem Air Base, Germany

Bottom Right: Replace Ground Fuel Facility, Fort Belvoir, VA

DLA Roadmap to Auditability

This performance measure relates to the objective described above: Objective B1 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, 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 addressing Notice of Findings and Recommendations (NFRs); and (2) developing, improving, and refining the underlying end-to-end processes that support the compilation of the AFR by instilling sound fundamental practices in accordance with U.S. GAAP. The following timeline summarizes the occurrence of events that propelled DLA into a corrective action posture.

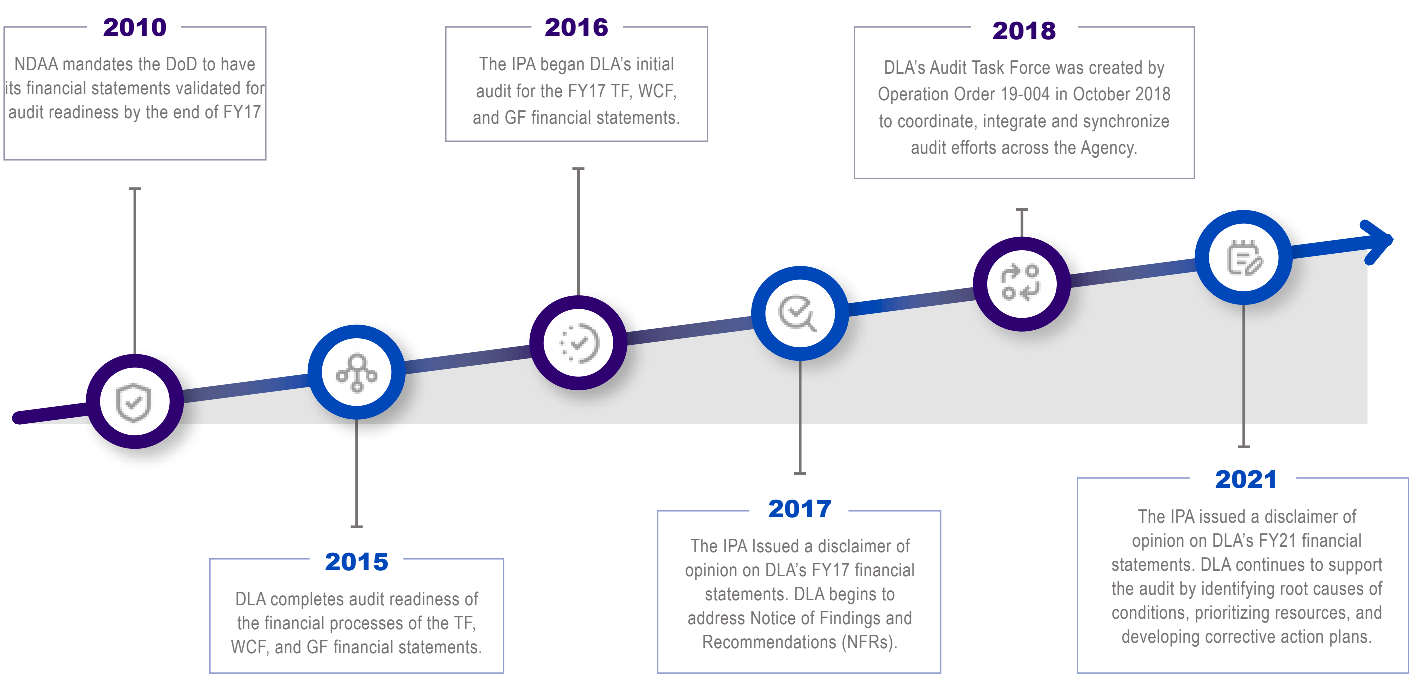


Figure 10: DLA Auditability Timeline

Food Distribution

Army Spc. Jermareya Frederick, a financial management technician assigned to the 160th Financial Management Support Detachment, Arizona Army National Guard, fills boxes with groceries to be distributed at a food bank in Phoenix, March 8, 2021. Photo By: Air Force Tech. Sgt. Michael Matkin, Arizona Air National Guard

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 major changes and the related activity in the amounts of assets, liabilities, net position, cost, revenue, budgetary resources, and obligations.

Overview of Financial Position

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.

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 GF is dedicated in its pursuit of financial management excellence.

A summary of DLA GF's changes in key financial measures for FY 2021 and FY 2020 is presented in the following Analysis of Key Financial Measures. The table represents 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. The Financial Results Summary section also includes an explanation of significant changes for each DLA GF financial statement.

Green Guidance

Navy Petty Officer 2nd Class Devin Call signals to an F-35B Lightning II fighter aircraft from the flight deck of the USS America in the Philippine Sea, Jan. 30, 2021. Photo By: Navy Seaman Jonathan Berlier

Changes In Key Financial Measures

As of and for the Years Ended September 30, 2021 and 2020 (dollars in millions)

Condensed Principal Financial Statements

Financial Condition	FY 2021 (Unaudited)	FY 2020* As Restated (Unaudited)	Increase/Decrease $	Increase/Decrease %
Fund Balance with Treasury	$ 1,928.0	$ 1,600.8	$ 327.2	20.4%
General PP&E, Net	604.8	611.1	(6.3)	(1.0%)
Inventory and Related Property, Net	17.4	-	17.4	100.0%
Accounts Receivable and Other Assets	13.6	23.9	(10.3)	(43.1%)
TOTAL ASSETS	**$ 2,563.8**	**$ 2,235.8**	**$ 328.0**	**14.7%**
Accounts Payable	$ 53.1	$ 55.3	$ (2.2)	(4.0%)
Environmental and Disposal Liabilities	90.5	77.7	12.8	16.5%
Federal Benefits and Other Liabilities	15.9	15.9	-	0.0%
TOTAL LIABILITIES	**$ 159.5**	**$ 148.9**	**$ 10.6**	**7.1%**
TOTAL NET POSITION (ASSETS LESS LIABILITIES)	**$ 2,404.3**	**$ 2,086.9**	**$ 317.4**	**15.2%**
Total Gross Cost	861.7	755.0	106.7	14.1%
Less: Total Earned Revenue	(74.9)	(79.6)	4.7	(5.9%)
NET COST OF OPERATIONS	**$ 786.8**	**$ 675.4**	**$ 111.4**	**16.5%**

Figure 11: Changes In Key Financial Measures

*In FY 2021, DLA GF restated its FY 2020 financial statements to correct errors in the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. Additionally, the FY 2020 Balance Sheet was reclassified to conform to the FY 2021 financial statement presentation requirements in accordance with OMB Circular No. A-136, *Financial Reporting Requirements.*

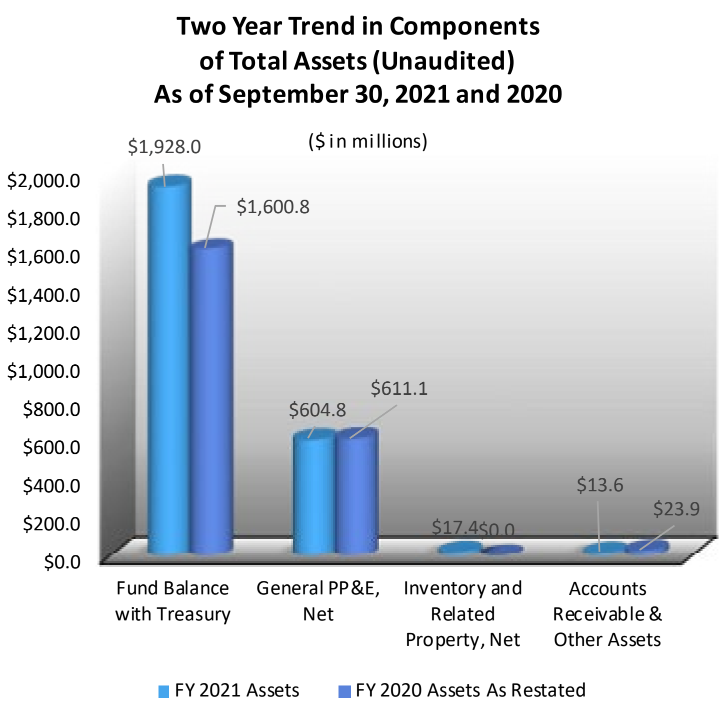
Fresh Fruits and Vegetables Program

The Defense Logistics Agency Troop Support's Subsistence supply chain in Philadelphia works with its suppliers to distribute produce to U.S. Department of Agriculture customers. The states' demands for grab-and-go and individually wrapped items has increased due to the pandemic. (U.S. Department of Agriculture photo)
Photo By: U.S. Department of Agriculture

Financial Results 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 and consist of: Fund Balance with Treasury (FBwT); General Property, Plant and Equipment (PP&E); Inventory and Related Property, Net; and Accounts Receivable and Other Assets. DLA GF's largest asset is FBwT, representing $1,928.0 million or 75.2% of Total Assets as of September 30, 2021. Compared to the September 30, 2020 balance, the increase of $327.2 million or 20.4% was primarily due to funding for equipment of $390.5 million and the net increase in appropriations for the Procurement program in FY 2021 compared to FY 2020. PP&E comprised of mostly construction-in-progress (CIP), and represents $604.8 million or 23.6% of Total Assets. The decrease of ($6.3) million or (1.0%) from the September 30, 2020 balance was mostly due to the decrease in acquisitions with the winding down of MILCON projects.



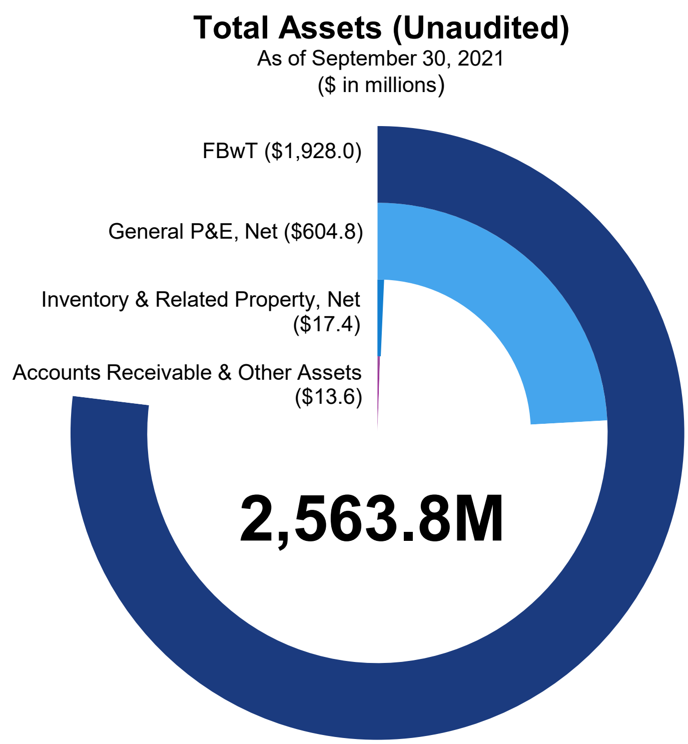
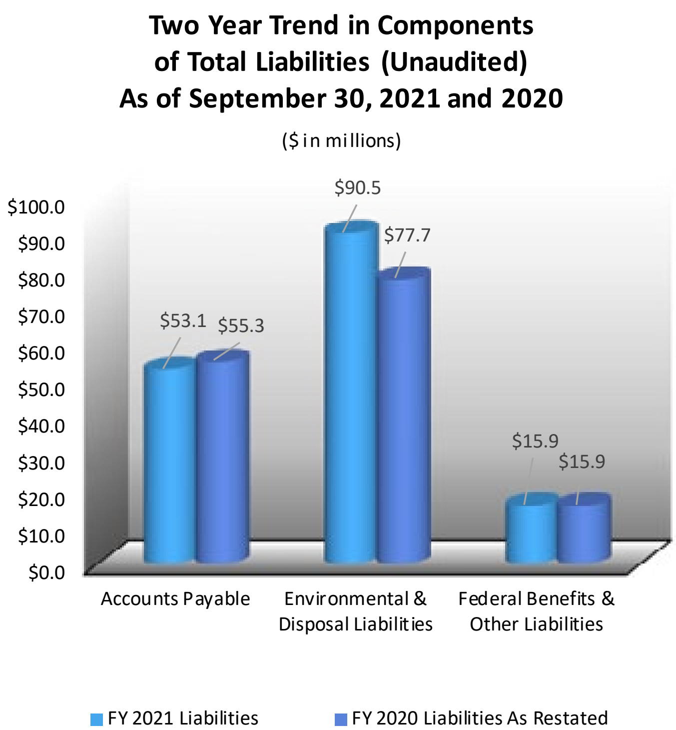


Figure 12: Total Assets by component as of September 30, 2021 and 2020

Liabilities – What DLA GF Owes

Liabilities are the amounts owed: (1) to Federal and public entities for goods and services provided but not yet paid; (2) to DLA GF employees for wages and future benefits; (3) for Environmental and Disposal Liabilities (EL); and (4) for Other Liabilities. EL is the largest liability reported at $90.5 million or 56.7% of Total Liabilities. EL shows a net increase of $12.8 million or 16.5% over the September 30, 2020 balance mostly attributable to the additional cost of a new cost estimating software that impacted the program management costs to improve the liability methodology and an increase in cost estimates for environmental site remediation.

The second largest is Accounts Payable, which comprises $53.1 million or 33.3% of Total Liabilities. Federal Benefits and Other Liabilities represent $15.9 million or 10.0% of Total Liabilities.



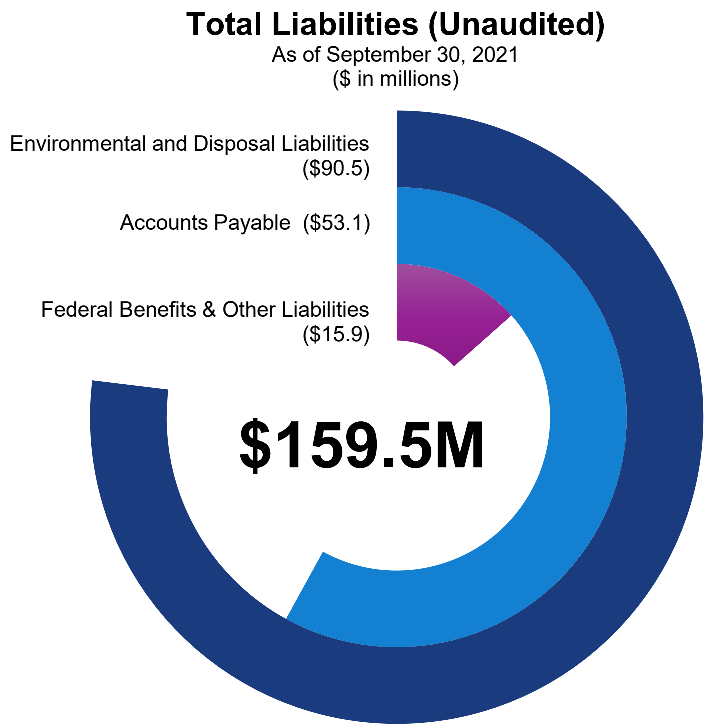


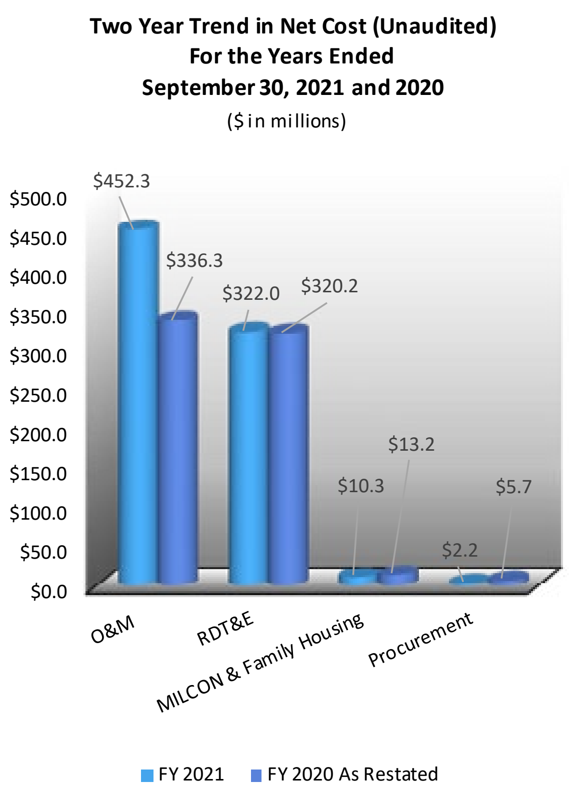
Figure 13: Total Liabilities by component as of September 30, 2021 and 2020

Net Position - What DLA GF Has Done Over Time

Net position represents 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 $2,404.3 million as of September 30, 2021 is made up of: (1) Unexpended Appropriations, and (2) Cumulative Results of Operations. The net increase of $317.4 million or 15.2% was primarily due to the net increase in appropriations for the Procurement program in FY 2021 compared to FY 2020 offset with the increase in the EL compared to the September 30, 2020 balance.

Net Cost of Operations - DLA GF Net Operating Results

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, 2021, O&M represents the largest portion of Net Cost of Operations at $452.3 million. RDT&E represents the second largest portion of Net Cost of Operations at $322.0 million for the year ended September 30, 2021. The net increase in Net Cost of Operations of $111.4 million or 16.5% was primarily due to NAVFAC CIP prior period adjustments, which effectively reduced the costs reported.



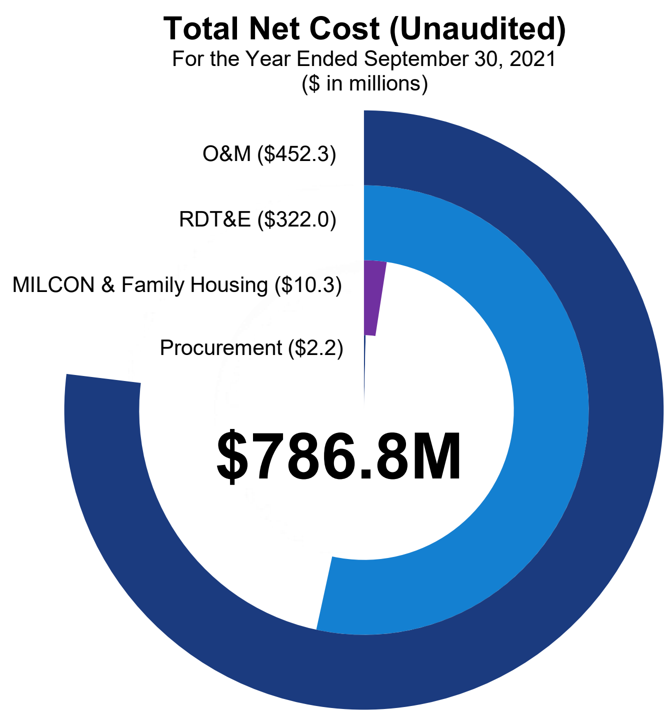


Figure 14: Comparative Net Cost by Program for years ended September 30, 2021 and 2020

Budgetary Activity - DLA GF Obligations and Outlays

The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds. The budget represents the plan for efficiently and effectively achieving the strategic objectives to carry out the mission and to ensure that DLA GF manages its operations within the appropriated amounts using budgetary controls. Two key components of budgetary activity include Budgetary Resources and Obligations. Budgetary resources are funds available for DLA GF to incur obligations to pay for goods and services prior to the cancellation of funds. Obligations are balances for which there has been legally binding action during the year.

For the year ended September 30, 2021, DLA GF's total Budgetary Resources were $2,066.4 million and incurred a total of $1,450.4 million in new obligations from salaries and benefits, purchase orders placed, contracts awarded, and similar transactions.

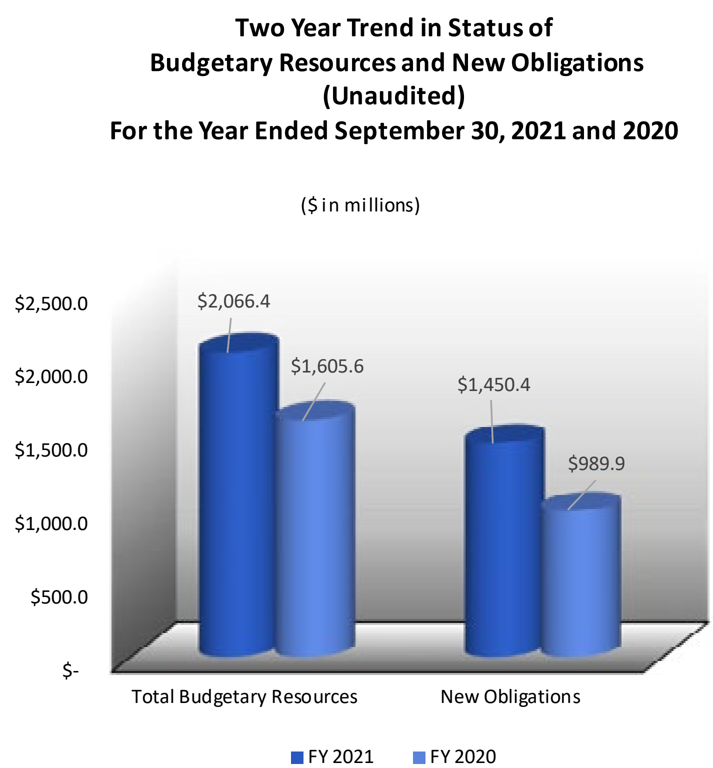


Figure 15: Status of Budgetary Resources for the years ended September 30, 2021 and 2020

Limitations of the Financial Statements

The DLA GF principal financial statements[2] 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 system upgrade to the 4th version of System Applications and Products (SAP's) Data processing Enterprise Resource Planning (ERP) Business Suite 4 SAP HANA (SAP S/4HANA). 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.

[2] Refer to the Financial Section Introduction for definition of principal financial statement.

Going Green

Air Force C-17 Globemaster III pilots take off for a mission from Al Udeid Air Base, Qatar, Oct. 27, 2020.
Photo By: Air Force Master Sgt. Larry Reid Jr.

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

SEP 3 0 2021

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER OF THE DEPARTMENT OF DEFENSE

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2021

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 control in accordance with the OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"; and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DLA is unable to provide assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2021.

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 provides specific information on how DLA conducted this assessment. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results, DLA is unable to provide assurance that internal controls over operations and compliance are operating effectively as of September 30, 2021.

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, provides specific information on how DLA conducted this assessment. This assessment also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results, DLA is unable to provide assurance that internal controls over reporting (both internal external reporting) as of September 30, 2021, and compliance are operating effectively as of September 30, 2021.

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 provides specific information on how DLA conducted this assessment. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results, DLA is unable to provide 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, 2021.

DLA has 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. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DLA is unable to provide assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2021.

DLA is reporting that no Anti-Deficiency Act (ADA) violation has been discovered/identified during our assessments of the applicable processes.

If there are any questions regarding this Statement of Assurance for FY 2021, my point of contact for this action is Erich Gabris and can be reached at (571) 431-9621 or erich.gabris@dla.mil.

for

M. C. SKUBIC
VICE ADMIRAL, 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.

DLA considered the five components and seventeen principles defined by the GAO Green Book to conclude its determination of statement of no assurance. Based on the standards, DLA identified gaps in Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. The Risk Assessment component evaluates the risk facing the entity as it seeks to achieve its objectives and provides the basis for developing appropriate risk responses. Within this component, gaps exist in fraud risk management. Furthermore, DLA lacks sufficient policies and procedures to achieve the control activities principles. The Information and Communication component lacks data quality that affects external communication and the financial statement audit. The lack of assessments also identified the need for improvements in remediation and timeliness of response to internal control failures. Therefore, the overall operating effectiveness of DLA's system of internal control is insufficient to support reasonable assurance.

The DLA SOA package only includes self-identified material weaknesses and significant deficiencies for internal DoD reporting; however, the financial statement audit NFRs continue to be monitored by management. 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. DLA's SOA Package FY 2021 Material Weaknesses and Significant Deficiencies template included a total of three ICOR-O material weaknesses.

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.
Business Process Controls: Lack of procedures over the scrap management program	The DLA Disposition Services will perform a risk assessment (to include fraud risks), define, develop, and publish policy and procedures and controls to correct OCONUS Scrap Program.
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.

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 FY 2021 in order to self-identify and track ICOR and ICOFS material weaknesses that remain unremediated from the FY 2020 SOA package.

To address these deficiencies, the DLA Enterprise Risk Management (ERM) Program Management Office (PMO), led by DLA's Chief Risk Officer, maintain oversight of the full spectrum of DLA's risk portfolio and key internal controls across all organizational and business aspects. This oversight enables DLA to integrate the diverse groups performing elements of risk management and internal control activities under a single umbrella with the goal of improved mission delivery, reduced costs, and response actions focused on key risks to DLA's mission. DLA continues to build the institutional capacity to execute an effective OMB Circular A-123 Program and demonstrates measurable progress that includes:

- Publishing two comprehensive manuals, DLAM 5010.40 Risk Management (Vol I) and Internal Control (Vol II) that provide the concepts for implementing and executing an effective A-123 program;

- Publishing DLA's Fraud Risk Management Strategy, that defines the framework to protect our agency's assets and resources from fraud, waste, and, abuse; coordinate the Agency' s A-123 Program;

- Conducting a Fraud Risk Maturity Assessment across major DLA programs to identify and build upon activities to mitigate the risks of fraud, waste, abuse, and mismanagement;

- Performing regular reviews of ERM and A-123 efforts and work products through 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; and

- Publishing 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.

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 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 had 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 FY 2020 financial statements; and material weaknesses over internal controls over reporting and information system non-compliance related to financial system security were reported in FY 2020 and FY 2021 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 FY 2020 financial statements and material weaknesses over internal controls over reporting reported by DLA in FY 2020 and FY 2021 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 FY 2020 financial statements and material weaknesses over internal controls over reporting reported in FY 2020 and FY 2021 in areas that related to implementation of the USSGL at the transaction level.

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.	FY 2022 - FY 2023	• 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.	FY 2022 - FY 2023	• 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.	FY 2022 - FY 2023	• 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 accordance with OMB M-20-21, *Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019*, as implemented by Office of the Under Secretary of Defense (Comptroller) memorandum, *Coronavirus Disease 2019 Disaster and Emergency Relief Accounting and Reporting Requirements*, April 9, 2020, DLA has identified data elements in EBS, the accounting system of record, to address the COVID-19 reporting requirements. These include a fund code for new appropriations specific to funding for COVID-19, and the use of specific internal order numbers to track additional expenses resulting from COVID-19.

In FY 2021, DLA completed 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 and sets forth the DLA process for reviewing, monitoring, and reporting the required data, as well as how DLA will continue to improve the process. During FY 2021, DLA began implementation of its DQP and executed test plans to assess controls impacting data quality in the core financial system, EBS.

The 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 requires Federal Agencies to refer legally enforceable, past due, non-tax debts to the Secretary of the Treasury after 180 days. Section 5 of the Digital Accountability and Transparency Act of 2014 amended the Debt Collection Improvement Act of 1996 to reduce the time period to 120 days.

Accordingly, at the end of each fiscal quarter, the Defense Finance and Accounting Service (DFAS) prepares the Treasury Report on Receivables (TROR) to notify the Secretary of the Treasury of receivables due from the public aged more than 120 days.

In FY 2021, DLA GF had no delinquent debt to report to Treasury and noted no instances of noncompliance with the Debt Collections Improvement Act.

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.

The 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 Government 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 daily. A/OPCs complete a monthly checklist within IOD, which is a series of oversight questions related to appointment and training, and the Component Program Managers (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.

Daily, 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 FY 2021, there were no instances of fraud identified as a result of reviews or audits.

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 systems which interface with EBS. These include, but are not limited to, inventory and customer ordering systems including the Distribution Standard System (DSS), a legacy inventory warehouse management system and multiple DFAS systems, including the Defense Departmental Reporting System (DDRS), for the creation of financial statements, reports and Treasury cash management. DLA EBS has a single, enterprise general ledger which resides in SAP ECC 6.0 and is used for all funds.

Future Financial Management Systems Framework

The DLA has begun migrating the existing SAP Enterprise Resource Planning (ERP) application environment to SAP's Secure HANA Cloud (SHC) platform. DLA has also begun the process for migrating the core financial management system SAP ECC 6.0 to SAP S/4 HANA in SAP's SHC. These migrations will provide an improved cyber security posture as well as enhanced capabilities for accounting and financial reporting and improved auditability.

The DLA is in its first year of a two phased ERP Migration. Phase 1 is ERP Migration to Cloud (M2C) and during this phase all applications that are within the EBS accreditation boundary will be migrated to SAP's Secure HANA Cloud platform. Phase 1 is scheduled to be completed by February 2022. Phase 2 is ERP Migration to Standard (M2S) – SAP S/4HANA in SAP's SHC. Phase 2 has four sub-phases: Business Transformation Study (BTS), Business Process Engineering/Laws Regulations and Policy (BPR/LRP) Analysis, Requirements Development, and Execution.

The BTS was performed to identify opportunities to de-customize and adopt standard SAP S/4HANA capability. DLA will conduct BPR/LRP analysis to identify and challenge DoD LRPs that impede the ability to adopt standard capability. DLA will consider BPR to use standard capability to the maximum extent possible to reduce cost, streamline business processes to adopt industry best practices, and allow for better innovation going forward. Phase 2 is scheduled to be completed by the fourth quarter of FY 2027.

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. We must attract, develop, and retain a diverse, skilled and agile workforce. 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 diversity, equity, inclusion 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. COVID-19 has accelerated the use of digital technology and has changed the way work is being performed. More work is being performed virtually than on site or in person. DLA developed a COVID-19 Vaccine Questionnaire that will replace the manual email and spreadsheet tracking currently being performed. The Department of Defense expanded efforts to gather data as it relates to COVID-19 vaccinations to better focus vaccine supply availability. As a result, DLA would like to ascertain the percentage of the workforce that has been vaccinated against COVID-19. This information will be used to aid in distribution at locations with shortfalls and assist in prioritizing Agency/DoD vaccination efforts. 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. The workforce that has been designated as "mission-critical onsite," must come into their respective workplace throughout the 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. In response to both Families First Coronavirus Response Act (FFCRA) and American Rescue

Plan (ARP), DLA added new leave codes so employees will be able to record excused absences for virus prevention or for care of self or family members with COVID-19. Each DLA major population center has its own plan for returning employees to the workplace, all based on common guidance for a condition-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 2021-2026 Strategic Plan and amended the plan in April 2021 to meet the evolving requirements of the Warfighter and the nation with a targeted transformative approach encompassing the most critical priorities for the next five years. DLA's Strategic Plan reaffirms and extends DLA's commitment to Warfighter readiness and lethality and to self-accountability. The plan describes five LOEs and three CCs that DLA leverages to provide global, end-to-end supply chain solutions: Warfighter Always, Support to the Nation, Trusted Mission Partners, Modernized Acquisition and Supply Chain Management, Future of Work, People and Culture, Fiscal Stewardship, and Digital-Business Transformation. Each LOE or CC has specific objectives.

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, 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 2021-2026 Strategic Plan, DLA has the Digital-Business Transformation. Digital-Business Transformation focuses on IT and digital capability investments on key areas that will enable DLA to enhance performance, reduce costs, and make more predictive and data-driven decisions. This will transform systems and processes to improve transparency, reliability, and security for DLA's employees, customers, and suppliers. 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.

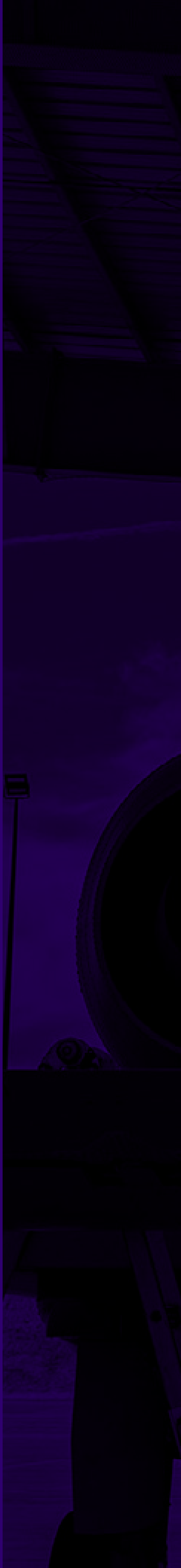
Finally, DLA provides Congressionally appropriated funding for the development of the Defense Agencies Initiative (DAI). The DAI mission is to deliver auditable, CFO Act compliant business environments for Defense Agencies. The goal is to provide accurate, timely, and authoritative financial data in 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.

Finished Shelter

The first of five Alaska Medical Shelters awaits use after NMRTC employees raise the structure at the Navy's medical clinic in Newport, Rhode Island, on July 7, 2020. The Defense Logistics Agency partnered with Air Force and Navy medical to provide shelters for COVID-19 screening at naval medical facilities in the Northeast.
Photo By: Navy Lt. Lindsey Estey

SECTION 2

Financial Section (Unaudited)



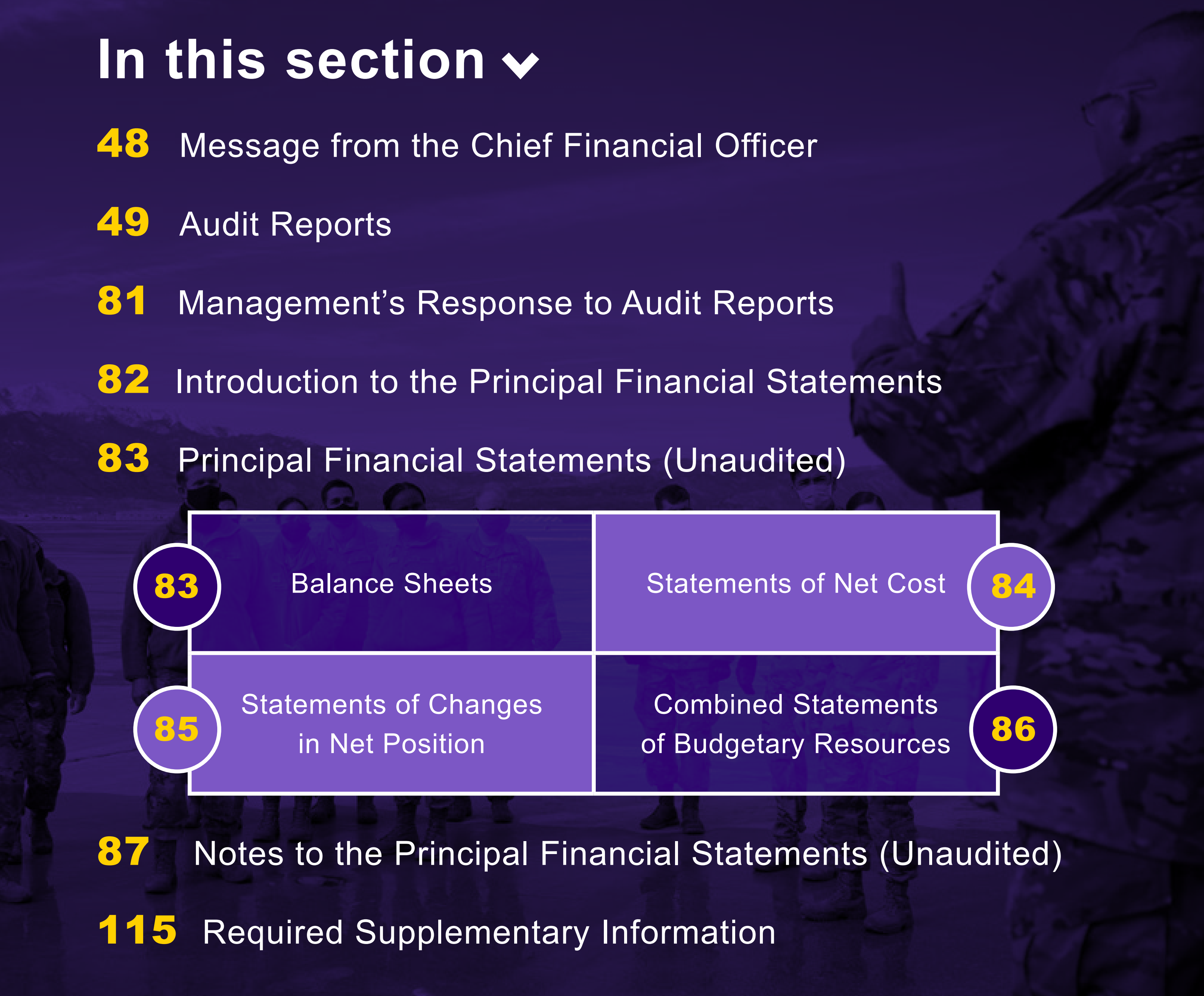
Thunderbolt Maintenance ▶

Air Force Airman 1st Class Zane Campbell performs routine maintenance on an A-10 Thunderbolt II at Nellis Air Force Base, Nevada., June 26, 2021.

Photo Credit: Air Force Airman 1st Class Zachary Rufus

SECTION 2

In this section



Air Force, Army Joint Petroleum Training

Senior Master Sgt. Paul Franklin, 302nd Logistics Readiness Squadron fuel shop noncommissioned officer in charge, prepares a group of 59th Quartermaster Company Army petroleum systems technicians to enter a C-130 aircraft Jan. 29, 2021, at Peterson Air Force Base, Colorado

Photo Credit: Air Force Tech. Sgt. Justin Norton

Message from the Chief Financial Officer

November **2021** (GF)

I am proud to join the Director in issuing our Fiscal Year (FY) 2021 Agency Financial Report (AFR), the fifth Defense Logistics Agency (DLA) has issued since starting the financial statement audit process. DLA General Fund's (GF) FY 2021 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.

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. DLA's continued efforts consist of establishing the framework to correct material weaknesses by reviewing and establishing end-to-end business processes, evaluating operational impacts on the financial statements, identifying the financial statement and financial reporting risks, and designing and implementing the appropriate controls to address those risks.

The DLA enterprise continues to document and evaluate critical processes, identify risks, and develop internal controls to address risks associated with reporting of financial information. Efforts include initiatives to improve budgeting, financial operations, and accounting to enhance the value provided to the Warfighter and our partners. DLA continues to focus efforts and resources towards improving the financial reporting data, upgrading financial and operational systems, concentrating remediation of Notice of Findings and Recommendations in areas with the greatest impact to DLA readiness and lethality, 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.

As DLA continues to evolve 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. Our commitment to fiscal stewardship is paramount in supporting the Warfighter and demonstrates prudent use of the American taxpayer funds entrusted to us.

WARFIGHTER ALWAYS!

J.ARTHUR HAGLER
Director, DLA Finance
Chief Financial Officer

Audit Reports

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
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November 8, 2021

MEMORANDUM FOR 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 2021 and FY 2020 (Project No. D2021-D000FE-0057.000, Report No. DODIG-2022-031)

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, 2021, and 2020. The contract required EY to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, 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, Volume 1 (Updated, April 2020), Volume 2 (Updated, March 2021), and Volume 3 (Updated, September 2021). 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 2021 and FY 2020 Financial Statements and related notes.

EY's separate report, "Report of Independent Auditors on Internal Control Over Financial Reporting," discusses seven material weaknesses related to the DLA's internal controls over financial reporting.[*] Specifically, EY's report concluded that the DLA did not design or implement effective internal controls to:

- value, record, and reconcile Property, Plant, and Equipment;
- reconcile Fund Balance With Treasury;
- record Accounts Receivable and revenue transactions properly;
- support Accounts Payable, expenses, and related budgetary balances;
- review inaccurate financial statement balances and footnote disclosures;
- document end-to-end business processes, monitor internal control risks, and remediate audit findings in a timely manner; and
- ensure the effective design and operation of financial reporting information systems.

EY's additional report, "Report of Independent Auditors on Compliance and Other Matters," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. 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 and related notes 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 2021 and FY 2020 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 provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS.

[*] 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.

EY is responsible for the attached November 8, 2021 reports, 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, 2021 and 2020, and the related statements of net cost and 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 of America, 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 Bulletin No. 21-04, *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 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, 2021 and 2020.

Disclaimer of Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and 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 of America because of the significance of the matters 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 8, 2021, 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 8, 2021

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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 of America, 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. 21-04, *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, 2021, 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 8, 2021. 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. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

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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 items I and II 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 and support the costs associated with the construction and completion of assets in order to properly value the assets and has weaknesses in the processes of maintaining and reconciling PP&E records. In addition, DLA does not have sufficient policies to account for leasing arrangements and whether the leasing arrangements should be accounted for as a capital or an operating lease. 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) – FBwT represents the aggregate amount of funds in DLA's account with U.S. Treasury. 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 Reconciliation and Reporting 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, procedures and controls to record AR and revenue transactions in the proper period and accurately in accordance with U.S. generally accepted accounting principles (GAAP). The

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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 adequate 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; to review and close invalid obligations; 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 – Financial reporting encompasses all aspects of operations affecting DLA's ability to produce reliable financial statements and disclosures. 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 – 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*. 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, sub allottees, 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.

II. Accounting for Long-Term Production Contracts – A long-term production contract is an agreement between two or more parties to produce goods, which is expected to be performed over a period of more than 12 months. The progress payment clause of the Federal Acquisition Regulation (FAR) allows the government to make payments to the contractor as work is performed. DLA lacks adequate policies, procedures and controls to record progress payments in accordance with GAAP. The matters identified related to accounting for long-term production contracts are further described in Appendix B.

Management's Response to Findings

DLA's response to the findings identified in our engagement, and relevant comments from DLA's management are provided in their accompanying letter dated November 8, 2021. 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.

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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 8, 2021

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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 and IUS 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.

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.

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

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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 and controls 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.
   - **IUS.** Design and implement policies and procedures that require IUS activity to be reviewed for proper capitalization, recorded in the appropriate period and classified appropriately when assets are completed and placed in service.

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D. **Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** Design policies, procedures and control to implement the appropriate accounting standards, specifically SFFAS No. 5, SFFAS No. 6, SFFAS No. 10 and SFFAS No. 50. The policies, procedures and controls should include:
   - Assessing whether the values assigned to IUS assets are 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, Sections 5125 and 5130 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 U.S. Treasury systems 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. DLA has a significant volume of intra-governmental transactions in the order-to-cash process, which represent reimbursable agreements 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. However, DLA is unable to support the existence of accounts receivable and unfilled customer orders and the occurrence of revenue transactions.

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.

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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 accurately and in the proper period. As a result, ten out of ten samples tested were not appropriately supported.
   - **AR.** Receivable balances are valid and have not been collected (i.e., existence and completeness). As a result, ten out of ten samples were not appropriately supported.

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 the process 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 UCO, AR (federal and with the public) and revenue transactions are complete, accurate and recorded in the proper period 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, procedures and control to implement the appropriate accounting standards, specifically SFFAS No. 7. The policies, procedures and controls should include assessing the method used to recognize revenue for specific services produced to order. Specifically, DLA should assess whether the percentage-of-completion method should be used, as prescribed by SFFAS No. 7.

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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 operations, DLA has a significant volume of transactions to procure goods and services. Deficiencies exist in DLA's processes for recording and supporting the accounts payable and accruals, expenses and related 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 and UDO funded by expired and cancelling authority.
   - **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.

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 review and close invalid UDO in a timely manner. For example, two of our three samples lacked evidence to support that UDOs were reviewed after 90 days of inactivity. Additionally, approximately \$20.6M (or 5% of the total balance) in UDOs had no activity (payables, expenses and outlays) for at least two years, and approximately \$7.7M (or 2% of the total balance) in UDOs have a fund cancellation date of FY 2021.
   - **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

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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, four instances in our sample of four 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, accounts payable from canceled appropriations, negative payables, UDO (paid and unpaid), and upward and downward adjustments to delivered and undelivered orders. For example, DLA was unable to support five samples of five to test the UDO balance brought forward.

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 agreements that do not have a fixed monthly cost, the straight-line method is not appropriate.

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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 processes to review the validity of significantly aged UDO and UDOs funded by expired and cancelling authority and include a process to write off residual UDO for completed transactions.
   - **AP.** 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 review and 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. For example, controls that prevent contracts from being completed and executed without the appropriate terms and conditions required by the FAR.
   - **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.

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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 and apply TFM updates timely, 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. As a result, DLA did not implement the FY 2021 TFM update to add USSGL accounts 310710 – Unexpended Appropriations – Used – Disbursed and 570010 – Expended Appropriations – Disbursed during FY 2021.

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. 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

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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 sub allottee 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. As a result, DLA has not implemented accounting standards such as SFFAS No. 47 *Reporting Entity* and SFFAS No. 49 *Public-Private Partnerships: Disclosure Requirements.*
- **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 with the public; 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.
- **Transactions Recorded Using Elevated Privileges.** DLA does not have adequately designed controls to review and approve transactions recorded with elevated access privileges. There were more than 74,000 transactions recorded, totaling approximately $575 million using user roles with elevated access privileges.
- **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.

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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. As such, the budgetary accounts are not appropriately supported.

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.

B. **Lack of Controls Over Compliance with the TFM USSGL.** Design and implement controls to configure posting logic to be compliant with the USSGL; apply TFM updates in a timely manner; 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 claims and 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 sub allottee balances, and processes and controls to analyze the impact of and implement new accounting standards, as appropriate.
- **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 and annual 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.

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- **Transactions Recorded Using Elevated Privileges.** Design and implement controls to review and approve transactions recorded with elevated access privileges to assess for completeness, accuracy and validity. The review and approval should be performed by authorized individuals, such as financial management.
- **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.

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 sub allottees) 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.

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D. **Insufficient Oversight and Monitoring of Funding and Transactions Executed by Others.** Review controls are not designed effectively to monitor funding and report transactions executed by suballotees. Specifically, DLA does not perform a sufficient review of transactions that are recorded on their financial statements to prevent or detect misstatements. For example, the execution of funding awarded to grantees for the Procurement Technical Assistance Center (PTAC) program is not adequately monitored and inventory procured by Defense Microelectronic Activity (DMEA) with funding sub allotted from DLA is not properly reported.

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 in each business process and design and implement relevant controls that are responsive to and mitigate these risks, including fraud risks. Perform an assessment of audit findings 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; 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 operating effectively.

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

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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.

We have noted progress in DLA's ability to define the IT risks relevant to the financial statement audit, configuration changes to the entity level tool for managing approvals required for initial access to DLA financially significant systems, and monitoring of an IT service provider. However, several repeat control deficiencies in the design and operation of financially significant 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

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.

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

- For a selection of users of financially significant applications, access is not restricted to authorized users with a business need, is not reviewed and documented prior to provisioning, and is not assigned in accordance with the principle of least privilege.
- For a selection of account management controls for financially significant applications, user access and activity are not monitored and tracked for routine access recertification, revalidation of privileged access, and terminated or inactive users.
- For a selection of audit logging controls for financially significant applications, audit logs, security violations, and sensitive user activity are not tracked, monitored, resolved, or configured appropriately within systems.

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.

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

- For a selection of changes to one financially significant application, 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.
- For one financially significant application, system configurations, baseline code, and production environments are not monitored and inspected for unauthorized changes.
- For one financially significant application, users have access privileges enabling them to bypass the configuration management process and make changes directly to production.

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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 the financially significant applications. Management does not identify segregation of duties conflicts that consider both IT and business process roles and activities. Conflicting roles are 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.

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The identified security management control weakness represents a significant risk to the DLA financial management information systems environment:

- SOC 1 reports are not monitored and reviewed by DLA to assess CUECs, including validation of whether DLA management's internal controls, relevant to the CUECs, are designed, implemented, and operating effectively.

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.
- Monitor user activity, identify and audit security violations, and assess privileged and sensitive users and transactions.
- 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

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

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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.

II. Accounting for Long-Term Production Contracts

Long-term production contracts consist of agreements between DLA and outside vendors to procure goods or services. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls that provide reasonable assurance that significant classes of transactions, such as long-term production contracts, are properly recorded and accounted for to permit the preparation of reliable financial statements. However, we identified the following deficiency in internal controls, which we consider to be a significant deficiency.

A. **Inadequate Controls Over Long-Term Production Contract.** DLA does not have adequate controls to review payments made under long-term production contracts and assess the underlying business event to determine the proper accounting. As a result, transactions are not recorded in accordance with GAAP.

Recommendations

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

A. **Inadequate Controls Over Long-Term Production Contracts.** Design and implement controls to review the payments made under long-term production contracts and assess the underlying business event to determine that the accounting for these transactions is in accordance with GAAP.

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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 of America, 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. 21-04, *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, 2021, 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 8, 2021. 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. 21-04, 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 8, 2021, 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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As referenced in the Fiscal Year (FY) 2021 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) of 1982 requires federal entities to establish internal controls, perform ongoing evaluations of the adequacy of the entity's system of internal control, and prepare related reports. The Government Accountability Office's (GAO's) *Standards*

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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 2021 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 response 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 8, 2021. 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 8, 2021

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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 0 8 2021

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Fiscal Year (FY) 2021 Financial Statement Audit – General Fund

Thank you for the opportunity to comment on Ernst & Young, LLP's Independent Auditor Reports on the Defense Logistics Agency's (DLA), General Fund (GF) financial statements for Fiscal Year 2021. We acknowledge and concur with the material weaknesses and the disclaimer of the opinion.

DLA is in the process of refining our audit strategy, prioritizing our resources toward remediation of critical conditions that are material to our financial statements, with a focus on improving the internal control environment. We acknowledge the material weaknesses identified in Ernst & Young, LLP's Report on Internal Control over Financial Reporting and the control deficiencies outlined therein that impact financial reporting. We will continue working to resolve all the conditions identified in the Notice of Findings and Recommendations through proper root cause analysis and detailed closure packages and Corrective Action Plans. The Agency will continue to make this effort a priority with the goal of making positive progress toward a favorable financial statement audit opinion.

We welcome and appreciate the due diligence of Ernst & Young, LLP, and the efforts and partnership provided by your office as we continue to improve our control environment as part of our overall effort to serve as a beacon for fiscal stewardship within the Department in support of the Warfighter Always!

M. C. SKUBIC
Vice Admiral, SC, USN
Director

Introduction to the 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, 2021 and 2020.

The Statements of Net Cost present the net cost of DLA GF operations for the years ended September 30, 2021 and 2020. 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, 2021 and 2020.

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, 2021 and 2020.

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

Card Scan

An Army soldier assigned to the 44th Infantry Brigade Combat Team, New Jersey Army National Guard, scans an individual's COVID-19 vaccination card at the newly opened COVID-19 vaccination mega-site at the New Jersey Convention and Exposition Center, Edison, N.J., Jan 15, 2021. Photo Credit: Mark C. Olsen, New Jersey National Guard

Defense Logistics Agency - General Fund
BALANCE SHEETS
As of September 30, 2021 and 2020
(dollars in thousands)

	Unaudited FY 2021	Unaudited FY 2020 As Restated
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 1,927,978	$ 1,600,757
Accounts Receivable	13,554	23,821
Total Intragovernmental Assets	**1,941,532**	**1,624,578**
Other than Intragovernmental		
Accounts Receivable	20	15
Inventory and Related Property, Net	17,434	-
General Property, Plant and Equipment (Note 3)	604,790	611,132
Other Assets	88	88
Total Other than Intragovernmental Assets	**622,332**	**611,235**
TOTAL ASSETS	**$ 2,563,864**	**$ 2,235,813**
LIABILITIES (Note 4)		
Intragovernmental		
Accounts Payable	$ 37,754	$ 21,158
Other Liabilities (Note 5)	2,214	3,067
Total Intragovernmental Liabilities	**39,968**	**24,225**
Other than Intragovernmental		
Accounts Payable	15,384	34,180
Environmental and Disposal Liabilities (Note 6)	90,547	77,707
Federal Employee Benefits Payable (Note 5)	9,017	9,103
Advances from Others and Deferred Revenue	877	1,115
Other Liabilities (Note 7)	3,733	2,624
Total Other than Intragovernmental Liabilities	**119,558**	**124,729**
TOTAL LIABILITIES	**159,526**	**148,954**
Commitments and Contingencies		
NET POSITION		
Unexpended Appropriations - Funds from Other than Dedicated Collections	1,888,345	1,563,503
Cumulative Results of Operations - Funds from Other than Dedicated Collections	515,993	523,356
TOTAL NET POSITION	**2,404,338**	**2,086,859**
TOTAL LIABILITIES AND NET POSITION	**$ 2,563,864**	**$ 2,235,813**

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, 2021 and 2020
(dollars in thousands)

	Unaudited FY 2021	Unaudited FY 2020 As Restated
Operation and Maintenance		
Gross Cost	$ 475,734	$ 368,612
Less: Earned Revenue	(23,453)	(32,341)
Net Cost	**452,281**	**336,271**
Procurement		
Gross Cost	2,263	5,765
Less: Earned Revenue	-	-
Net Cost	**2,263**	**5,765**
Research, Development, Test & Evaluation		
Gross Cost	373,452	367,428
Less: Earned Revenue	(51,441)	(47,215)
Net Cost	**322,011**	**320,213**
Family Housing and Military Construction		
Gross Cost	10,273	13,182
Less: Earned Revenue	-	-
Net Cost	**10,273**	**13,182**
Gross Cost	**861,722**	**754,987**
Less: Earned Revenue	**(74,894)**	**(79,556)**
NET COST OF OPERATIONS	**$ 786,828**	**$ 675,431**

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, 2021 and 2020
(dollars in thousands)

	Unaudited FY 2021	Unaudited FY 2020 As Restated
Unexpended Appropriations		
Beginning Balances	$ 1,563,503	$ 1,361,054
Appropriations Received	1,334,937	1,089,846
Appropriations Transferred-in/out	8,561	7,435
Other Adjustments	(45,433)	(32,867)
Appropriations Used	(973,223)	(861,965)
Change in Unexpended Appropriations	**324,842**	**202,449**
Total Unexpended Appropriations: Ending Balance	**1,888,345**	**1,563,503**
Cumulative Results of Operations		
Beginning Balances	523,356	633,408
Correction of Errors	-	177,246
Beginning Balances, as Adjusted	523,356	810,654
Other Adjustments	(544)	(1,024)
Appropriations Used	973,223	861,965
Transfers-in/out Without Reimbursement	(195,928)	(494,424)
Imputed Financing	2,714	2,323
Other	-	19,293
Net Cost of Operations	**786,828**	**675,431**
Net Change in Cumulative Results of Operations	**(7,363)**	**(287,298)**
Cumulative Results of Operations: Ending Balance	**515,993**	**523,356**
TOTAL NET POSITION	**$ 2,404,338**	**$ 2,086,859**

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, 2021 and 2020
(dollars in thousands)

	Unaudited FY 2021	Unaudited FY 2020
BUDGETARY RESOURCES		
Unobligated Balance From Prior Year Budget Authority, Net	$ 618,105	$ 432,305
Appropriations	1,343,188	1,096,081
Spending Authority From Offsetting Collections	105,115	77,247
TOTAL BUDGETARY RESOURCES	**$ 2,066,408**	**$ 1,605,633**
STATUS OF BUDGETARY RESOURCES		
Total New Obligations and Upward Adjustments	$ 1,450,417	$ 989,892
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	548,000	503,770
Unexpired Unobligated Balance, End of Year	548,000	503,770
Expired Unobligated Balance, End of Year	67,991	111,971
Total Unobligated Balance, End of Year	615,991	615,741
TOTAL BUDGETARY RESOURCES	**$ 2,066,408**	**$ 1,605,633**
OUTLAYS, NET		
Outlays, Net	$ 970,299	$ 884,010
AGENCY OUTLAYS, NET	**$ 970,299**	**$ 884,010**

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 DLA WCF, DLA GF, and DLA 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 FY 2021 and FY 2020, DLA GF received 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, *Preparation, Submission, and Execution of the Budget*, as amended 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

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

Same Day Service

Electronics Mechanic Leader Jason Kilmer repairs the transponder on an AH-64D Apache Attack Helicopter at Fort Drum, New York. Photo By: Michael Carson

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.

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 Other than Intragovernmental Transactions:

Statement of Federal Financial Accounting Standards (SFFAS) 1, *Accounting for Selected Assets and Liabilities*, distinguishes between Intragovernmental and Other than Intragovernmental 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 Other than Intragovernmental assets and liabilities arise

[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."

from transactions with public entities. The term public entities encompass domestic and foreign persons and organizations outside the U.S. Government. Other than Intragovernmental assets are claims of DLA GF against public entities. Other than Intragovernmental 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 Other than Intragovernmental 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 Other than Intragovernmental Transactions.)

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. 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 (refer to Note 1.C., *Departures from U.S. GAAP*, related to Intragovernmental/Intra-departmental and Other than Intragovernmental Transactions).

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 Intragovernmental/Intra-departmental and Other than Intragovernmental Transactions and 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. Uncertainties associated with these estimates exist and actual results may differ from these estimates; however, DLA GF's estimates are based on historical experience, current events and other assumptions that are believed to be reasonable under the circumstances. Significant estimates reported in the financial statements include: (1) EL; (2) accounts payable accrual; (3) undelivered orders; and (4) Federal Employees' Compensation Act (FECA) actuarial 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 FY 2018). 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 Other than Intragovernmental Transactions (Note 1.B.): The DLA GF does not have compliant processes in place to properly report and distinguish between intragovernmental, intra- departmental, and Other than Intragovernmental 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, A*mending 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.

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 U.S. Treasury records.

Accounts Receivable, Revenue, and Unfilled Customer Orders (Notes 1.G. and 1.R., and Note 10): 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.*

Revenue Recognition Restatement: In FY 2021, DLA GF made adjustments to correct the error of recognizing revenue earned and not recognized in FY 2020 for services performed by the sub-allottee Defense Microelectronics Activity's (DMEA). As such, DLA GF restated the FY 2020 balances reported in the prior year Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to properly recognize the revenue from services provided in accordance with SFFAS 7, A*ccounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting* (refer to Note 10, *Restatements of FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position*).

Inventory and Related Property, Net (Note 1.H.): The DLA GF does not have policies and compliant processes in place to properly evaluate, record, and report Inventory and Related Property, Net in accordance with SFFAS 3, *Accounting for Inventory and Related Property*. More specifically:

- DLA GF does not have proper policies and compliant processes to support the valuation of inventory; and
- DLA GF does not have proper policies and compliant processes to support when goods/services are received.

General Property, Plant and Equipment, Net (Note 1.I.; Note 3; and Note 10): The DLA GF does not have policies and compliant processes in place to account for general property, plant and equipment (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 Construction-in-Progress (CIP) and Internal Use Software (IUS) in Development using the alternative valuation methods permitted by SFFAS 50, E*stablishing 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:

(continued on next page)

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*;

Capitalization Thresholds: The DLA GF does not have policies and procedures to implement and consistently apply capitalization thresholds in accordance with SFFAS 6, *Accounting for Property*, *Plant*, *and Equipment*, and SFFAS 10, *Accounting for Internal Use Software*; and

Capitalization Cost Restatement: In FY 2021, DLA GF made adjustments to correct the error of recognizing capitalized cost as period costs related to MILCON CIP projects. The impact of these errors resulted in DLA GF's Net Position and Transfers Out reported on the financial statements to be understated by $1.4 million and $179.2 million, respectively.As such, DLA GF restated the FY 2020 balances reported in the prior year Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to properly recognize capitalize cost in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment* (refer to Note 10, Restatements of FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Change in Net Position).

Leases (Note 1.J. and Note 3): 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 of September 30, 2021 and 2020.

Accounts Payable, Expenses, and Undelivered Orders (UDO) (Notes 1.L. and 1.S.; Notes 4; Note 7; and Note 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 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. and Note 6): The DLA GF did not complete its assessment of commitments and contingencies in accordance with SFFAS 5, A*ccounting 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.*

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*. DLA GF is also unable to fully prepare reconciliation of net cost to net outlays in conformity with U.S. GAAP due to limitations of financial and nonfinancial management processes and systems that support the underlying financial information.

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 FY 2019). 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 these pronouncements 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 FY 2019
Adoption Required in FY	Deferred to FY2024	Effective FY 2024

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, revised 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. SFFAS 57, *Omnibus Amendments FY 2019,* amends certain references to leases affected by SFFAS 54, as well as other minor changes in order to improve clarity of existing statements.

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 year) 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 years) 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 years) 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 year) funds the routine O&M of 24 MFH units. Routine operation and maintenance include management costs, utility costs and cyclical maintenance such as painting and renovations. Allocated funding for Family Housing ended in FY 2019, all remaining obligated and unobligated balances will be cancelled by FY 2025.

MILCON appropriation (funds available year (s): 5 years) 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.

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 U.S. 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 U.S. 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's accounting service provider, DFAS, uses U.S. Treasury suspense accounts to hold transactions temporarily prior to identifying the correct appropriation. Suspense account items represent the amounts that are reported to Treasury at the Treasury Index (TI) Level (TI-17, TI-21, TI-57, TI-97), but have not yet been classified to a DLA GF TAS. The transactions in suspense accounts include unidentified collections, disbursements, and Intragovernmental Payment and Collection transactions at month end. DFAS researches suspense transactions in each TI to post them against the appropriate line of accounting. The current balances for DLA GF suspense transactions are derived from the DFAS Suspense Account Universe of Transactions (UoT).

U.S. Treasury also compares DoD's FBwT reported by DFAS with comparable data submitted by financial institutions and Treasury Regional Financial Centers and notifies DoD of differences in collection and disbursement data on the Statement of Differences (SOD) report. DFAS reviews the SOD report to research and resolve differences. The current balances for DLA GF SOD transactions are derived from DFAS management analysis and the SOD OuT.

(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 (other than intragovernmental). DLA GF's accounts receivable arise from sales of materials and services.

The policy pertaining to allowance for doubtful accounts receivables other than intragovernmental is based on a systematic methodology of grouped aged receivables. DLA GF does not currently have material receivables other than intragovernmental and does not recognize a corresponding allowance for doubtful accounts.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Net, Revenue, and Unfilled Customer Orders; Note 10, *Restatements of FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.*)

H. Inventory and Related Property, Net

Inventory and Related Property, Net consist of the inventory work-in-process and includes the acquisition of equipment to support the Military Services program. As of September 30, 2021 and 2020, the total inventory and related property, net were $17.4 million and $0.0 thousand, respectively (refer to Note 1.C., *Departures from U.S. GAAP*, related to Inventory and Related Property, Net).

I. General Property, Plant and Equipment, Net

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

The DLA GF transfers the amounts in the CIP account to the DLA WCF upon project completion. DLA WCF will place assets in the appropriate PP&E account and transfer the asset to the military services. 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 FY 2021 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, Net, and Note 3, *General Property, Plant and Equipment ; and* Note 10, Restatements of FY 2020 Balance Sheet, *Statement of Net Cost, and Statement of Changes in Net Position.)*

J. 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 A*ccounting 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).

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 records an accrual for contingent liabilities if it is probable and reasonably estimable and discloses 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 when the loss is considered remote.

As of the date of these financial statements, DLA GF had no Commitments and Contingencies that were reasonably possible

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and 3 matters identified as remote. The related probable contingent liabilities related to EL have been recognized in the financial statements as of September 30, 2021 and 2020.

For matters where DLA Counsel is unable to express an opinion regarding the likely outcome of the case and an estimate of the potential liability cannot be made, the total amount claimed against the government is classified as "Reasonably Possible" and disclosed if available.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities and 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 liabilities that will require budgetary resources and are amounts owed in excess of available, congressionally appropriated funds. Therefore, no budgetary resources are available to pay amounts due as of the Balance Sheet dates but will require future funding to liquidate the obligation (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 (refer to Note 7, *Other Liabilities*).

Accounts Payable: Accounts Payable includes amounts owed but not yet paid to Intragovernmental and Other than Intragovernmental 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. For Accounts Payable associated with cancelling appropriations, the cancelled payable is re-established after funding expired and are no longer available to liquidate obligations. The payments for the cancelled payable will be disbursed using current available funding (refer to Note 4, *Liabilities Not Covered by Budgetary Resources*).

Advances from Others and Deferred Revenue: Advances from Others and Deferred Revenue are cash received in advance of goods or services that have not been fully rendered.

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

M. 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 comprises 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 Commitments and Contingencies, and Note 6, *Environmental and Disposal Liabilities*.)

N. Payroll and 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 7, *Other Liabilities*).

O. Federal Employee Benefits Payable

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, Federal Employee Benefits Payable and Related Other Liabilities*).

The second element, actuarial FECA liability, is the estimated liability for future payments and is recorded as a liability Other than Intragovernment, 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. The methodology for billable projected liabilities includes: (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 historical incurred benefit liabilities and payments (refer to Note 4, *Liabilities Not Covered by Budgetary Resources*, and Note 5, *Federal Employee Benefits Payable and Related Other Liabilities*).

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.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Revenue, and Unfilled Customer Orders and Accounts Payable, Expenses, and Undelivered Orders, and Note 8, *Undelivered Orders*; Note 10, *Restatements of FY 2020 Balance Sheet*, *Statement of Net Cost, and Statement of Changes in Net Position*.)

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 Other than Intragovernmental 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 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;Note 10, *Restatements of FY 2020 Balance Sheet*, *Statement of Net Cost, and Statement of Changes in Net Position*).

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; Note 10, *Restatements of FY 2020 Balance Sheet*, *Statement of Net Cost, and Statement of Changes in Net Position*).

T. Reclassifications

The FY 2020 Balance Sheet was reclassified to conform to the FY 2021 financial statement presentation requirements in accordance with OMB Circular No. A-136, as amended, and include changes in the presentation to Note 4, *Liabilities not Covered by Budgetary Resources*, Note 5, *Federal Employee Benefits Payable and Related Other Liabilities*, Note 7, *Other Liabilities*, and Note 9, *Reconciliation of Net Cost to Net Outlays*. The reclassifications had no effect on total assets, liabilities, or net position.

Note 2: Fund Balance with Treasury (Unaudited)

Fund Balance with Treasury as of September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

	FY 2021	FY 2020
Status of Fund Balance Treasury		
Unobligated Balance:		
Available	$ 548,000	$ 503,770
Unavailable	67,991	111,971
Obligated Balance not yet Disbursed	1,311,987	985,016
Total Fund Balance with Treasury	**$ 1,927,978**	**$ 1,600,757**

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).

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 received, and those received but not paid.

Non-budgetary FBwT consists of FBwT in unavailable receipt accounts and clearing accounts that do not have budget authority and non-budgetary FBwT such as non-fiduciary deposit funds. As of September 30, 2021 and 2020, DLA GF does not have a balance for non-budgetary FBwT.

Other Information includes the following tables summarizing the undistributed collections and disbursements between U.S. Treasury and DLA GF as of September 30, 2021 and 2020, respectively.

FY 2021 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	$ 313,589	$ 318,521	$ (4,932)
Disbursements	$ 3,545,384	$ 3,535,425	$ 9,959

FY 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

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

Breaking Thngs Up

Mark C. Olsen, New Jersey National Guard. Photo By: DLA Disposition Services - Camp Arifjan staff

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

General Property, Plant and Equipment as of September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

FY 2021	Acquisition Value		Accumulated Depreciation/ Amortization		Net Book Value	
Major Asset Classes						
Construction-in-Progress	$	528,858	$	-	$	528,858
Internal-Use Software in Development		75,932		-		75,932
Total General Property, Plant and Equipment, Net	**$**	**604,790**	**$**	**-**	**$**	**604,790**

FY 2020 As Restated	Acquisition Value		Accumulated Depreciation/ Amortization		Net Book Value	
Major Asset Classes						
Construction-in-Progress	$	510,080	$	-	$	510,080
Internal-Use Software in Development		101,052		-		101,052
Total General Property, Plant and Equipment, Net	**$**	**611,132**	**$**	**-**	**$**	**611,132**

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, 2021, 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 activity for General Property, Plant and Equipment as of September 30, 2021 and 2020, respectively (dollars in thousands):

	FY 2021		FY 2020 As Restated	
General Property, Plant and Equiptment - Beginning Balances	**$**	**611,132**	**$**	**905,918**
Capitalized Acquisitions		189,594		234,318
Disposals		-		(34,681)
Transfers in/out without reimbursements		(195,936)		(494,423)
General Property, Plant and Equiptment - Ending Balances	**$**	**604,790**	**$**	**611,132**

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to General Property, Plant and Equipment, Net, and Leases; and Note 10, *Restatements of FY 2020 Balance Sheet*, *Statement of Net Cost, and Statement of Changes in Net Position.*)

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

Liabilities not Covered by Budgetary Resources as of September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

	FY 2021	FY 2020 As Restated
Intragovernmental Liabilities		
Accounts Payable	$ 4,214	$ -
Other Liabilities	1,444	2,422
Total Intragovernmental Liabilities	**5,658**	**2,422**
Other than Intragovernmental Liabilities		
Accounts Payable	7,559	6,791
Environmental and Disposal Liabilities	79,504	69,111
Federal Employee Benefits Payable	8,215	8,737
Total Other than Intragovernmental Liabilities	**95,278**	**84,639**
Total Liabilities Not Covered by Budgetary Resources	**100,936**	**87,061**
Total Liabilities Covered by Budgetary Resources	**58,590**	**61,893**
Total Liabilities	**$ 159,526**	**$ 148,954**

Other Liabilities (Intragovernmental) primarily consist of intragovernmental liabilities for unemployment compensation and the accrued FECA liability based on DOL records and other than intragovernmental liabilities which include amounts owed but not yet paid to public entities for goods and services received by DLA GF.

Accounts Payable include amounts owed but not yet paid to the public for goods and services received by DLA GF. It is classified as Liabilities Not Covered by Budgetary Resources because the revenues or other sources of funds necessary to pay the liabilities have not been made available through congressional appropriations or current earnings of DLA.

Environmental and Disposal Liabilities (Other than Intragovernmental) 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, 2021 and 2020, the total liabilities covered by budgetary resources for the EL consists of $11.0 million and $8.6 million, respectively.

Federal Employee Benefits Payable (Other than Intragovernmental) are mostly comprised of the current year: (1) FECA actuarial liability based on DOL records and (2) 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, *Federal Employee Benefits Payable and Related Other Liabilities*; and Note 6, *Environmental and Disposal Liabilities*.)

Note 5: Federal Employee Benefits Payable and Related Other Liabilities (Unaudited)

Federal Employment Benefits Payable and Related Other Liabilities as of September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

FY 2021			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Intragovernmental Other Liabilities			
Employer Contribution and Payroll Taxes Payable	$ 770	$ (770)	$ -
Unfunded FECA Liability	313	-	313
Other Unfunded Employment Related Liability	1,131	-	1,131
Total Intragovernmental Other Liabilities	**$ 2,214**	**$ (770)**	**$ 1,444**
Other than Intragovernmental Federal Employee Benefits Payable			
Actuarial FECA Liability	$ 2,520	$ -	$ 2,520
Accrued Unfunded Annual Leave	5,695	-	5,695
Employer Contributions and Payroll Taxes Payable	802	(802)	-
Total Other than Intragovernmental Federal Employee Benefits Payable	**$ 9,017**	**$ (802)**	**$ 8,215**

FY 2020			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Intragovernmental Other Liabilities			
Employer Contribution and Payroll Taxes Payable	$ 645	$ (645)	$ -
Unfunded FECA Liability	389	-	389
Other Unfunded Employment Related Liability	2,033	-	2,033
Total Intragovernmental Other Liabilities	**$ 3,067**	**$ (645)**	**$ 2,422**
Other than Intragovernmental Federal Employee Benefits Payable			
Actuarial FECA Liability	$ 2,864	$ -	$ 2,864
Accrued Unfunded Annual Leave	5,873	-	5,873
Employer Contributions and Payroll Taxes Payable	366	(366)	-
Total Other than Intragovernmental Federal Employee Benefits Payable	**$ 9,103**	**$ (366)**	**$ 8,737**

Employer Contributions and Payroll Taxes Payable (Intragovernmental) are the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Unfunded FECA Liability (Intragovernmental) include the accrued FECA liability paid by DOL but not yet reimbursed by DLA GF.

Other Unfunded Employment Related Liability (Intragovernmental) consist of intragovernmental liabilities for unemployment compensation.

Actuarial FECA Liability (Other than intragovernmental) are workers' compensation benefits 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.

Accrued Unfunded Annual Leave (Other than intragovernmental) includes restored leave, compensatory time, and credit hours earned.

(Refer to Note Note 4, *Liabilities Not Covered by Budgetary Resources*.)

Authorized Surplus

Historical items maintained by the Army Museum Enterprise's 46 distinct Army museums will be inventoried during the next five years. DLA Disposition Services will process and make available those items deemed duplicate or surplus that are authorized for reuse, transfer and donation. Photo By: Army Museum Enterprise

Note 6: Environmental and Disposal Liabilities (Unaudited)

Environmental and Disposal Liabilities as of September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

		FY 2021		FY 2020
Environmental and Disposal Liabilities				
Accrued Environmental Restoration Liabilities:				
Active Installations - Installation Restoration Program and Building Demolition and Debris Removal	$	90,547	$	77,707
Total Environmental and Disposal Liabilities	**$**	**90,547**	**$**	**77,707**

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. While DLA GF is responsible for recording BRAC Installations – Installation Restoration Program (IRP) EL, it is reported on the DoD Component Level Statements under Consolidated ODO GF.

In FY 2021 and FY 2020, DLA GF utilized the Remedial Action Cost Engineering & Requirements (RACER) software to generate the CTC estimates of anticipated future costs.

In FY 2021, cost estimates were generated for 79 Accrued Environmental Restoration Liabilities Active Installations – Installation Restoration Program (IRP) EL sites and one BRAC Installations – IRP site. In FY 2021 and FY 2020, there were no PP&E transfers impacting the E&DL balance for 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 assessed its PP&E inventory and does not currently have reportable GF EL for Environmental Closure, Asbestos, or General Equipment (GE). There are no other reportable 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 Reasonably Estimable for Environmental Liabilities in the Federal Government*.

Methods for Assigning Estimated Total Cleanup Cost to Current Operating Periods: To estimate future environmental costs, the DLA GF utilizes a combination of historical or pre-negotiated contract costs, proposal costs, engineering estimates, and in the absence of other detailed information, parametric estimates created using the RACER software. Any historical costs used in the creation of the estimates for DLA EL are adjusted for inflation and reported in current year dollars. The RACER Steering Committee ensures that the RACER software is Validated, Verified, and Accredited (VV&A) in accordance with DoD Instruction 5000.61. The DoD is working with the RACER Steering Committee and stakeholders to identify improvements to RACER functionality, auditability, and documentation. Detailed information on estimating methodologies is provided in the DLA Environmental Liabilities Management (ELM) SOPs.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations: The DLA EL Site Identification (ID) process tracks environmental events such as spills and releases in an Environmental Event Repository and evaluates each event annually for Active Installations and BRAC Installations EL potentiality to determine the annual CTC inventory. 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. Processes are conducted in accordance with DLA ELM SOPs; 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 Office of the Under Secretary of Defense (OUSD) memorandum for Strategy for Environmental & Disposal Liabilities Audit Readiness (September 30, 2015).

CTC estimates revised through Roll Forward, as applicable, and prior year obligations are reported in the balance as of September 30. 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. The cost estimate changes from prior periods are primarily driven by remediation activities and operations, as evidenced by UDOs; there are minor adjustments for inflation or other similar administrative costs throughout the fiscal year. 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.

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.

FY 2021						
	Accrued Liabilities		Estimated Range of Loss			
			Lower End		Upper End	
Environmental Contingencies						
Probable	$	90,547	$	-	$	-
Reasonably Possible			$	-	$	-

FY 2020						
	Accrued Liabilities		Estimated Range of Loss			
			Lower End		Upper End	
Environmental Contingencies						
Probable	$	77,707	$	-	$	-
Reasonably Possible			$	-	$	-

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

DOD Computers For Learning Program

DLA Disposition Services Guam Area Manager Eric Mills attends a donation event at Merizo Martyrs Memorial School on the southern tip of Guam Aug. 14. Agency personnel helped Army National Guard elements donate 50 unused laptops to rural elementary students through its DOD Computers For Learning authority.

Photo By: Captain Mark Scott

Note 7: Other Liabilities (Unaudited)

Other Liabilities as of September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

FY 2021						
		Current		Non-Current		Total
Other than Intragovernmental Other Liabilities						
Accrued Funded Payroll and Benefits	$	2,563	$	-	$	2,563
Contract Holdbacks		1,170		-		1,170
Total Other than Intragovernmental Other Liabilities	**$**	**3,733**	**$**	**-**	**$**	**3,733**

FY 2020						
		Current		Non-Current		Total
Other than Intragovernmental Other Liabilities						
Accrued Funded Payroll and Benefits	$	1,352	$	-	$	1,352
Contract Holdbacks		1,236		36		1,272
Total Other than Intragovernmental Other Liabilities	**$**	**2,588**	**$**	**36**	**$**	**2,624**

Accrued Funded Payroll and Benefits (Other than Intragovernmental) include salaries, wages, and other compensation earned by employees but not yet disbursed.

Contract Holdbacks (Other than Intragovernmental) 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., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders.)

Simulated Assault

Soldiers conduct a simulated air assault from an Army CH-47 Chinook during training at Monte Romano Training Area, Italy, on Jan. 27, 2021. Photo By: Elena Baladelli/Army

Note 8: Undelivered Orders (Unaudited)

Undelivered Orders (UDOs) for the years ended September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

	FY 2021	FY 2020
Intragovernmental Undelivered Orders		
Unpaid	$ 1,369,254	$ 531,601
Total Intragovernmental Undelivered Orders	**1,369,254**	**531,601**
Other than Intragovernmental Undelivered Orders		
Unpaid	(35,338)	461,417
Total Other than Intragovernmental Undelivered Orders	**(35,338)**	**461,417**
Total Undelivered Orders	**$ 1,333,916**	**$ 993,018**

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, 2021 and 2020, respectively, DLA GF does not have intragovernmental paid UDO balances.

Due to system limitations, DLA GF is unable to determine the Intragovernmental and Other than Intragovernmental allocation of UDOs. DLA GF estimates the allocation of Intragovernmental and Other than Intragovernmental unpaid UDOs based on funded liabilities, excluding payroll and employee benefit liabilities, and paid UDOs based on advances and prepayments reported on the Balance Sheets. The abnormal balance of Other than Intragovernemental unpaid UDOs was due to trading partner eliminations.

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

Celebration Formation

Sailors participate in a pinning ceremony for new chief petty officers on the flight deck of the USS Theodore Roosevelt in the Pacific Ocean, Jan. 29, 2021. Photo By: Navy Seaman Eduardo A. Torres

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

Reconciliation of Net Cost to Net Outlays for the years ended September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

FY 2021			
	Intragovernmental	Other than Intragovernmental	Total
NET COST	**$ 161,997**	**$ 624,831**	**$ 786,828**
Components of Net Cost That are Not Part of Net Outlays			
General PP&E Disposals	-	-	-
Net Gains/(Losses)	-	-	-
Increase/(Decrease) in Assets			
Accounts Receivable	(10,267)	5	(10,262)
Advances and Prepayments	-	-	-
Other Assets	-	-	-
(Increase)/Decrease in Liabilities			
Accounts Payable	(16,596)	18,796	2,200
Environmental and Disposal Liabilities	-	(12,840)	(12,840)
Federal Employee Benefits Payable	-	86	86
Advances from Others and Deferred Revenue	-	238	238
Other Liabilities	853	(1,109)	(256)
Other Financing Sources			
Imputed Financing	(2,714)	-	(2,714)
Total Components of Net Cost That are Not Part of Net Outlays	**(28,724)**	**5,176**	**(23,548)**
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of PP&E	-	189,594	189,594
Acquisition of Inventory and Related Property	-	17,434	17,434
Other	(9)	-	(9)
Total Components of Net Outlays That are Not Part of Net Cost	**(9)**	**207,028**	**207,019**
NET OUTLAYS	**$ 133,264**	**$ 837,035**	**$ 970,299**
Outlays, Net, Statements of Budgetary Resources			**970,299**
Reconciling Difference			**$ -**

FY 2020 As Restated			
	Intragovernmental	Other than Intragovernmental	Total
NET COST	**$ 131,680**	**$ 543,752**	**$ 675,431**
Components of Net Cost That are Not Part of Net Outlays			
General PP&E Disposals	-	(34,681)	(34,681)
Net Gains/(Losses)	-	(1)	(1)
Increase/(Decrease) in Assets			
Accounts Receivable	12,039	13	12,052
Advances and Prepayments	-	(1)	(1)
Other Assets	-	1	1
(Increase)/Decrease in Liabilities			
Accounts Payable	19,325	(3,588)	15,737
Environmental and Disposal Liabilities	-	3,462	3,462
Federal Employee Benefits Payable	-	(146)	(146)
Advances from Others and Deferred Revenue	-	565	565
Other Liabilities	(1,118)	6	(1,112)
Other Financing Sources			
Imputed Financing	(2,323)	-	(2,323)
Total Components of Net Cost That are Not Part of Net Outlays	**27,923**	**(34,370)**	**(6,447)**
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of PP&E	-	234,319	234,319
Acquisition of Inventory and Related Property	-	-	-
Other	-	(19,293)	(19,293)
Total Components of Net Outlays That are Not Part of Net Cost	**-**	**215,026**	**215,026**
NET OUTLAYS	**$ 159,603**	**$ 724,407**	**$ 884,010**
Outlays, Net, Statements of Budgetary Resources			**884,010**
Reconciling Difference			**$ -**

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 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 FY 2021, the key reconciling differences between the net cost and net outlays for DLA GF include: (1) Accounts Receivable decreased due to increased collections in the reimbursement program; (2) Environmental Liabilities increased due to a surge in program cost related to the development of a new EL cost estimating software; and (3) the acquisition of capital assets, which are capitalized expenditures paid for, that have no impact on net cost.

For FY 2020, the key reconciling differences between the net cost and net outlays 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.

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.

The prior year presentation was modified to the current year presentation to facilitate the: (1) comparability between years for related activity; and (2) conform to the FY 2021 financial statement presentation requirements in accordance with OMB A-136 and revised TFM crosswalk mappings. 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.)

Note 10: Restatements of the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position (Unaudited)

In FY 2021, DLA GF restated its FY 2020 financial statements to correct errors in the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position. The impact of these errors resulted in DLA GF's Net Position reported on the financial statements to be understated by $13.3 million. DLA GF made adjustments to properly recognize: (1) revenue earned by the sub-allottee DMEA; (2) capitalized CIP costs that had been previously expensed; and (3) transferred out completed property, due to correction of errors. More specifically:

Revenue earned by the sub-allottee DMEA:

The FY 2020 revenue earned from services provided by DMEA was corrected to report the Earned Revenue and related impact on Accounts Receivable and Advances from Others and Deferred Revenue. The correction required adjustments to the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position by increasing Accounts Receivable by $11.9 million, decreasing Advances from Others and Deferred Revenue by $0.1 thousand, and increasing Earned Revenue by $12.0 million, resulting in an overall increase to Net Position of $12.0 million.

Capitalize construction-in-progress cost:

In FY 2015 and FY 2016, DLA GF funded seven MILCON CIP projects, which were expensed rather than capitalized as costs were incurred. The prior years and FY 2020 Gross Cost were corrected to properly report CIP as capitalized cost for cost that should have been capitalized in the prior period. The correction required adjustments to the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position by recognizing a prior period adjustment of $177.2 million, decreasing Gross Cost by $3.3 million, increasing Transfers-out by $179.2 million, and increasing CIP by $1.4 million, resulting in net increases in both General Property and Equipment, Net, and Net Position by $1.4 million and $1.4 million, respectively.

(Refer to Note 1.C., Departures from U.S. GAAP, related to Accounts Receivable, Revenue, and Unfilled Customer Orders and General Property, Plant and Equipment, Net.)

Balance Sheet (dollars in thousands) As of September 30, 2020	Unaudited FY 2020 As Previously Reported	Unaudited FY 2020 Adjustments	Unaudited FY 2020 As Restated
ASSETS			
Intragovernmental			
Fund Balance with Treasury (Note 2)	$ 1,600,757	$ -	$ 1,600,757
Accounts Receivable	11,948	11,873	23,821
Total Intragovernmental Assets	**1,612,705**	**11,873**	**1,624,578**
Other than Intragovernmental			
Accounts Receivable	15	-	15
Inventory and Related Property, Net	-	-	-
General Property, Plant and Equipment, Net (Note 3)	609,780	1,352	611,132
Other Assets	88	-	88
Total Other than Intragovernmental Assets	**609,883**	**1,352**	**611,235**
TOTAL ASSETS	**$ 2,222,588**	**$ 13,225**	**$ 2,235,813**
LIABILITIES (Note 4)			
Intragovernmental			
Accounts Payable	$ 21,158	$ -	$ 21,158
Other Liabilities (Note 5)	3,067	-	3,067
Total Intragovernmental Liabilities	**24,225**	**-**	**24,225**
Other than Intragovernmental			
Accounts Payable	34,180	-	34,180
Environmental and Disposal Liabilities (Note 6)	77,707	-	77,707
Federal Employee Benefits Payable (Note 5)	9,103	-	9,103
Advances from Others and Deferred Revenue	1,220	(105)	1,115
Other Liabilities (Note 7)	2,624	-	2,624
Total Other than Intragovernmental	**124,834**	**(105)**	**124,729**
TOTAL LIABILITIES	**149,059**	**(105)**	**148,954**
Commitments and Contingencies			
NET POSITION			
Unexpended Appropriations-Funds from Other than Dedicated Collections	1,563,503	-	1,563,503
Cumulative Results of Operations-Funds from Other than Dedicated Collections	510,026	13,330	523,356
TOTAL NET POSITION	**2,073,529**	**13,330**	**2,086,859**
TOTAL LIABILITIES AND NET POSITION	**$ 2,222,588**	**$ 13,225**	**$ 2,235,813**

[1] Certain balances were reclassified on the FY 2020 Balance Sheet to conform to the FY 2021 financial statement presentation requirements in accordance with OMB Circular A-136, as amended.

Statement of Net Cost For the Year Ended September 30, 2020 (dollars in thousands)	Unaudited FY 2020 As Previously Reported	Unaudited FY 2020 Adjustments	Unaudited FY 2020 As Restated
Operation and Maintenance			
Gross Cost	$ 368,612	$ -	$ 368,612
Less: Earned Revenue	(32,341)	-	(32,341)
Net Cost	**336,271**	**-**	**336,271**
Procurement			
Gross Cost	5,765	-	5,765
Less: Earned Revenue	-	-	-
Net Cost	**5,765**	**-**	**5,765**
Research, Development, Test & Evaluation			
Gross Cost	367,428	-	367,428
Less: Earned Revenue	(35,237)	(11,978)	(47,215)
Net Cost	**332,191**	**(11,978)**	**320,213**
Family Housing and Military Construction			
Gross Cost	16,476	(3,294)	13,182
Less: Earned Revenue	-	-	-
Net Cost	**16,476**	**(3,294)**	**13,182**
Gross Cost	**758,281**	**(3,294)**	**754,987**
Less: Earned Revenue	**(67,578)**	**(11,978)**	**(79,556)**
NET COST OF OPERATIONS	**$ 690,703**	**$ (15,272)**	**$ 675,431**

Statement of Changes in Net Position For the Year Ended September 30, 2020 (dollars in thousands)	Unaudited FY 2020 As Previously Reported	Unaudited FY 2020 Adjustments	Unaudited FY 2020 As Restated
Unexpended Appropriations			
Beginning Balances	$ 1,361,054	$ -	$ 1,361,054
Appropriations Received	1,089,846	-	1,089,846
Appropriations Transferred-in/out	7,435	-	7,435
Other Adjustments	(32,867)	-	(32,867)
Appropriations Used	(861,965)	-	(861,965)
Change in Unexpended Appropriations	**202,449**	**-**	**202,449**
Total Unexpended Appropriations: Ending Balance	**1,563,503**	**-**	**1,563,503**
Cumulative Results of Operations			
Beginning Balances	633,408	-	633,408
Correction of Errors	-	177,246	177,246
Beginning Balances, as Adjusted	633,408	177,246	810,654
Other Adjustments	(1,024)	-	(1,024)
Appropriations Used	861,965	-	861,965
Transfers-in/out Without Reimbursement	(315,236)	(179,188)	(494,424)
Imputed Financing	2,323	-	2,323
Other	19,293	-	19,293
Net Cost of Operations	**690,703**	**(15,272)**	**675,431**
Net Change in Cumulative Results of Operations	**(123,382)**	**(163,916)**	**(287,298)**
Cumulative Results of Operations: Ending Balance	**510,026**	**13,330**	**523,356**
TOTAL NET POSITION	**$ 2,073,529**	**$ 13,330**	**$ 2,086,859**

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, 2021 and 2020, 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, 2021
(dollars in thousands)

	Operation and Maintenance	Procurement	Research, Development, Test & Evaluation	Family Housing	Military Construction	FY 2021 Total
BUDGETARY RESOURCES						
Unobligated Balance From Prior Year Budget Authority, Net	$ 66,210	$ 1,398	$ 59,331	$ 549	$ 490,617	$ 618,105
Appropriations	395,017	390,459	252,947	-	304,765	1,343,188
Spending Authority From Offsetting Collections	24,015	-	81,100	-	-	105,115
TOTAL BUDGETARY RESOURCES	**$ 485,242**	**$ 391,857**	**$ 393,378**	**$ 549**	**$ 795,382**	**$ 2,066,408**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments	$ 445,879	$ 384,170	$ 323,207	$ -	$ 297,161	$ 1,450,417
Unobligated Balance, End of Year:						
Apportioned, Unexpired Accounts	1,360	7,357	60,818	-	478,465	548,000
Unexpired Unobligated Balance, End of Year	1,360	7,357	60,818	-	478,465	548,000
Expired Unobligated Balance, End of Year	38,003	330	9,353	549	19,756	67,991
Total Unobligated Balance, End of Year	39,363	7,687	70,171	549	498,221	615,991
TOTAL BUDGETARY RESOURCES	**$ 485,242**	**$ 391,857**	**$ 393,378**	**$ 549**	**$ 795,382**	**$ 2,066,408**
OUTLAYS, NET						
Outlays, Net	$ 424,537	$ 19,918	$ 293,100	$ 692	$ 232,052	$ 970,299
AGENCY OUTLAYS, NET	$ 424,537	$ 19,918	$ 293,100	$ 692	$ 232,052	$ 970,299

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	FY 2020 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. End of Year	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**

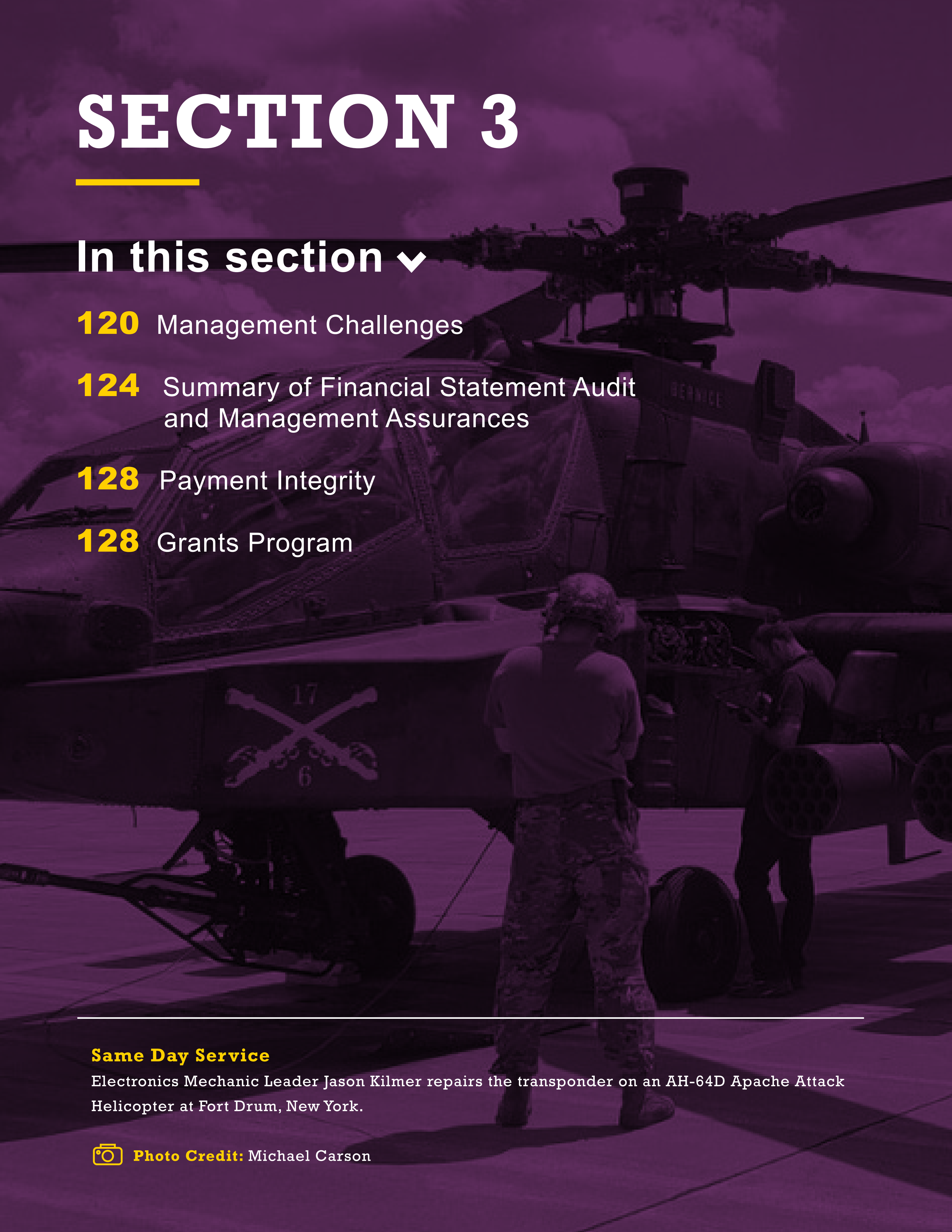
SECTION 3

Other Information (Unaudited)

Mediterranean Watch ▶

Navy Seaman Cedric Volle stands watch aboard the aircraft carrier USS Dwight D. Eisenhower in the Mediterranean Sea, April 1, 2021.

Photo Credit: Navy Seaman Jacob Hilgendorf



SECTION 3

In this section

Same Day Service

Electronics Mechanic Leader Jason Kilmer repairs the transponder on an AH-64D Apache Attack Helicopter at Fort Drum, New York.

Photo Credit: Michael Carson

Management Challenges

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

July 27, 2021

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 DLA and the reduction of risks facing the organization, especially due to the actions of the Enterprise Risk Management Office, the Office of the Inspector General (OIG) sees 15 areas where major challenges remain. The 15 challenge areas are:

a. 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. Multiple components of DLA are involved in sales of DoD property. DLA Headquarters has limited expertise within the staff. Sales procedures and process are impacted by law and rules from several governmental agencies. An unclear policy proponent and corresponding lack of oversight of execution within DLA is an area of risk that requires mitigation and remediation.

b. Contracting Officers Representatives. Although this area was identified last year, this challenge remains on the list because of the 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, to improve audit readiness, it is essential to improve Contracting Officer Representative performance and quality of work.

c. Financial Liability Investigations. Based on numerous OIG investigations, financial liability investigation of property losses were inadequate and failed to hold responsible officials accountable for failure to maintain accountability of property under their control. The OIG audit division has begun research on this topic and anticipates issuing an audit report in FY 2022.

d. Critical Warfighter Items and Whole of Government. Despite the pandemic and the shortage of supplies, DLA has maintained outstanding support to the Warfighters. However, as continuing emphasis is placed on the Whole of Government effort, DLA must remain vigilant that the Whole of Government effort doesn’t overshadow

Warfighter support since both efforts will be competing for many of the same product lines – e.g., pharmaceuticals, clothing and textiles, food and water, and fuel.

e. Supply Chain Security and Risk Management. DLA needs to continually evaluate our supply chains for single-point failures to prevent disruptions to DLA's Warfighter and Whole of Government customers. The supply risk management process is critical to identify risks to our supply chains while developing mitigation strategies, to reduce the risk to acceptable levels when feasible or develop mitigating strategies when mitigation isn't feasible. This challenge highlights the lack of domestically based integrated supply chains, just-in-time inventory management, as well as other risks in DLA's reliance on the Defense industrial base – that individually and collectively increase risk to the process.

f. Nonconforming Inventory. The induction of repair parts from commercial suppliers must be continuously monitored and reviewed to prevent nonconforming and counterfeit parts from entering the DLA supply chains and causing major risks to our Warfighters and Whole of Government customers.

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

h. DLA Cybersecurity and Resiliency. Cybersecurity is an inherent risk and the most persistent threat to DLA operations. The resiliency of DLA to identify and counter cyber intrusions is paramount to DLA success. With the majority of the DLA workforce now teleworking via potentially less secure home networks, DLA's cybersecurity risk profile is increased. DLA must continually stress that employees have a personal responsibility for network security. While the DLA J6 achieved impressive sustainment of DLA networks during the pandemic, it is imperative that continued and innovative resources be employed to retain this resiliency. These efforts are essential to ensure 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 with minimal disruption.

i. 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.

j. Knowledge Management. DLA needs to move from the reactionary data management mentality to a more proactive ability to appropriately summarize our vast data into useful and actionable knowledge that management can act upon.

k. 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.

l. Special Emphasis Programs. DLA has at least three special emphasis programs – PTAP (Procurement Technical Assistance Program), NWRM (Nuclear Weapons Related Material), and Strategic Materials – that, while currently in good shape, requires continual management emphasis. While the PTAP program may transition to DoD, we will continue to include it on this list until the transition is complete.

m. Trade Security Controls. DoD delegates Export Control requirements for Trade Security Controls (TSC) policy, controls, and enforcement for the DoD to DLA. The required functions include policy, issuance of End Use Certificates (EUC) to qualified entities, and enforcement through Post Sales Investigations. As noted in paragraph a. above, DLA has inadequate sales oversight structure and execution policy. This shortfall in guidance results in conflict between TSC and sales contracts at Disposition Services that requires both policy and contracting changes to realign. Disposition Services implemented a new business model that sells export-controlled DoD personal property to the contractor. The contractor becomes the first non-DoD owner and is issued a single EUC that is renewed on a periodic basis. This permits the contractor to sell controlled property to anyone, nullifying the EUC process for export-controlled DoD personal property. DLA must resolve the guidance and execution for export controls.

n. Post-Pandemic Reduction of Telework. DLA executed a superlative pivot to full time telework by the eligible office workforce while maintaining operational readiness and providing a safe secure workplace for employees in industrial operations. The reduction of telework and return to onsite offices represents a significant challenge. Numerous studies and reports indicate a fundamental change in attitudes by the workforce across the nation. Employees are seeking greater control over schedules, flexibility, and how work is conducted. Other structural supports such as childcare, school schedules and methods, and availability of public transport affect the willingness and mobility of the workforce. Balancing telework and return to centralized offices could present a significant challenge through employee turnover leading to a loss of knowledge and experience in critical skill areas, while extenuating the efforts to acculturate new employees. DLA is addressing this challenge in the strategic plan and by encouraging senior leaders to be as flexible as possible. Although this challenge is being addressed through the Future of Work Line of Effort it nonetheless presents a situation that requires much thought, understanding, flexibility, and adaptability to retain the well-qualified and resilient workforce DLA requires.

o. Climate Change Management. DLA J3 has begun addressing this topic. However, because it is a reasonably new topic, additional senior leader focus is required as the expectation is that DLA will be required to assist DoD by leading the way in procuring carbon-pollution free electricity, developing alternative fuel costing policy, and incorporating the social cost of greenhouse gases into product costs. DLA must have a deliberate plan in place before the requirements outpaces the current capability of both DLA Energy and the DLA Environmental Office.

It is important that DLA leadership recognize these challenges facing the organization for DLA to provide the best value to the taxpayer and the best support to the warfighter. Addressing each of these challenges will improve the internal control structure of DLA and thereby help the organization in achieving an unmodified financial statement opinion.

WILLIAM A. RIGBY
Inspector General

Summary of Financial Statement Audit and Management Assurances

The audit reports on the FY 2021 and FY 2020 DLA GF financial statements identified seven material weaknesses or DLA GF. Table 1 below provides a summary of the financial statement audit results for FY 2021 and FY 2020, as restated.

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: FY 2021 Summary of the Financial Statement Audit

Audit Opinion	Disclaimer				
Restatement	Yes				
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 SOA package only includes self-identified material weaknesses and significant deficiencies for internal DoD reporting; however, DLA continues to monitor the financial statement audit material weakness areas separately. DLA's FY 2021 Material Weaknesses and Significant Deficiencies template included a total of three self-identified material weaknesses in the area of ICOR-O. In FY 2021, the six ICOR material weaknesses and four ICOFS non-conformances were based on financial statement audit NFRs. However, DLA has determined these audit identified ICOR material weaknesses and ICOFS nonconformances are still present and have not been remediated in FY 2021.The DLA Audit Task Force continues to separately track financial statement audit findings and CAPs and report these to the ODCFO.

Dusty Direction

Marines move for cover during urban assault training at Marine Corps Air-Ground Combat Center in Twentynine Palms, California., Jan. 21, 2021. Photo Credit: Marine Corps Lance Cpl. Brian Bolin Jr.

Table 2 summarizes DLA's FY 2021 material weaknesses associated with 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
Order-to-Cash: Accounts Receivable and Revenue	1	-	-	-	-	1
Procure-to-Pay: Accounts Payable and Expenses	1	-	-	-	-	1
Total Material Weaknesses	6	-	-	-	-	6

Food Donations

Army Pvt. Antonio Ocampo, a wheeled vehicle mechanic with the 1348th Maintenance Company, Arizona Army National Guard, prepares boxes of groceries to be delivered to area residents at a food bank in Phoenix, Ariz., May 21, 2021. The Arizona National Guard is continuing to support food banks as well as COVID-19 vaccination sites statewide. Photo Credit: Air Force Tech. Sgt. Michael Matkin, Arizona Air National Guard

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: Nonverification 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

At Sea

Sailors aboard the Arleigh Burke-class guided-missile destroyer USS Roosevelt (DDG 80) receive pallets of food stores during a replenishment-at-sea with the dry cargo ship USNS William McClean (T-AKE 12), April 1, 2021. Roosevelt, forward-deployed to Rota, Spain, is on its second patrol in the U.S. Sixth Fleet area of operations in support of regional allies and partners and U.S. national security interests in Europe and Africa. Photo Credit: Mass Communication Specialist 2nd Class Andrea Rumple/Released

Payment Integrity

The Payment Integrity Information Act of 2019 (IPIA) (Pub. L. 116-117), 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. OMB Circular A-123, Appendix C 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 PIIA, and Appendix B of the OMB Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, dated June 11, 2021, 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/afr/.

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 one remaining award.

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 or more prior to September 30, 2021.

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	0	1	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances	0	0	0

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

A / B / C

Sunlit Sail ▶

Sailors assigned to Maritime Expeditionary Security Squadron 11 participate in evaluation exercises aboard a patrol boat in San Diego, Feb. 24, 2021.

Photo Credit: Navy Chief Petty Officer Nelson Doromal Jr.


U.S. NAVY
601

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 implemen- tation 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.	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.	Self-identified significant deficiencies are reported to OUSD. 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 (https://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: ● Impact the operating effectiveness of entry-level controls; ● Impair fulfillment of essential operations or missions; ● Deprive the public of needed services; or ● Significantly weaken 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. Self-identified material weaknesses are reported to OUSD. 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 material process-management policy, guidance, and oversight. J3 integrates strategic, operational, and tactical perspectives, as well as commands and controls 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.

Appendix C: Abbreviations & Acronyms

A&FP	Accounting & Finance Policy Directorate
A/BO	Approving/Billing Officials
ACT	Active
ADA	Anti-Deficiency Act
AFR	Agency Financial Report
A/OPC	Agency/Organization Program Coordinators
APR	Annual Performance Report
AWARS	Automated Workflow and Reporting System
BRAC	Base Realignment and Closure
C&T	Clothing and Textiles
CAC	Common Access Card
CAPs	Corrective Action Plans
CARES	Coronavirus Aid, Relief, and Economic Security (CARES) Act
CCMD	Combatant Command
CCs	Critical Capabilities
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
CPM	Component Program Manager
CRO	Chief Risk Officer
CRR	Cost Recovery Rate
CSRS	Civil Service Retirement System
CTC	Cost To Complete
DATA Act	Digital Accountability and Transparency Act of 2014
DCAS	Defense Contract Administration Services
DCIA	Debt Collection Improvement Act
DFAS	Defense Financial and Accounting Services
DAI	Defense Agencies Initiative
DISA	Defense Information System Agency
DLA	Defense Logistics Agency
DM-I	Installation Management – Installation & Equipment
DoD	Department of Defense
DOL	Department of Labor
ODCFO	Deputy Chief Financial Officer
DQP	Data Quality Plan
DSA	Defense Supply Agency
DSS	Distribution Standard System
EBS	Enterprise Business System
ECC	Resource Planning Central Component
EL	Environmental and Disposal Liabilities
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
FASAB	Federal Accounting Standards Advisory
FBwT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management System Requirements
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulations
FMS	Foreign Military Sales
FPAs	Federal Program Agencies
FRDAA	Fraud Reduction and Data Analytics Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GF	General Fund
GMRA	Government Management Reform Act

GPC	Government Purchase Card
GPRA	Government Performance and Results Act
GSA	General Services Administration
HHS	Health and Human Services
HQ	Headquarter
ICOFS	Internal Controls Over Financial Systems
ICOR	Internal Control over Reporting
ICOR-O	Internal Control over Operations
ID	Identification
IH	Industrial Hardware
IOD	Insight on Demand
IPA	Independent Public Accounting
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act of 2002
IPs	Improper Payments
IT	Information Technology
IUS	Internal Use Software
LOEs	Lines of Effort
MOCAS	Mechanization of Contract Administration Service
MSC	Major Subordinate Command
NDAA	The National Defense Authorization Act
NDS	National Defense Strategy
NFR	Notice of Findings and Recommendations
NSA	National Security Agency
OCONUS	Outside the Continental United States
ODCFO	Office of the Deputy Chief Financial Officer
ODOs	Other Defense Organizations
OI	Other Information
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
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 Workers' Compensation Programs
P3	Public-Private Partnerships
PMO	Program Management Office
PP&E	General Property, Plant and Equipment
PPA	Prompt Payment Act
PPE	Personal Protective Equipment
R&D	Research & Development
RACER	Remedial Action Cost Engineering and Requirements
RCRA	Resource Conservation and Recovery Act
RSI	Required Supplementary Information
RMIC	Risk Management and Internal Control
SAO	Senior Accountable Official
SAP	Systems Applications and Product
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SOA	Statement of Assurance
SMC	Senior Management Council
TAS	Treasury Account Symbol
TDD	Treasury Direct Disbursing
TF	Transaction Fund
TI	Treasury Index
TNC	Treasury Nominal Coupon
U.S.	United States
UCO	Unfilled Customer Orders
UDO	Undelivered Orders
USMC	United States Marine Corps
USSGL	U.S. Standard General Ledger
VV&A	Validated, Verified, and Accredited
WCF	Working Capital Fund
WMS	Warehouse Management System

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Defense Logistics Agency

The Nation's Combat Logistics Support Agency

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