



2021

Defense Logistics Agency Fiscal Year 2021 Agency Financial Report

Working Capital Fund (Unaudited)



◀ Guard Support

Arizona National Guard airmen and soldiers fill bags with groceries to be distributed to local citizens at a food bank in Tucson, Arizona, Jan. 5, 2021.

Photo Credit: Air Force Tech. Sgt. Michael Matkin

▼ Explosive Ordnance

Counter Unmanned Aerial Systems (UAS) training Tech. Sgt. Brook A. Hamilton, 379th Expeditionary Civil Engineer Squadron noncommissioned officer in charge of explosive ordnance disposal training, during an exercise at Al Udeid Air Base, Qatar, Jan. 20, 2021. **Photo Credit:** Tech. Sgt. Brigitte Waltermire/Air National Guard



▲ Vaccine Arrival

COVID-19 vaccine arrives at Aviano Six airmen assigned to the 31st Medical Group receive the first Moderna COVID-19 vaccines at Aviano Air Base, Italy, Jan. 8, 2021. **Photo Credit:** Staff Sgt. K. Tucker Owen/Air Force

► Colorful Crew

Sailors move a pallet on the flight deck of the USS Theodore Roosevelt during a replenishment in the Pacific Ocean, Jan. 1, 2021. **Photo Credit:** Navy Petty Officer 3rd Class Dartanon D. De La Garza



About the Agency Financial Report

The Defense Logistics Agency (DLA) Working Capital Fund (WCF) 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 WCF financial statements and other reports. The principal

financial statements¹ have been prepared to report the financial position and results of DLA WCF's operations. The financial statements and accompanying notes have been prepared from the books and records of DLA WCF using guidance from the following applicable laws and regulations for which DLA WCF 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 WCF unless specifically noted otherwise. DLA WCF's financial results are unaudited because there are limitations due to underlying processes and internal controls that support the principal financial statements. DLA WCF 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 WCF, including DLA's history, mission, and organizational structure; DLA WCF'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)

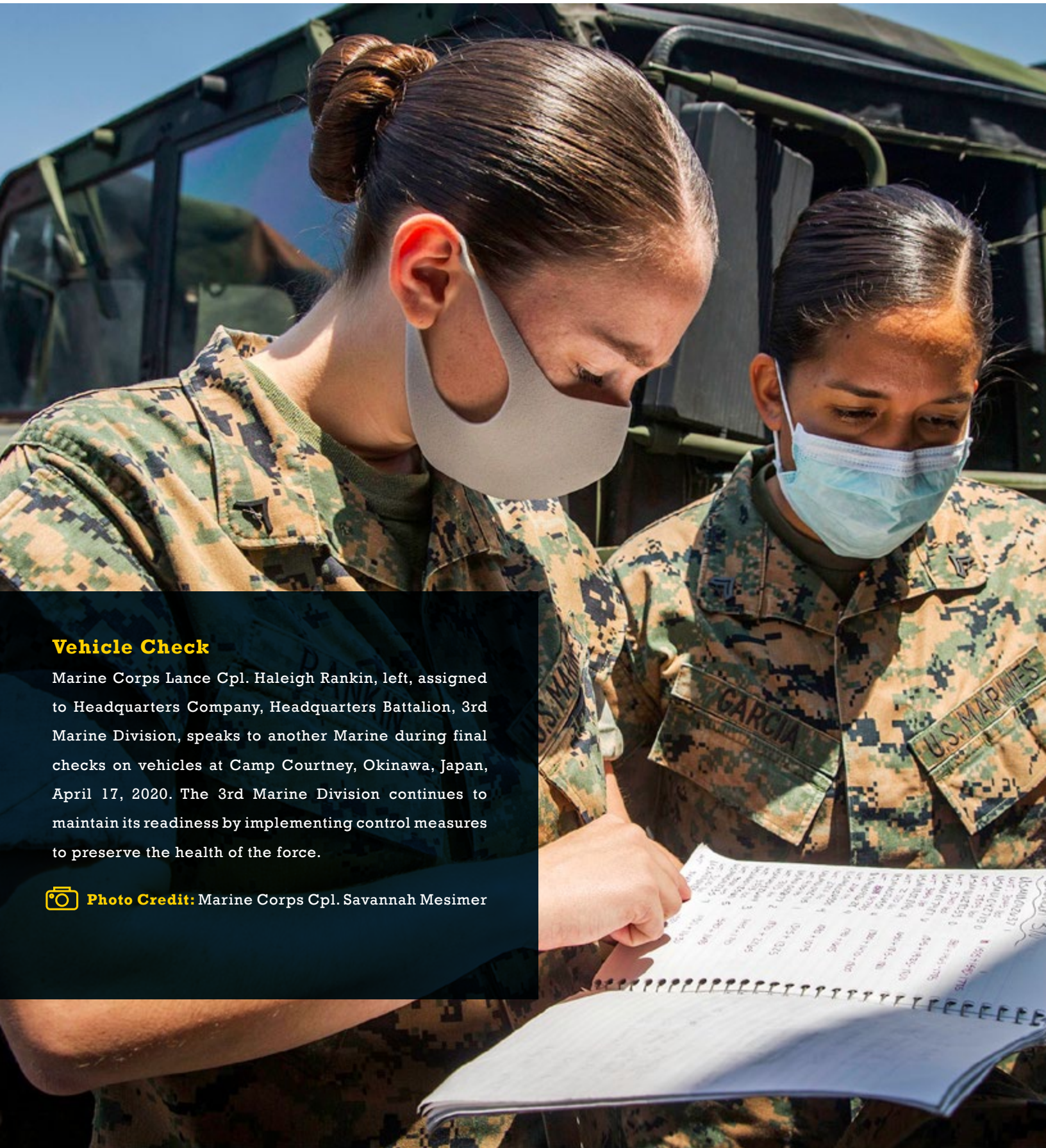
This section details DLA WCF's compliance with, and commitment to, specific regulations. It includes foregone revenue reporting, performance and management analyses, recommendations, and payment integrity reporting.

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



Defense Logistics Agency

FY 2021 | Working Capital Fund



Vehicle Check

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


 **Photo Credit:** Marine Corps Cpl. Savannah Mesimer

Table of Contents

iv

Message from the Director

1 SECTION 1

Management's Discussion and Analysis (Unaudited)

- 4 Mission and Organizational Structure
- 12 Performance Goals, Objectives, and Results
- 28 Analysis of Financial Statements and Stewardship Information
- 36 Analysis of Systems, Controls, and Legal Compliance
- 46 Forward-Looking Information

49 SECTION 2

Financial Section (Unaudited)

- 52 Message from the Chief Financial Officer
- 53 Audit Reports
- 94 Management's Response to Audit Reports
- 95 Introduction to the Principal Financial Statements
- 96 Principal Financial Statements (Unaudited)
- 100 Notes to the Principal Financial Statements (Unaudited)
- 143 Required Supplementary Information

147 SECTION 3

Other Information (Unaudited)

- 150 Foregone Revenue
- 151 Management Challenges
- 155 Summary of Financial Statement Audit and Management Assurances
- 159 Payment Integrity

160 APPENDIX

- 162 Appendix A: Summary of FMFIA Definitions and Reporting
- 164 Appendix B: J/D Codes, DLA HQ Program Support Structure, Roles and Responsibilities
- 167 Appendix C: Abbreviations & Acronyms
- 170 Acknowledgments

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

FY 2021 | Working Capital Fund

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 Working Capital Fund (WCF) Financial Statements. Information obtained through this report will be extremely valuable in our ongoing efforts to improve all aspects of DLA WCF 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)

Humvee Hitch ►

Army Pfc. Pablo Aguirre secures a trailer to the back of a Humvee in Jordan, Dec. 22, 2020, while deployed to the Middle East to support operations Spartan Shield and Inherent Resolve.

 **Photo Credit:** Army Sgt. Dustin D. Biven





SECTION 1

In this section ▼

- 4** Mission and Organizational Structure
- 12** Performance Goals, Objectives, and Results
- 28** Analysis of Financial Statements and Stewardship Information
- 36** Analysis of Systems, Controls, and Legal Compliance
- 46** Forward-Looking Information

Sunlit Sail

The aircraft carrier USS Theodore Roosevelt transits the Pacific Ocean, Jan. 1, 2021.



Photo Credit: Navy Petty Officer 3rd Class Wade Costin

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.

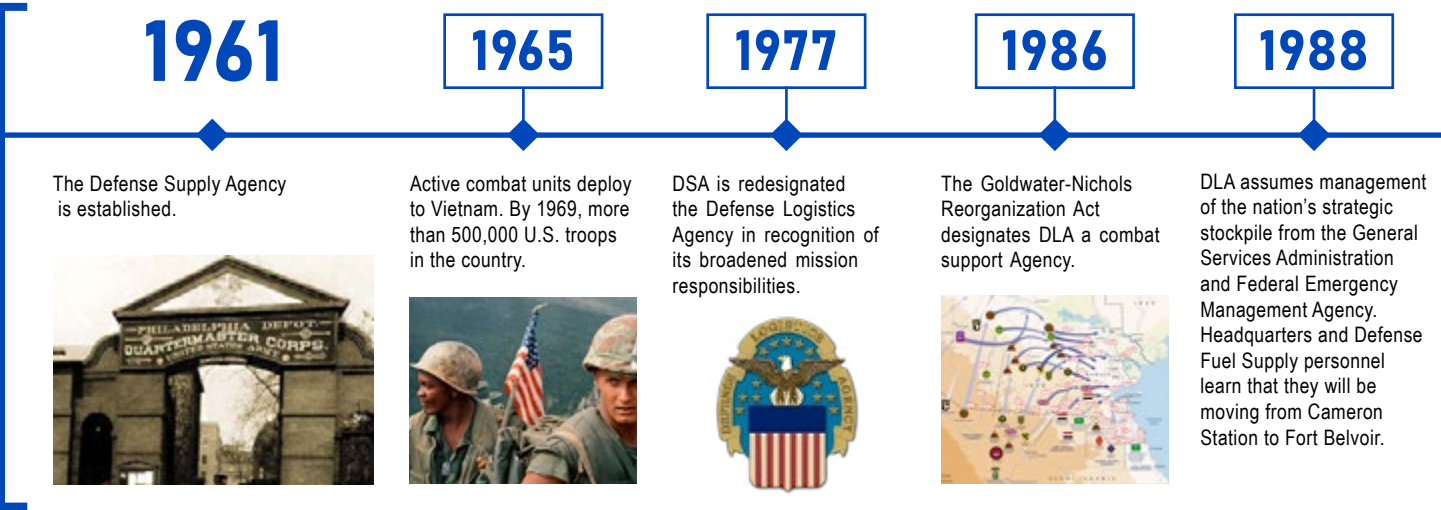
DSA received additional responsibilities Outside the Continental United States (OCONUS) in the last years of the war. In 1972, it started conducting property disposal overseas and oversaw the worldwide procurement, management, and distribution of bulk petroleum. In 1973, it began providing food to mess 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



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), 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 WCF employs approximately 24,194 civilian personnel, 3 active-duty military personnel, and 709 reserve personnel, who operate a global enterprise in 3 countries and 22 states. Civilian personnel are paid from DLA WCF while active duty military personnel and reserve personnel are paid from their respective Military Departments.

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

DoD. As part of fulfilling the government's duty to be publicly accountable for budgetary resources, DLA WCF maintains accountability primarily through contract authority for its operating and capital programs, as it relates to its two major activity groups: Energy and Supply Chain Management (SCM). DLA WCF rigorously plans, executes and monitors budgetary resources, sales patterns, and rates of obligation in excess of \$47.5 billion annually, while ensuring its mission of supplying American Warfighters with critical support. These resources are utilized in accordance with prevailing laws and regulations.

The DLA WCF has three major activity groups: Energy, SCM, and Document Services. Energy and SCM collaborate with Distribution and Disposition Services to form the six Major Subordinate Commands (MSCs) (as depicted in Figures 1 and 3). The Energy activity group manages the Energy MSC, and the SCM activity group manages the other five MSCs. The term MSC was devised by DLA's Director to reflect the flow of acquiring supplies, distributing supply materials, and disposing of excess supplies. In its support role, Distribution provides worldwide storage and distribution services to the eight supply chains described on the next page, while Disposition Services partners with DLA WCF's supply chains, DoD components (including the U.S. Army, Navy, and Air Force), other Federal Agencies, and public entities to reutilize, transfer, sell, and donate surplus property and dispose of hazardous waste.

The third DLA WCF activity, Document Services, operates primarily through spending authority from offsetting collections

and outside of the MSCs. Its role is to provide preferred DoD document and printing services, as well as provide those services to other Federal Agencies.

The DLA WCF manages eight supply chains through the Energy and SCM activity groups and supports more than approximately 2,300 weapon systems. The eight supply chains are: Aviation Systems, Land Systems, Maritime Systems, Fuel/Energy, Subsistence, Medical, Clothing and Textiles (C&T), and Construction and Equipment (C&E). In FY 2020, Industrial Hardware (IH) was absorbed and transferred between Aviation Systems, Land Systems, and Maritime Systems. Over the course of FY 2021 through FY 2022, the IH national stock numbered items and workload will be divided between Land Systems, Maritime Systems, and Aviation Systems. The Energy activity group manages the Energy supply chain, and the SCM activity group manages the other seven supply chains. Agency leaders are committed to the continuous assessment and transformation of the organizational culture, size, structure, and alignment through enterprise integration and partnering with the private sector. Organizing as a single, integrated business enterprise enables DLA WCF to focus on supporting DoD components, other Federal Agencies, and public entities, enhancing the Armed Forces' readiness, and providing for the Warfighter during contingency operations.

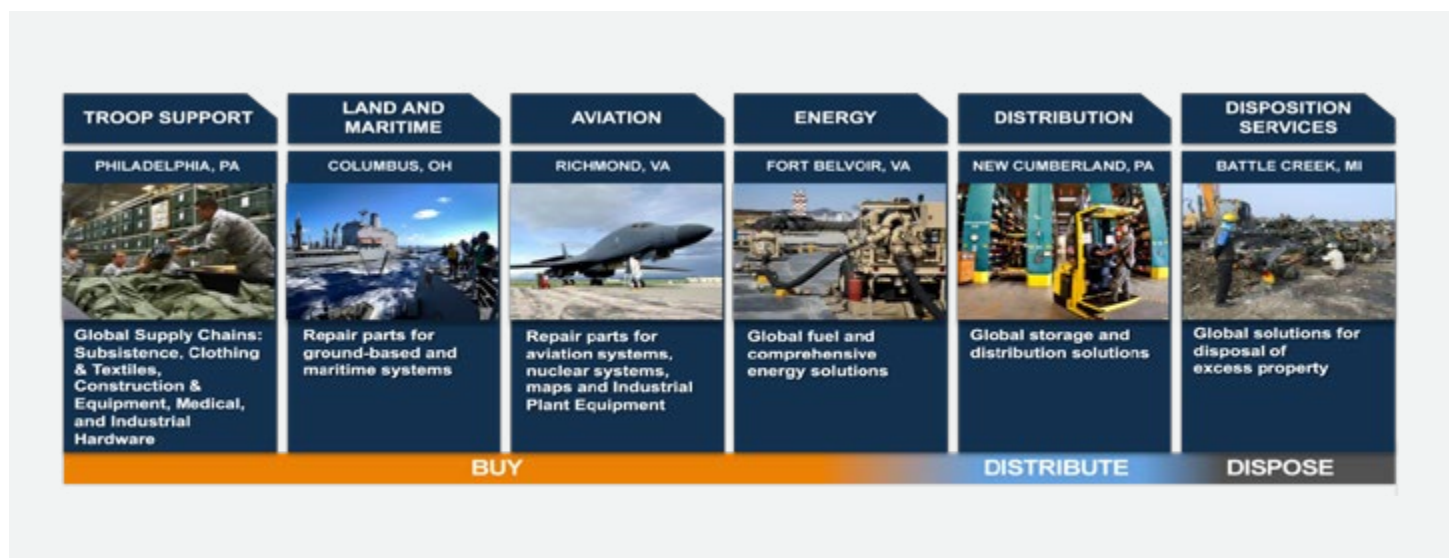


Figure 1: DLA MSC Chart

How DLA WCF Accomplishes its Mission

The DLA WCF has three major activity groups: Energy, SCM, and Document Services. The three major activity groups are described below:

Energy

The DLA Energy activity group provides the DoD components (including the U.S. Army, Navy, and Air Force), other Federal Agencies, and public entities with comprehensive energy solutions worldwide. To do so, DLA Energy manages the Energy supply chain for energy-related products and services from jet fuel and natural gas to quality assurance and utility services, and many more. DLA Energy manages the following major product areas: Aerospace Energy, Bulk Petroleum Products, Direct Delivery Fuels, and Installation Energy. Additionally, DLA Energy provides services such as Government Fuel Cards, quality-related services, international fuel agreements, utility services contracts, and research and development (R&D) of alternative fuels to customers.

Supply Chain Management

The DLA SCM activity group is responsible for managing seven supply chains and associated weapons systems. DLA SCM also provides logistics and material process management policy, guidance, and oversight while conducting continuous assessments of supply chain performance. DLA SCM integrates strategic, operational,

and tactical perspectives, command and control functions for contingency operations, and adaptive planning in order to influence the logistics supply chain. Additionally, DLA SCM operates a global network of distribution centers and disposal services. DLA WCF's warehousing strategy is driven by the commitment to better serve Warfighters, collocating with the Armed Forces while placing supplies where they are most needed.

Document Services

Operating independently and apart from the two activity groups discussed above, DLA Document Services is the preferred provider for document automation services to the DoD and is also designated as the single manager for printing and high-speed, high-volume duplicating in the DoD. Document Services provides printing, duplicating, and document automation services within the DoD to include document workflow conversion, electronic storage and output, multi-function devices, office printers, and distribution of hard copy and digital information. Through Document Services, DLA WCF helps customers reduce storage costs, increase efficiency of information sharing, and provide more functionality at a significantly lower cost.



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

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 2: DLA Organizational Chart

DLA Organizational Structure

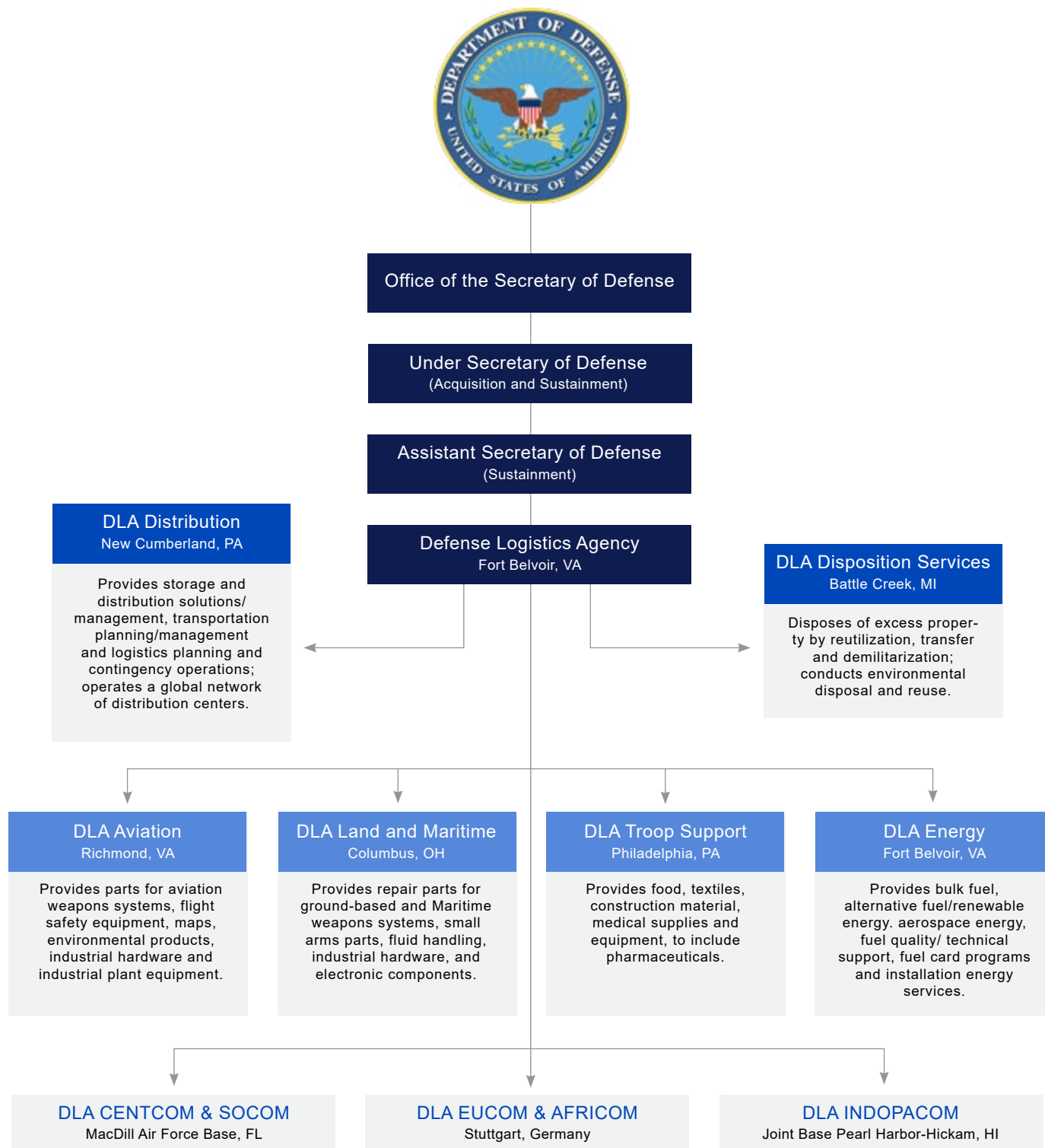


Figure 3: DLA Organizational Structure

Performance Goals, Objectives, and Results

The DLA has established performance assessments of its programs to evaluate 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 WCF) 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 the Director's specific emphasis in DLA's Strategic Plan for 2021-2026 are shown in the LOEs and CCs below.



Figure 4: 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 WCF 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 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.



Welcome to America

Fort Lee Garrison Command Sgt. Maj. Tamisha Love welcomes an Afghan child to America during reception operations in New Jersey Aug. 5. **Photo By:** 1st Lt. Tom Burcham IV/Army

Performance Measures (Unaudited)

DLA Supply Chain Management (Non-Energy) Performance Measure 1: Supply Chain Management Availability to Warfighters

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

The DLA SCM strives to predict supply needs to equip the Warfighter efficiently and effectively. For FY 2021, DLA SCM met its target of having a total average of 90% supply availability across the board for all Military Departments; The following analysis applies to Non Mission Critical Supplies (NMCS); the results display acquisition and supply activities for regular procurement items.

DLA continues its efforts in meeting high supply availability expectations by employing smart budgetary resource use techniques and leveraging rapid acquisition opportunities to meet expectations. WCF Supply Chain Management will continue to evaluate purchase, storage, and distribution processes, planning to implement modifications which are cost-justified and will increase efficiency and product availability in future periods.

Supply Availability to Warfighters



Figure 5: Supply Availability to Warfighters by Military Command

DLA Supply Chain Management (Non-Energy) – Performance Measure 2: “Wait Time” to Fill Supply Orders for Supply Chains

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

The DLA WCF tracks the average amount of wait time that occurs to fill backorders for its SCM. DLA WCF aims to minimize the amount of time required to fill backorders to increase the readiness of the Warfighter. Over the past two years, the average SCM wait time results have trended upwards, with the most significant increase in C&T. DLA WCF's emphasis on filling high priority non-mission capable supply backorders and weapon system readiness-based orders has allowed lower priority orders to age more than in the past. When those lower priority orders are not filled, they drive up the average wait time. Additionally, FY 2021 supply chain disruptions were driven by the COVID-19 Pandemic, also having an unfavorable impact on wait time.

The DLA SCM wait time to fill backorders for the Military Departments over the past four fiscal years is illustrated below for the following SCM supply chains: Aviation, Land, Maritime, C&E, Medical, C&T, Food (Subsistence), and IH. DLA WCF SCM applies variable strategic acquisition techniques to minimize supply wait times to supply the Warfighters efficiently and effectively. WCF Supply Chain Management will continue to evaluate purchase, storage, and distribution processes, planning to implement modifications which are cost-justified and will increase efficiency and product availability in future periods.

Wait Time to Fill Backorders for Supply Chain Management



Figure 6: Wait Time to Fill Supply Orders for Supply Chain Management (in days)

DLA Supply Chain Management (Non-Energy) – Performance Measure 3: “COVID-19 Support”

This performance measure relates to the objective described above:

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

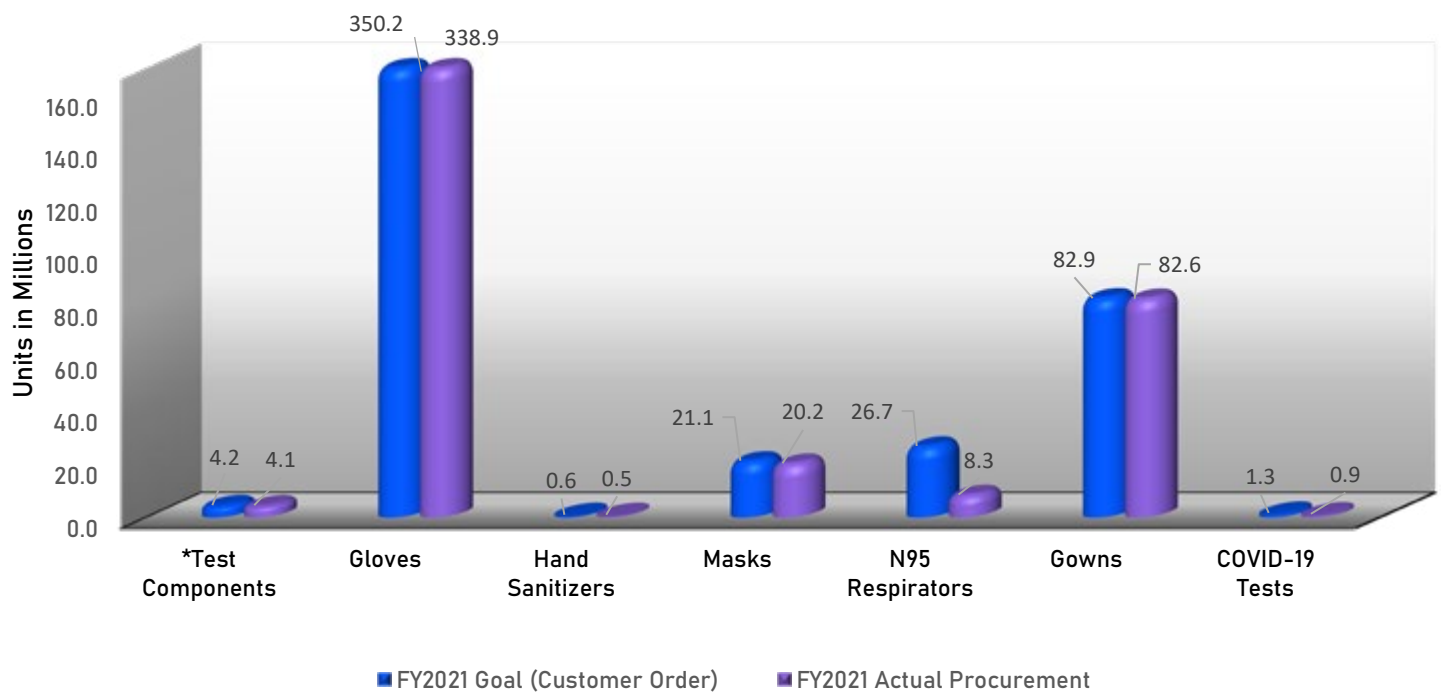
The DLA provides Agency-wide pandemic support to aid the whole-of-government COVID-19 response, which became apparent in February 2020. For instance, DLA Disposition provides reutilized medical supplies, while DLA Land and Maritime provides repair parts for hospital ships and DLA Energy provides the fuel.

The DLA WCF, in partnership with HHS, FEMA and other Federal Agencies, works to support the President in responding to COVID-19 challenges in procuring personal protective equipment (PPE) and replenishing the nearly depleted Strategic National Stockpile (SNS). DLA Troop Support is primary in this effort, coordinating procurement and delivery activities for COVID-19 supplies and SNS replenishment. The supplies procured in FY 2021, as illustrated below, include

test components, gloves, respirators, masks, gowns, and COVID-19 tests. WCF Supply Chain Management will continue to evaluate purchase, storage, and distribution processes for COVID-19 supplies, planning to implement modifications which are cost-justified and will increase efficiency and product availability in future periods.

For FY 2021, DLA Troop Support's procurement goal based on customer orders was to supply 4.2 million Test Components, 350.2 million Gloves, 26.7 million N95 Respirators, 0.6 million Hand Sanitizers, 21.1 million Masks, 82.9 million Gowns, and 1.3 million COVID-19 Tests. Differences between customer orders and procurement were due to backorders of remaining supplies.

Procurement of Critical Medical Supplies & PPE



*Test Components included Specimen Collection Swabs, Transport Medium, and Viral Transport Swab Kits.

Figure 7a: Procurement of Critical Medical Supplies & PPE versus target

COVID-19 Procurement has increased for all supply types in FY 2021 versus the prior year:

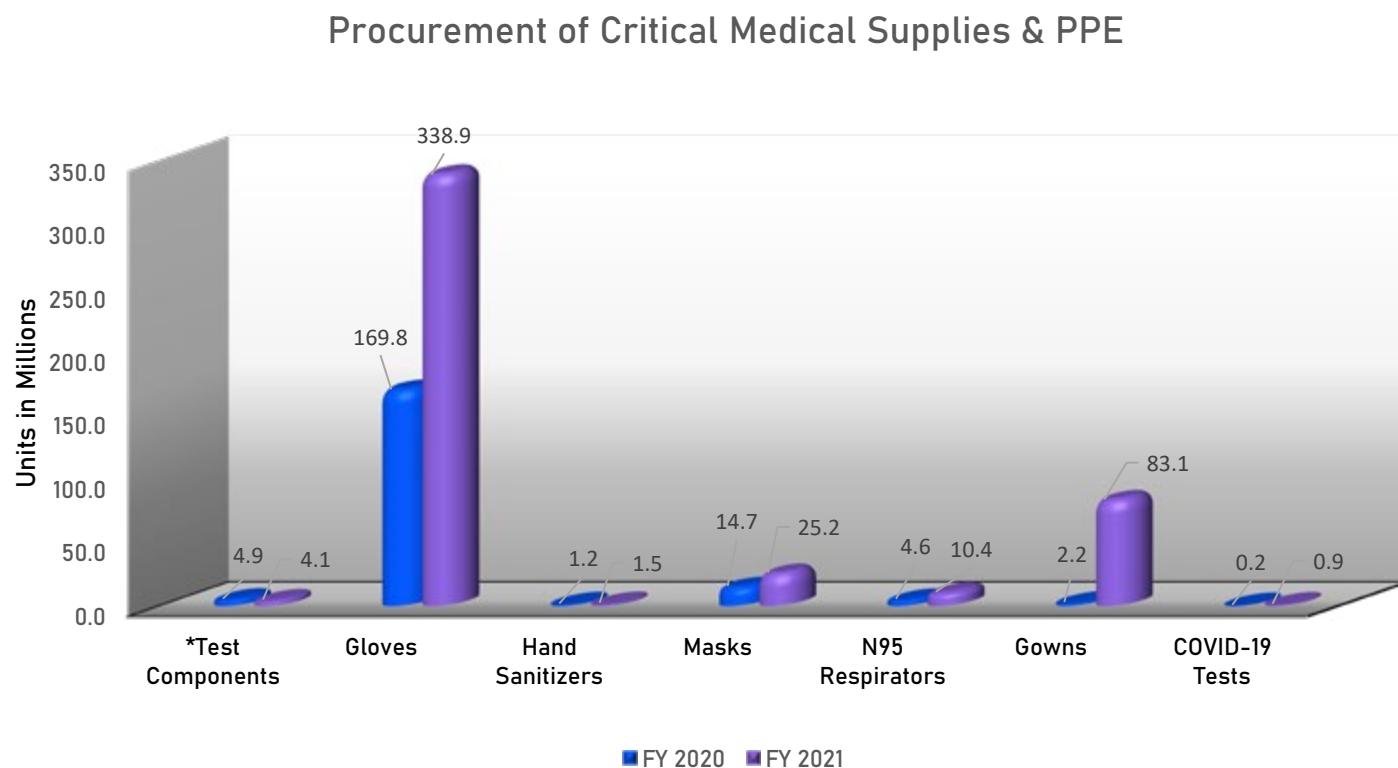


Figure 7b: Procurement of Critical Medical Supplies & PPE versus FY 2020



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 By:** Tech. Sgt. Justin Norton

DLA Supply Chain Management (Non-Energy) Performance Measure 4: "COVID-19 Vaccine Distribution"

This performance measure relates to the objective described above:

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

The DLA provided support to DoD health initiatives by partnering with DHA to create a COVID-19 vaccine distribution plan in October 2020. Since Fall 2020, DLA representatives have been embedded in the DoD COVID-19 Vaccine Operational Planning Team, working extensively to leverage interagency partnerships in planning, executing, and tracking vaccine shipments to 102 military treatment facilities and fleet sites overseas. DLA plans COVID-19 vaccine shipments according to orders placed by the Military Services, who receive requirements from combatant commands and verify allotments through a DoD allocation board. By September 30, 2021 DLA had delivered over 825,000 Moderna, Janssen and Pfizer vaccine doses to

DoD vaccination sites in 35 countries. Overall, 99.9% of doses allocated have been delivered. About 10.0% of those doses were delivered through intermediate distribution facilities in Europe, Asia, and the Middle East. From there, shipments are scheduled for onward movement to treatment facilities and clinics using local transportation and military airlift.

WCF Supply Chain Management will continue to evaluate purchase, storage, and distribution processes for COVID-19 supplies, planning to implement modifications which are cost-justified and will increase efficiency and product availability in future periods.

COVID-19 Vaccine Distribution

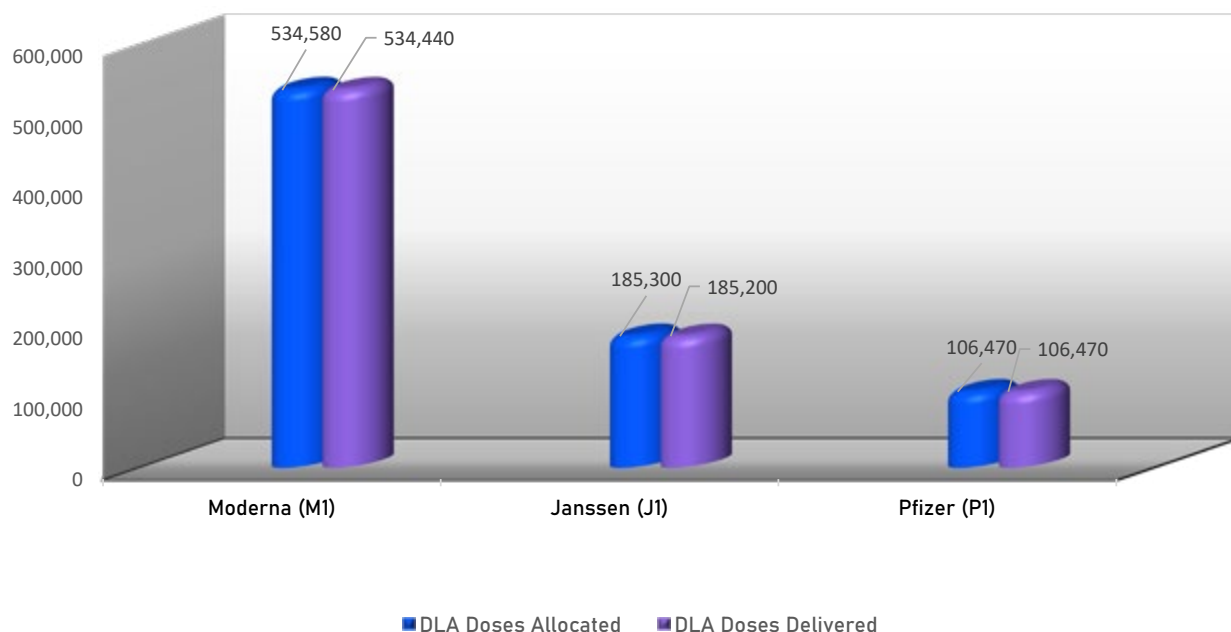


Figure 8: Non-Energy Performance Measure 4: COVID-19 Vaccine Distribution

DLA Energy – Performance Measure 1: Fuel Sales in Barrels by DoD Component

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

The DLA WCF supports other DoD Agencies through fuel sales. This allows for increased interagency support through self-sustainment of fuel. For FY2021, DLA Energy budgeted to sell 82.8 million barrels to DoD Agencies, and actual fuel sales to DoD components were 78.1 million barrels. Demand affects actual fuel sales year-over-year, and DoD's mission dictates the amount of fuel DoD purchases. For example, if training or

flying hours decreased for DoD components, less fuel would be purchased during the year. Due to the operational impact of COVID-19 the actual sales did not meet the budgeted sales for the year. WCF Energy will continue to evaluate fuel purchase, storage, and distribution processes, planning to implement modifications which are cost-justified and will increase efficiency and fuel availability in future periods.

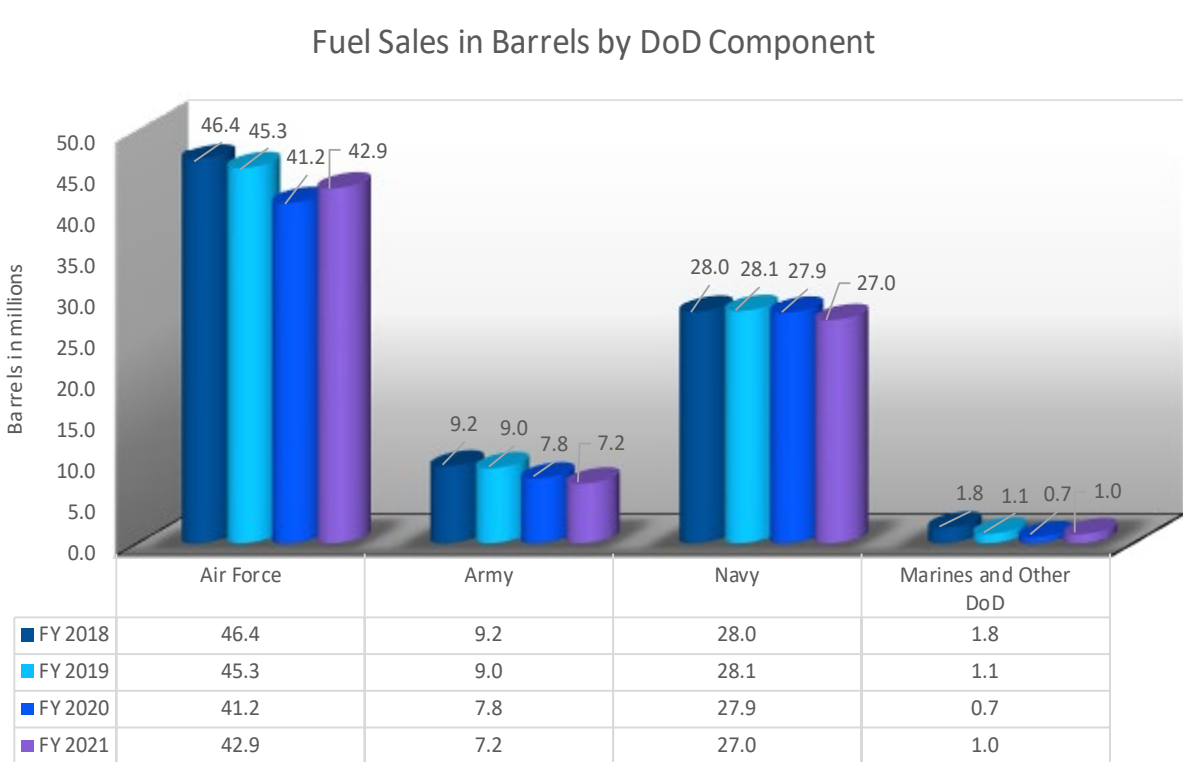


Figure 9: Fuel Sales in Barrels by DoD Component

DLA Energy – Performance Measure 2: Fuel Sales in Dollars by DoD Component

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

For FY 2021, DLA Energy budgeted to sell \$8.2 billion of fuel to DoD Agencies, and actual fuel sales to DoD components were \$7.9 billion. DLA Energy reports revenues on a net basis (gross revenues less direct cost).

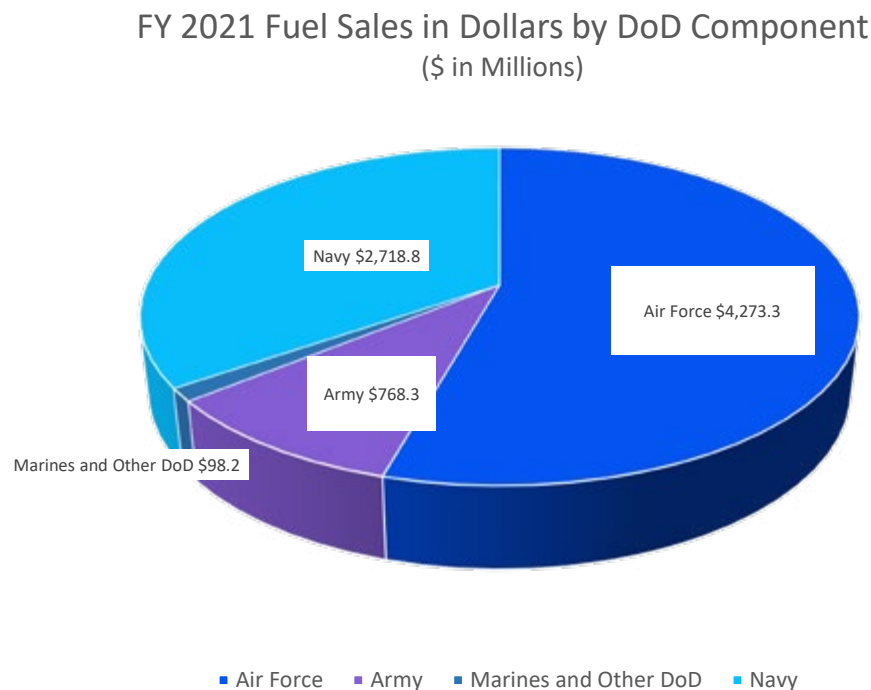


Figure 10: Fuel Sales in Dollars by DoD Component

DLA Energy – Performance Measure 3: Fuel Sales in Barrels by Non-Federal Customer

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; and **Objective 2.1:** Implement a deliberate, enterprise-wide approach to Whole of Government

The DLA is authorized to provide its services to the public by selling fuel to various non-Federal parties. By doing so, DLA is building partnerships with non-Federal customers (including commercial entities/Agencies), as well as international partners. For FY 2021, DLA Energy budgeted to sell 7.0 million barrels to non-Federal customers, and actual fuel sales to non-Federal customers was 5.1 million barrels. Due to the

operational impact of COVID-19, the actual sales did not meet the budgeted sales for the year. WCF Energy will continue to evaluate fuel purchase, storage, and distribution processes, planning to implement modifications which are cost-justified and will increase efficiency and fuel availability in future periods.

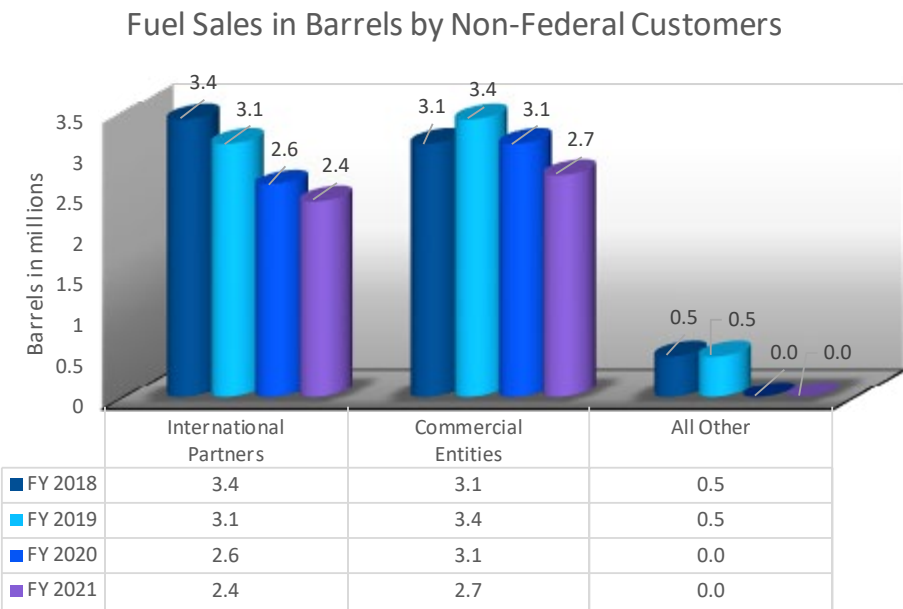


Figure 11: Fuel Sales in Barrels by Non-Federal Customers

DLA Energy – Performance Measure 4: Fuel Sales in Barrels by Federal Civilian Agency

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; and **Objective 2.1:** Implement a deliberate, enterprise-wide approach to Whole of Government

In addition to providing fuel to DoD components and non-Federal entities, DLA WCF also sells fuel to Federal Civilian Agencies. DLA WCF supports other Federal Agencies as they embark on their daily activities and accomplish their missions. DLA wholly supports the government and the entire Nation through its supply of fuel. For FY 2021, DLA Energy budgeted to sell 4.2 million barrels to Federal Civilian Agencies. DLA Energy did not achieve its goal with actual fuel sales of 3.7

million barrels to Federal Civilian Agencies. Due to the operational impact of COVID-19 the actual sales did not meet the budgeted sales for the year. WCF Energy will continue to evaluate fuel purchase, storage, and distribution processes, planning to implement modifications which are cost-justified and will increase efficiency and fuel availability in future periods.

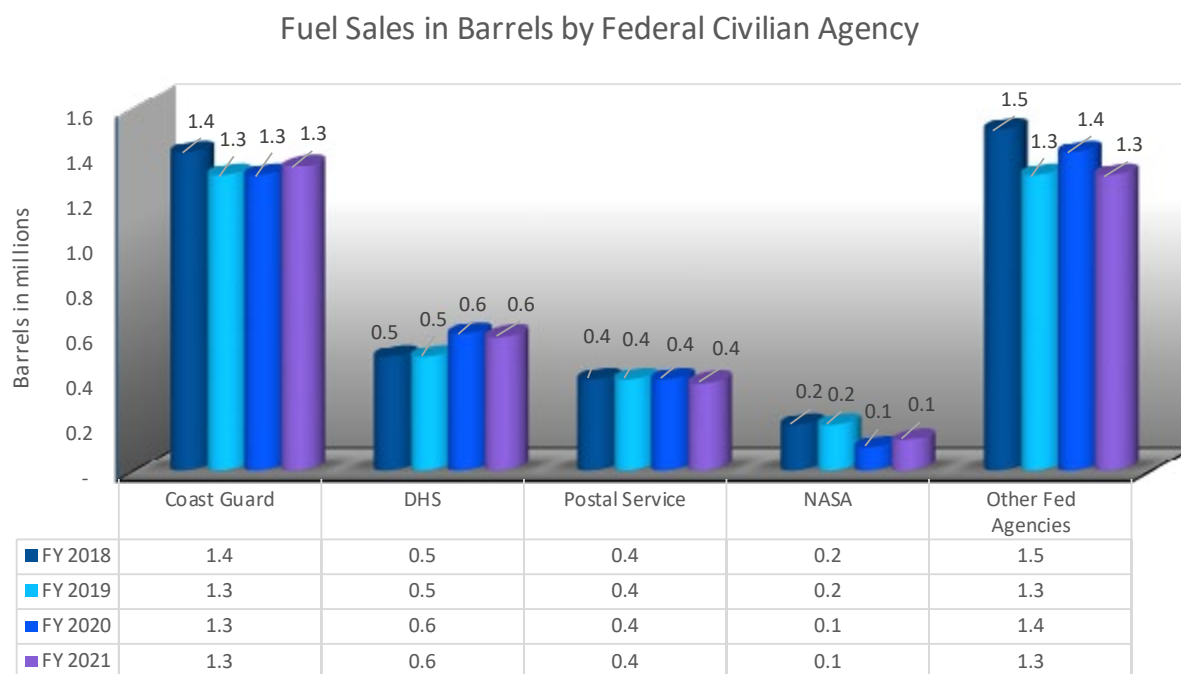


Figure 12: Fuel Sales in Barrels by Civilian Agency

DLA Working Capital Fund Performance Measure: Future of Work

This performance measure relates to the objectives described above:

Objective 5.1: Redefine virtual work models to enable our next generation workforce; **Objective 5.2:** Assess DLA Contiguous United States (CONUS) facilities footprint to maximize space utilization; and **Objective 5.3:** Build skillsets of the future.

DLA Human Resources is tasked with advancing a cooperative and supportive workplace culture. That culture was instrumental in allowing the department to quickly adapt to extensive telework for many employees in the early days of the pandemic, while also allowing the department to meet mission requirements under the unprecedented conditions.

The U.S. Office of Personnel Management (OPM) conducted an employee survey for DLA for FY 2020²; the survey indicated that department-wide teleworking increased dramatically from 2019 (pre-pandemic) to 2020 (peak pandemic) (the year-over-year increase was approximately 70%). Employee satisfaction with DLA's teleworking program increased 13% from 2019 to 2020, with overall employee job satisfaction also higher at approximately 6% year over year.

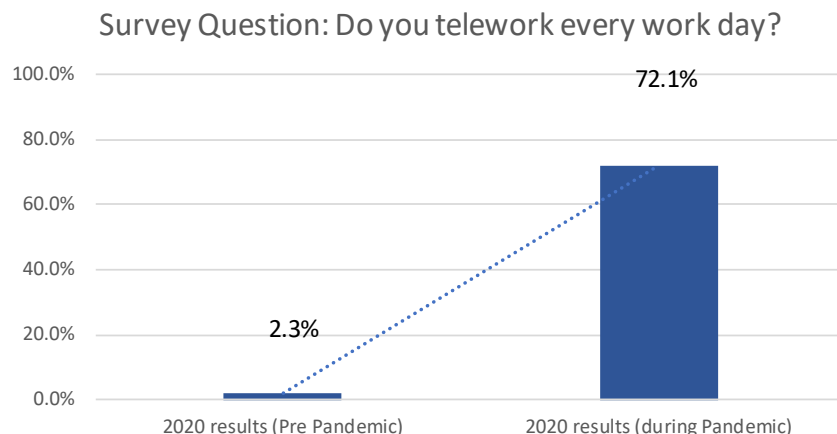


Figure 13: Do you telework every work day?

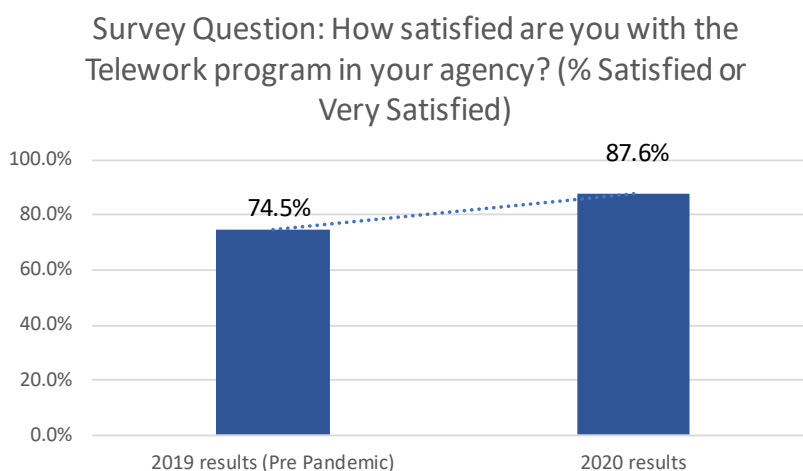


Figure 14: How satisfied are you with the Telework program in your Agency?
(% Satisfied or Very Satisfied)

² The survey included responses from 6,692 DLA employees, and was conducted between September 24 and November 4, 2020. As the survey had been taken annually beginning 2010, it provides visibility into employee satisfaction trending.

Survey Question - How satisfied are you with your job?

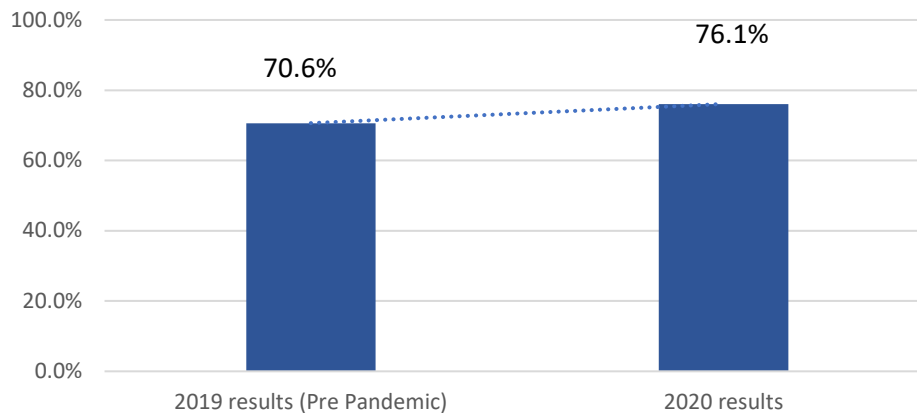


Figure 15: How satisfied are you with your job?

Based on this data, it is expected that continuing the increased virtual work environment after COVID will support attracting and sustaining a competitive workforce, increased productivity, and heightened employee satisfaction.

While the Federal government has encouraged its workforce to work remotely as possible during the pandemic, specific guidance has been tailored to each organization's work requirements; a general target for % telework for the Federal workforce or for total DLA has not been determined to date.

DLA Human Resources is taking action to foster the culture of workplace creativity and caring to allow DLA to apply a collaborative and innovative spirit, enabling the workforce of the future by additional virtual work options, and by maximizing space utilization and building newly required skill sets.

Our greatest challenge will be finding the right balance of onsite and virtual work to meet employee health and wellness needs, recruitment and retention goals while also maintaining our strong workplace culture to ensure that skills and wisdom will be passed from more experienced leaders to newer team members, essentially continuing to build on the strong interpersonal relationships that allowed us to exceed expectations when faced with a global crisis.

The DLA is taking a thoughtful, holistic approach to shaping DLA's future workplace policies, guided, and informed by efforts underway throughout the federal government, with input from our employees, and in cooperation with our labor partners. For example, DLA is awaiting guidance from the White House on expanded telework opportunities for the federal workforce so DLA can ensure DLA is in compliance with all guidelines and directives.

DLA Roadmap to Auditability

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

Currently, DLA WCF receives a disclaimer of opinion on its financial statements. DLA WCF is striving to obtain an unmodified audit opinion from its IPA in the future. Since receiving a disclaimer of opinion each year from FY 2017 through FY 2020, DLA WCF has taken a two track approach in resolving major impediments in efforts to strive for an unmodified audit opinion: (1) improving the reliability and fair presentation of financial data reported in the AFR by virtue of

addressing Notice of Findings and Recommendations (NFRs); and (2) developing, improving, and refining the underlying end-to-end processes that support the preparation of the AFR by instilling sound fundamental practices in developing the AFR in accordance with OMB Circular A-136 financial reporting requirements, and the financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

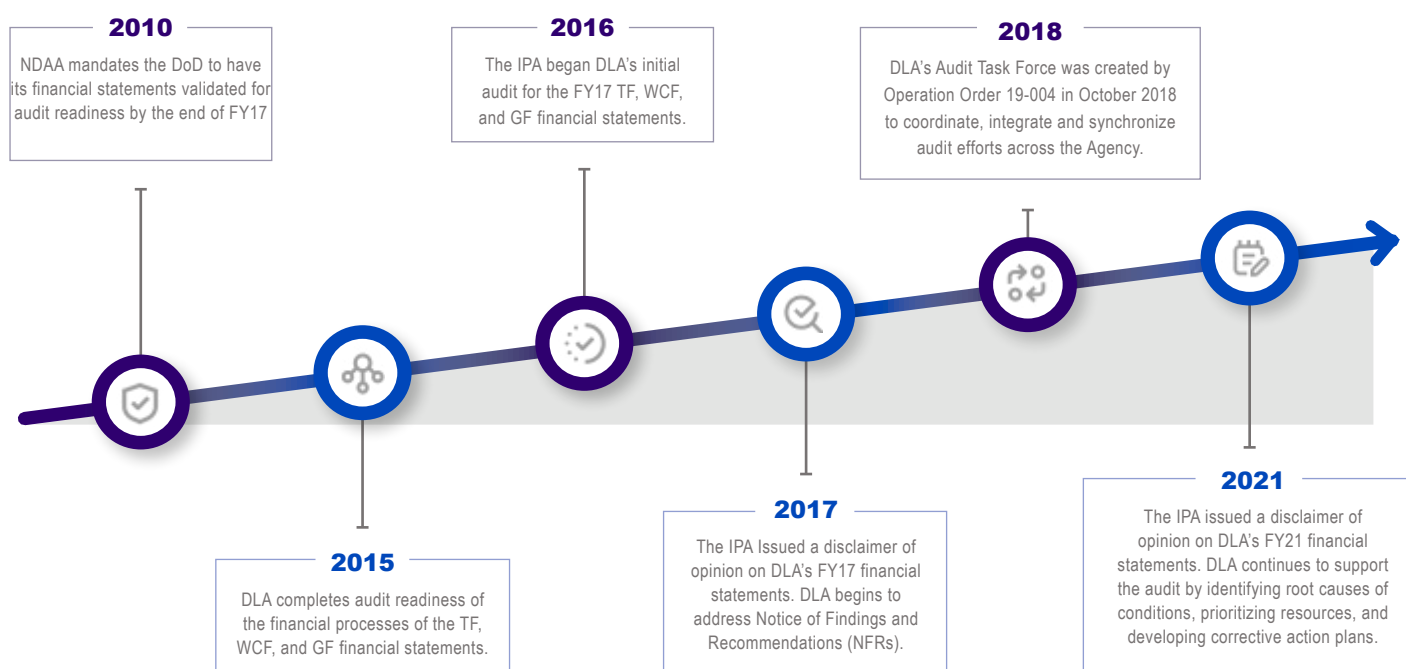


Figure 16: DLA Auditability Timeline



Water Works

Army Sgt. 1st Class Glenn Malo and Sgt. Jorge Mercado prepare a water buffalo at Fort Bliss, N.M., Sept. 3, 2021. The Defense Department is providing support for Afghan evacuees. **Photo By:** Army Sgt. Briaira Tolbert

Analysis of Financial Statements and Stewardship Information

This analysis presents a summary of DLA WCF'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 WCF 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 WCF 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 WCF's management is responsible for the integrity and objectivity of the financial information presented in the statements. DLA WCF is dedicated in its pursuit of financial management excellence.

A summary of DLA WCF's changes in key financial measures for FY 2021 and 2020 is presented in the following Analysis.



DLA Energy Commander Visits Texas Aerostat Site

Defense Logistics Agency Energy Commander Air Force Brig. Gen. Jimmy Canlas and a team from DLA Energy Aerospace visited the Tethered Aerostat Radar System site at El Indio, Texas, Sept. 29. The balloons, technically known as aerostats, are filled with DLA Energy Aerospace helium and are operated by U.S. Customs and Border Protection. They are equipped with an array of high-powered surveillance and communications equipment.

Photo courtesy of DLA Energy Aerospace. [Photo By:](#) DLA Energy Aerospace

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	FY 2020 ³	Increase/Decrease	
	(Unaudited)	As Restated (Unaudited)	\$	%
Fund Balance with Treasury	\$ 2,706.2	\$ 3,915.4	\$ (1,209.2)	(30.9%)
Accounts Receivable, Net and Other Assets	3,040.5	3,199.3	(158.8)	(5.0%)
Inventory and Related Property, Net	22,348.7	21,837.9	510.8	2.3%
General PP&E, Net	810.4	754.6	55.8	7.4%
TOTAL ASSETS	\$ 28,905.8	\$ 29,707.2	\$ (801.4)	(2.7%)
Accounts Payable	\$ 2,451.2	\$ 2,721.0	\$ (269.8)	(9.9%)
Environmental and Disposal Liabilities	1,272.4	1,187.1	85.3	7.2%
Federal Benefits and Other Liabilities	1,068.8	2,314.0	(1,245.2)	(53.8%)
TOTAL LIABILITIES	\$ 4,792.4	\$ 6,222.1	\$ (1,429.7)	(23.0%)
TOTAL NET POSITION (ASSETS LESS LIABILITIES)	\$ 24,113.4	\$ 23,485.1	\$ 628.3	2.7%
Total Gross Cost	\$ 50,648.1	\$ 41,575.1	\$ 9,073.0	21.8%
Less: Total Earned Revenue	(50,945.5)	(42,376.0)	(8,569.5)	20.2%
NET COST OF OPERATIONS	\$ (297.4)	\$ (800.9)	\$ 503.5	(62.9%)

Figure 17: Changes In Key Financial Measures

³In FY 2021, DLA WCF 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*.

Financial Results Summary

Assets – What DLA WCF Owns and Manages

Assets represent amounts owned and managed by DLA WCF that can be used to accomplish its mission as the Nation's Combat Logistics Support Agency and consist of: Fund Balance with Treasury (FBwT); Accounts Receivable, Net and Other Assets; Inventory and Related Property, Net; and General PP&E. DLA WCF's largest asset was Inventory and Related Property, Net, representing \$22.3 billion or 77.3% of Total Assets as of September 30, 2021. Inventory and Related Property, Net consist of supply chain materials, equipment and repair parts, worldwide military supplies, and IH, primarily all held for sale. FBwT represented \$2.7 billion or 9.4% of Total Assets

as of September 30, 2021. At the onset of the COVID-19 pandemic, DLA received significant cash advances from the Department of Health and Human Services (HHS) in support of COVID-19 activities in FY 2020. DLA continues to execute the obligated funding in FY 2021, resulting in a decrease in FBwT of (\$1.2) billion or (30.9%) from September 30, 2020. Accounts Receivable, Net and Other Assets were \$3.0 billion or 10.5% of Total Assets as of September 30, 2021. The overall net change in Accounts Receivable, Net and Other Assets was approximately (\$158.8) million or (5.0%) and was primarily due to decreases in sales to the Air Force and Navy.

**Two Year Trend in Components
of Total Assets (Unaudited)
As of September 30, 2021 and September 30, 2020**
(\$ in millions)

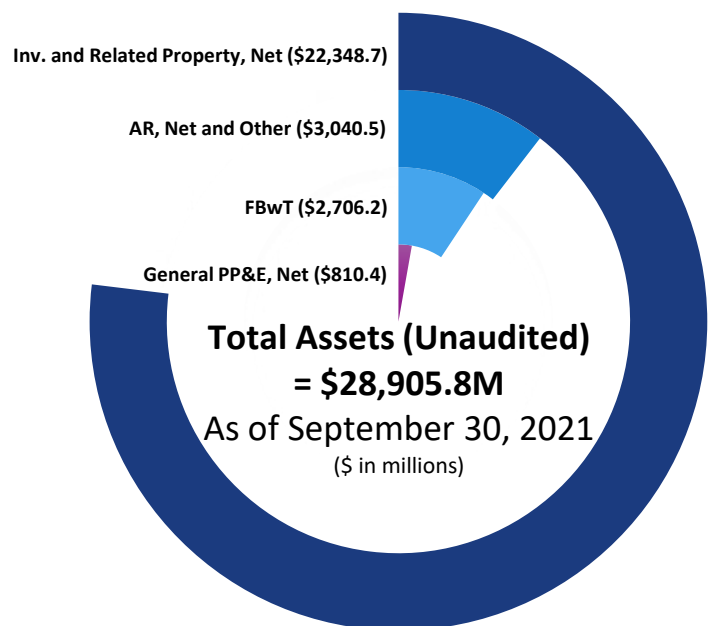
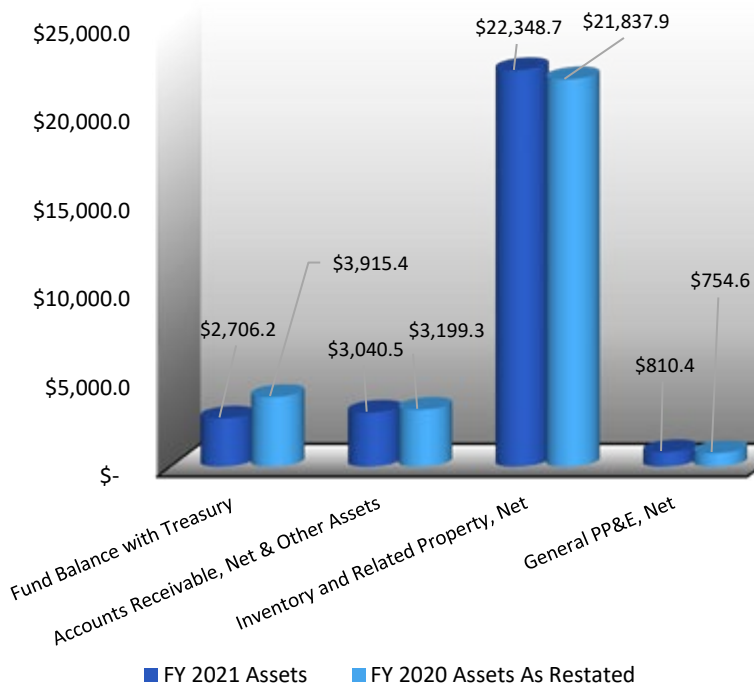


Figure 18: Total Assets by component as of September 30, 2021 and 2020

Liabilities – What DLA WCF Owes

Liabilities are the amounts owed (1) to Federal and public entities for goods and services provided but not yet paid; (2) to DLA WCF employees for wages and future benefits; (3) for Environmental and Disposal Liabilities (EL); and (4) for Other Liabilities. The largest liability as of September 30, 2021 was Accounts Payable reported at \$2.5 billion or 51.1% of Total Liabilities. Federal Benefits and Other Liabilities

as of September 30, 2021 was approximately \$1.1 billion or 22.3% of Total Liabilities. The net decrease of (\$1.4) billion or (23.0%) since September 30, 2020 was primarily due to an increase in the liability for Advances from Others and Deferred Revenue received from HHS in support of COVID-19 activities in FY 2020 as compared to FY 2021.

Two Year Trend in Components of Total Liabilities (Unaudited) As of September 30, 2021 and September 30, 2020

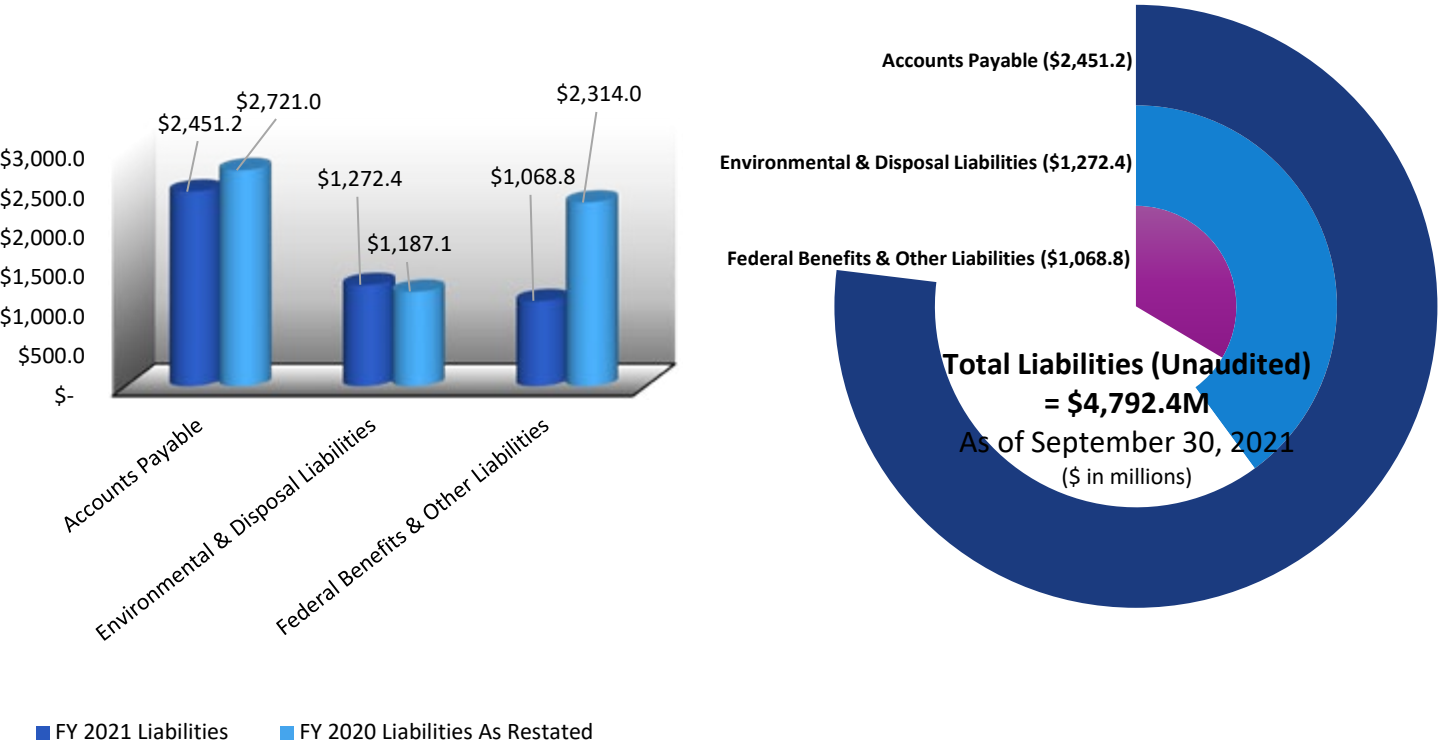


Figure 19: Total Liabilities by component as of September 30, 2021 and 2020

Net Position – What DLA WCF 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 WCF balances reflected in the Statements of Changes in Net Position. As of September 30, 2021, Total Net Position largely consisted of Cumulative Results of Operations of \$23.9 billion, derived from producing goods and providing services for sale to Federal and public entities. This function is the primary source of sustaining DLA WCF in its key role of logistically supporting missions of America's Warfighters.

The net increase in Net Position of \$628.3 million or 2.7% from September 30, 2020 was largely attributable to the correction of errors.

Net Cost of Operations – DLA WCF Net Operating Results

The DLA WCF operates under the mission of Sustain Warfighter readiness and lethality by delivering proactive global logistics in peace and war. DLA WCF has three activity groups: Energy, SCM, and Document Services. The three activity groups comprise a single, integrated business enterprise. For the year ended September 30, 2021, these three activity groups incurred Total Gross Cost of \$50.6 billion and recognized Total Earned

Revenue of \$50.9 billion, resulting in Net Cost of Operations (Total Earned Revenue exceeded Total Gross Cost) of (\$297.4) million. The decrease in Total Earned Revenue exceeding Total Gross Cost of \$503.5 million was mostly attributable to higher acquisition costs in DLA SCM-Troop Support within Medical's overall growth in business volume due to COVID-19 pandemic relief efforts.

**Two Year Trend in Gross Cost by Activity Group
For the Years Ended
September 30, 2021 and 2020**

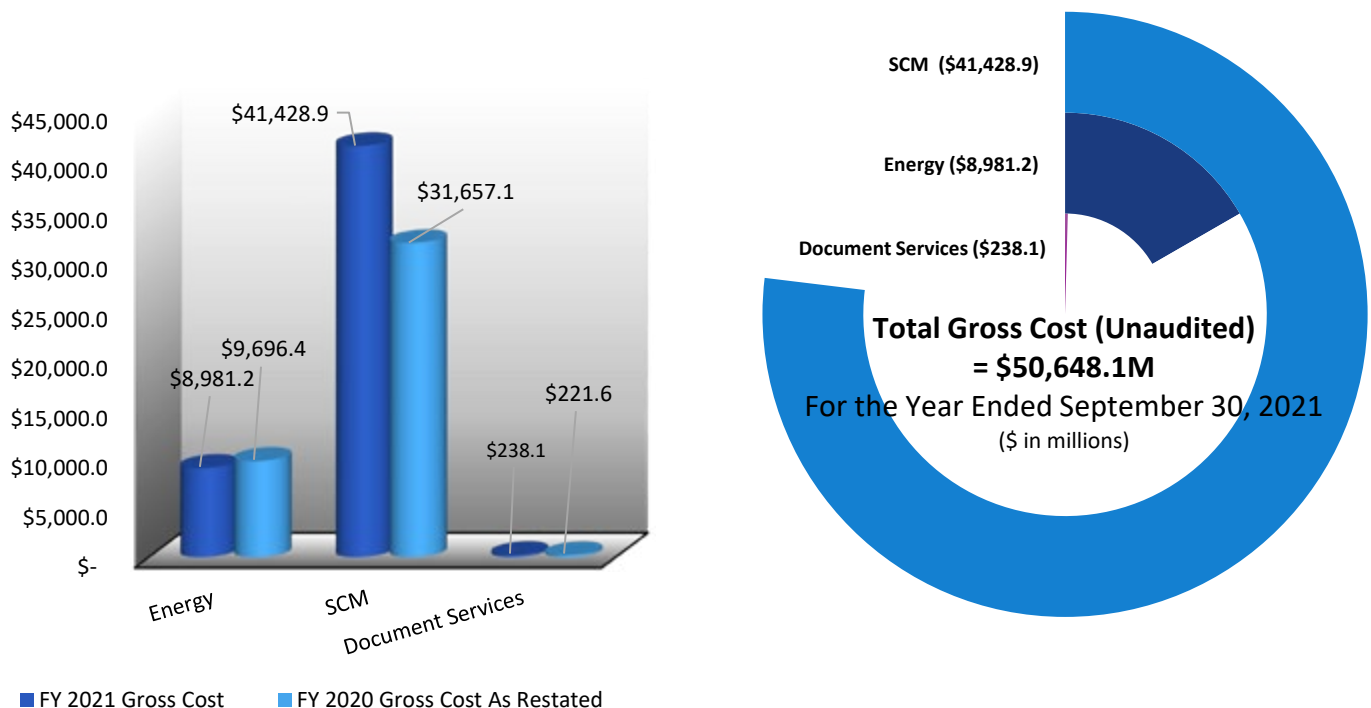


Figure 20: Gross Cost by Activity for the years ended September 30, 2021 and 2020

**Two Year Trend in Earned Revenue by Activity Group
For the Years Ended
September 30, 2021 and 2020**
(\$ in millions)

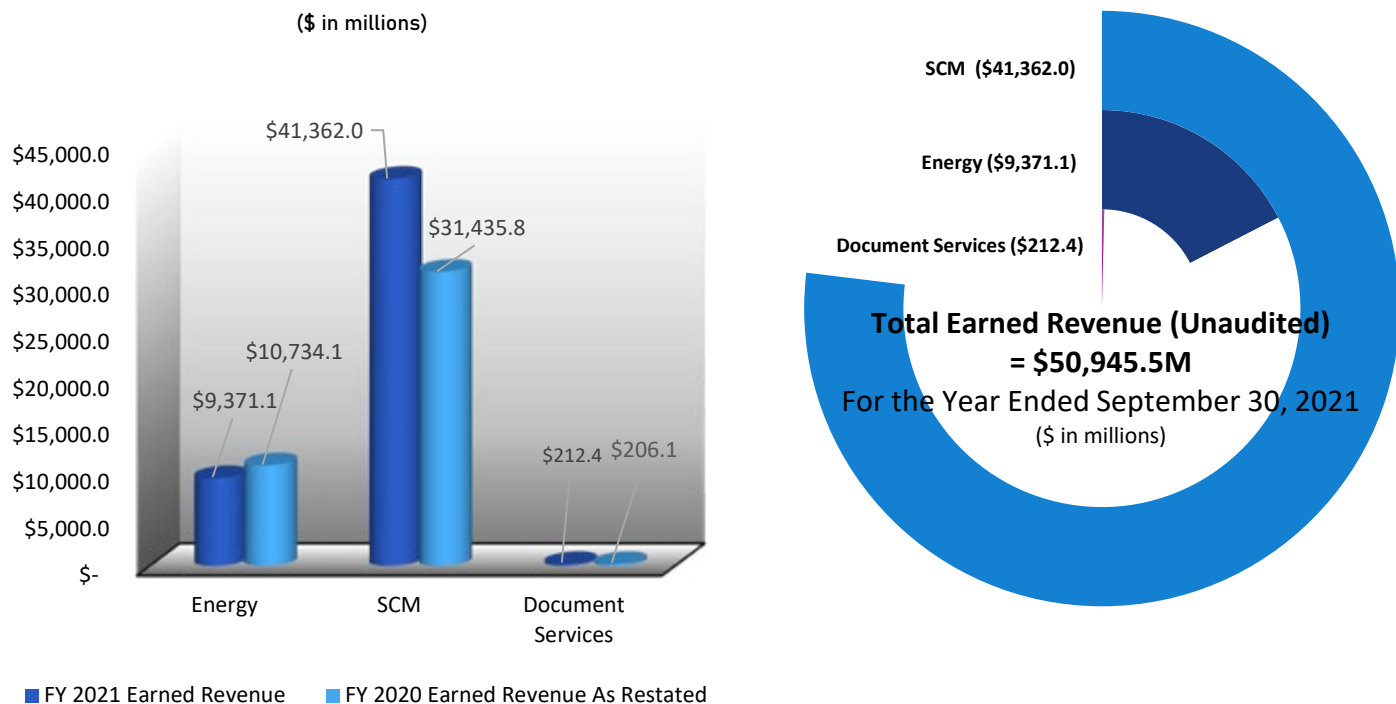


Figure 21: Earned Revenue by Activity for the years ended September 30, 2021 and 2020



Securing PPE

Angela Mello, left, a general duty corpsman assigned to Naval Medical Center San Diego, and Navy Ensign. Kaitlyn Leibing, a staff nurse assigned to one of NMCSD's internal medicine wards, don 3D-printed face shields, donated to the hospital by Naval Information Warfare Systems Command, before entering a COVID-19 positive, non-critical patient's room in San Diego, Aug. 4, 2020. **Photo By:** Navy Petty Officer 3rd Class Jake Greenberg

Budgetary Activity - DLA WCF Budgetary Resources and Obligations

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 WCF 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 to DLA WCF to incur obligations, to pay for goods and services, and to sell products to customers.

Obligations are balances for which there has been legally binding action during the year.

For the year ended September 30, 2021, Total Budgetary Resources were \$48.0 billion and Total Obligations were \$47.7 billion. Total New Obligations increased by \$1.2 billion or 2.6% since September 30, 2020 due to the increase in supply demand as the global markets and economy reopened following the COVID-19 shutdown in FY 2020.

Two Year Trend in Status of Budgetary Resources and New Obligations (Unaudited)
For the Years Ended September 30, 2021 and 2020

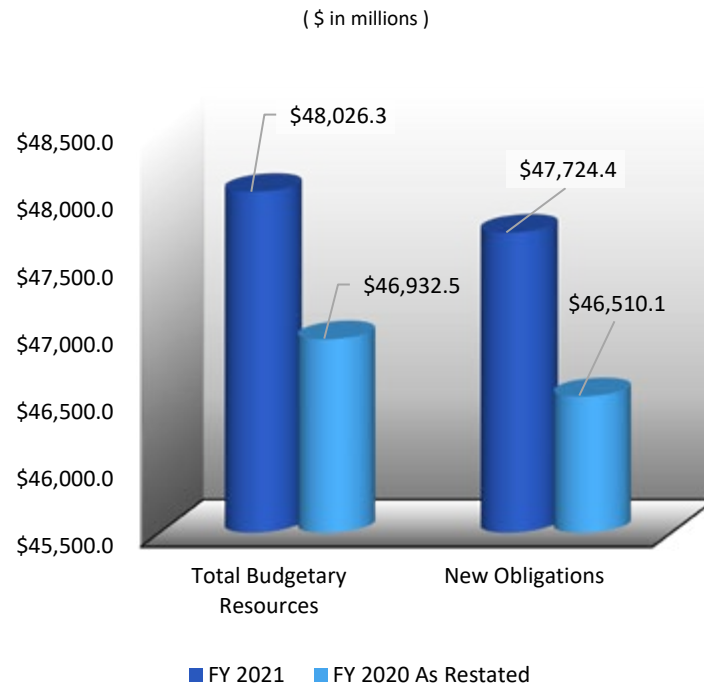


Figure 22: Total Budgetary Resources and New Obligations for the years ended September 30, 2021 and 2020

Limitations of the Financial Statements

The DLA WCF principal financial statements⁴ and accompanying notes are prepared to report the financial position and results of operations of DLA WCF, as required by the CFO Act of 1990, expanded by the GMRA of 1994, and 31 U.S.C. § 3515(b).

The DLA WCF 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 WCF 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 WCF 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 migrating 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 WCF 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 WCF continues to implement interim mitigation processes to address known limitations; additionally, DLA WCF is remediating material weaknesses to the financial statement preparation process. DLA WCF has several corrective actions underway intended to improve the underlying systems, business processes and internal controls.

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

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



Fresh Produce

Soldiers assigned to the Arizona National Guard (AZNG) load boxes with fresh produce at a local food bank in Phoenix, Ariz., May 21, 2021. The AZNG continues to support food banks and vaccination sites across the state during this COVID-19 emergency response. [Photo By: Army Sgt. Laura Bauer](#)

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 WCF AFR.

Management Assurances



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

SEP 30 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 FFMIA, 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.


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.
Contract Administration: Non-verification of supplier invoices	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.
Business Process Controls: Lack of procedures over the scrap management program	The DLA will perform an analysis, develop/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;
- 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 Standards⁵:

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.

⁵ 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 WCF notifies all appropriate authorities of any potential ADA violations. For the one potential DLA WCF ADA violation reported in FY 2020 (Case 20-01 Audit of DLA Use of Security Assistance Funds and Asset Accountability), the preliminary review in FY 2021 did not reveal any ADA violations. The aforementioned case has been resolved and at this time, there are no known ADA violations for DLA WCF.

The DLA WCF 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 WCF 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

For the purpose of administrative offset, 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 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. 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.



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.

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 WCF. 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 for the creation of financial statements, reports and Treasury cash management. DLA EBS ECC 6.0 has a single, enterprise general ledger which resides in SAP 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. The G-Invoicing required use date for Federal Program Agencies (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.

The DLA will begin implementation of the SAP Warehouse Management System (WMS) in FY 2022 with a target to implement all Distribution and Disposition Centers by Q2 FY 2024. Utilizing Cloud based development, DLA is taking advantage of significant inherent benefits related to configuration, integration and deployment to reduce legacy costs and posture the Agency to maintain alignment with next century IT trends. This industry standard software will enable a comprehensive warehousing solution that is integrated within the larger SAP framework of financial accounting. The modernization of software from the legacy DSS will remove system limitations, transactional data impediments and known audit gaps that created challenges while operating in a non-SAP warehousing application. DLA intends to capitalize on the software upgrade to enhance overall operations by leveraging warehouse automation and business process re-engineering to increase inventory accuracy and warehouse productivity.



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

Forward-Looking Information

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

An Ever-Changing Workforce

The DLA is a high-performing organization, and DLA's workforce is its greatest asset. DLA 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 Critical Capability. 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.



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](#)



SECTION 2

Financial Section (Unaudited)

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. The Arizona Guard has responded domestically in such emergencies as airport security after 9/11, Monument Fire in 2011, Hurricane Harvey in 2017 and the Havasupai Floods in 2018.



Photo Credit: Air Force Tech. Sgt. Michael Matkin,
Arizona Air National Guard



SECTION 2

In this section ▼

- 52** Message from the Chief Financial Officer
- 53** Audit Reports
- 94** Management's Response to Audit Reports
- 95** Introduction to the Principal Financial Statements
- 96** Principal Financial Statements (Unaudited)

96	Balance Sheets	Statements of Net Cost	97
98	Statements of Changes in Net Position	Combined Statements of Budgetary Resources	99

- 100** Notes to the Principal Financial Statements (Unaudited)
- 143** Required Supplementary Information

Noble Defender

Alaska Air National Guard Tech. Sgt. Matthew O'Brien practices radio communications in Southcentral Alaska, Jan. 21, 2021, during Noble Defender, a North American Air Defense Command Arctic air defense operation.

Message from the Chief Financial Officer

November 2021 (WCF)



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 Working Capital Fund's (WCF) 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 WCF 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 WCF 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 WCF, 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!

A handwritten signature in black ink, appearing to read 'J. Arthur Hagler', written in a cursive style.

J. ARTHUR HAGLER
Director, DLA Finance
Chief Financial Officer

Audit Reports



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

November 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 Working Capital Fund Financial Statements and Related Notes for FY 2021 and FY 2020 (Project No. D2021-D000FE-0058.000, Report No. DODIG-2022-032)

We contracted with the independent public accounting firm of Ernst & Young, LLP (EY), to audit the Defense Logistics Agency (DLA) Working Capital 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 Working Capital 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 Working Capital 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:

- document and validate Inventory balances and transactions;
- 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 Working Capital 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

* 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.

agreements. Our review disclosed no instances where EY did not comply, in all material respects, with GAGAS. 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, CPA
Assistant Inspector General for Audit
Financial Management and Reporting

Attachments:

As stated



Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

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 Working Capital 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.

2111-39020722111-3902072

A member firm of Ernst & Young Global Limited



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.

2111-3902072

A member firm of Ernst & Young Global Limited



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

2111-3902072

A member firm of Ernst & Young Global Limited



Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

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 Working Capital 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 consider 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

2111-3902072

A member firm of Ernst & Young Global Limited



material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below and in Appendix A as items I through VII to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below and in Appendix B as 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. **Inventory** – Inventory is comprised of items held by DLA for resale. DLA also holds inventory items on behalf of the military services. Policies, procedures and internal controls surrounding documentation of procurements and disbursements, tracking of inventory by owner, validating the perpetual inventory systems by performing periodic physical counts, accumulating cost of inventory and supporting inventory balances and transactions all had deficiencies. The combination of these deficiencies in aggregate results in a material weakness in internal control related to inventory. The matters identified related to inventory 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 the U.S. Treasury. DLA, in conjunction with Defense Finance and Accounting Services (DFAS), has implemented the Cash Management Reconciliation (CMR) and Department 97 Report Reconciliation Tool (DRRT) processes as mechanisms to reconcile DLA's general ledger to U.S. Treasury. However, these tools have known control deficiencies and reconciling issues. In addition, DLA does not have sufficient policies, procedures and internal controls in place for the end-to-end FBwT process. The combination of these deficiencies in aggregate results in a material weakness in internal control related to FBwT. The matters identified related to FBwT are further described in Appendix A.
- III. **Accounts Receivable (AR) and Revenue** – AR consists of amounts owed to DLA primarily related to the resale of goods and the provision of services. Revenue is earned when DLA sells goods and services to the public or other federal entities. DLA was unable to support the balances recorded as AR and validate the significant balance of aged receivables and unfilled customer orders. In addition, DLA did not have procedures to estimate valuation allowances against receivables and had not supported transactions recorded. Furthermore, DLA did not have adequate policies, procedures and controls to record AR and revenue

2111-3902072

A member firm of Ernst & Young Global Limited



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

- IV. Accounts Payable (AP) and Expense – AP represents the amount owed to third parties by DLA for goods and services received. Expenses are incurred and recognized when DLA obtains goods and services from the public or other federal entities. DLA was unable to support the AP balance, expenses and related budgetary balances. In addition, DLA did not have overall policies, procedures and internal controls for the procure to pay process, including the process to create and approve obligations and the process to review, record and pay invoices. Furthermore, DLA lacked adequate procedures to record obligations and accrue for liabilities incurred but not paid; 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 on the financial statements and incomplete and inaccurate footnote disclosures. 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. In addition, DLA does not have controls to review and approve transactions recorded with elevated access privileges. 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, 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.

2111-3902072

A member firm of Ernst & Young Global Limited



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 significant deficiencies, as defined above:

- I. Property, Plant and Equipment (PP&E) – PP&E includes general equipment, internal use software and construction-in-progress. DLA has not completed an analysis of the existence and completeness of PP&E assets or their process to value PP&E beginning balances 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 operating lease. Therefore, DLA is unable to support the existence, completeness, rights and obligations, or valuation of its PP&E. In addition, DLA does not have signed memorandums of agreement with the military services that outline the reporting responsibilities, such as depreciation and maintenance costs, for real property assets for which DLA is the primary user. The matters identified related to PP&E are further described in Appendix B.
- II. 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 reconcile these liabilities to the corresponding real property and to validate its estimation methodology. The matters identified related to EL 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.

2111-3902072

A member firm of Ernst & Young Global Limited



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

2111-3902072

A member firm of Ernst & Young Global Limited



Appendix A – Material Weaknesses

I. Inventory

DLA's inventory is comprised of petroleum and aerospace products, weapon system repair parts, food, clothing and medical supplies. Inventory also includes material from the military services designated for disposal or reutilization. In accordance with FMFIA, management is responsible for establishing effective controls over and accountability for all assets for which the agency is responsible. DLA's controls and processes do not exist or are not operating in several significant areas, specifically:

- A. **Lack of or Inadequate Documentation of Inventory Accounting Policies, Procedures and Controls.** DLA has not documented the processes related to the significant business activities for acquisition, movement, warehousing and disposition of inventory; the related risks for each business activity; and the control activities designed to mitigate risks of material misstatement in the financial statements. The documentation lacks an accurate description of the following: financial reporting, records management, physical count policies, accounting for third-party managed inventory, the Inventory Reconciliation Framework (IRF) and various other business processes.
- B. **Lack of or Inadequate Documentation to Substantiate Inventory and Inventory-Related Transactions.** DLA was unable to provide documentation that inventory balances exist, or inventory transactions occurred and are accurately recorded in the financial statements. Specifically, documentation was not available to support:
 - The completeness and accuracy of transactions recorded or the existence of balances in the general ledger and the accountable property system of record (APSR).
 - Shipping terms for sales transactions to evidence when the title and risk of loss are transferred to the buyer.
 - Balances recorded in the inventory detail reports from the financial reporting system that do not reconcile to the site-specific end-of-month report and component financial statements.
 - Balances of fuel inventory held in pipelines or in-transit.
 - Posting of transactions in the general ledger resulting from financial events (i.e., sales, purchases, gains and losses, including gains and losses resulting from physical inventory counts).
- C. **Lack of or Inadequate Policies, Procedures and Controls Over Inventory Processes.** DLA lacks or has inadequate policies, procedures and controls, including the design of controls, over the following:
 - **Inadequately Designed Controls Over Inventory Processes.** For controls that have been implemented over significant Energy and Distribution processes, the controls are not

2111-3902072

A member firm of Ernst & Young Global Limited



designed to align with DLA policies or are not executed consistently. In addition, sufficient documentation does not exist to evidence the performance of the control activities.

- **Inventory Held for Others.** Inventory held on behalf of the military services is not always stored in physically segregated locations and instead, is commingled with similar inventory that could be owned by multiple owners. DLA lacks controls over the commingled inventory. DLA does not have policies and procedures to reconcile quantities of inventory by owner to the total physical inventory counts on a regular basis. As a result, gain/loss adjustments are not assigned to the appropriate owner and not recorded in compliance with DLA's policy.
- **In-Transit and Pipeline Inventory (In-Transit).** In-transit inventory relates to items that were accepted at the point of origin (free on board shipping point) and are in-transit to a DLA destination. Controls related to monitoring and reconciling in-transit inventory balances do not exist. As a result, inventory recorded as in-transit from procurement points of origin has remained in-transit for several fiscal years, including amounts dating back to 2012.
- **Energy Inventory.** DLA policy requires that monthly or quarterly automated tank gauging (ATG) verifications be performed. In addition, DLA requires that manual readings of fuel tank levels be obtained by calibrated tape or calibrated rod in the absence of functional ATG systems. However, DLA lacks controls to monitor field-level sites for compliance with DLA Energy policies. In addition, DLA does not monitor or review documentation to validate that field-level sites are performing the monthly or quarterly verifications or that manual readings are obtained in the absence of functional ATG systems.
- **Posting Inventory Adjustments in the General Ledger.** DLA policy requires that errors between the APSR and the general ledger be reviewed and corrected by assigned users. Adjustments to correct the errors above a certain dollar threshold are reviewed by a supervisor. However, DLA does not have controls in place to prevent users from posting adjustments above the threshold or to detect that adjustments posted above the threshold were not reviewed.
- **Inventory Recorded in the Appropriate Period.** Policies and procedures are not in place to record transactions in the period that the transaction occurred or to accrue for transactions that occurred but were not posted at period-end.

D. Inadequate Policies, Procedures and Related Controls Over Inventory Physical Counts.

The Department of Defense Financial Management Regulation (DoD FMR) requires that all inventory be counted at least annually, either in a full physical count or through cycle counts, to validate perpetual inventory accuracy. DLA has not adequately designed controls related to physical counts to validate the existence and completeness of inventory related to Supply or Disposition as required. For example:

- **Supply Inventory.** DLA policy requires an annual physical count of all items on hand as of the beginning balance sheet date. DLA is not in compliance with this policy or the DoD FMR.
- **Disposition Inventory.** Inventory physical counts are not required to be performed on all Disposition inventory received from the military services.

2111-3902072

A member firm of Ernst & Young Global Limited



E. Lack of Controls for the Reconciliation Between Inventory APSR and the General Ledger. DLA utilizes the IRF to reconcile the inventory quantity balance in the general ledger to the inventory quantity balance in the APSRs. However, the IRF was not performed completely, accurately or timely. For example:

- The inventory reconciliations are not completed on a timely basis or within the normal financial statement close period (approximately 40-45 days from month-end).
- There were significant unreconciled variances totaling \$281 million in the reconciliation for June 2021.
- The IRF does not include all appropriate general ledger accounts, including inventory in-transit between storage locations and inventories/stock on hand.

F. Lack of Controls over Inventory Held by Third Parties. DLA does not have a detailed listing of inventory by vendor that reconciles to the inventory recorded in DLA's general ledger, nor does DLA have a listing of all vendors who hold inventory on DLA's behalf. DLA is unable to support the balances of inventory held at third parties for each vendor. In addition, DLA recorded inventory at inactive vendors (i.e., vendors with which DLA no longer has a contractual relationship). As a result, DLA is unable to substantiate the existence and completeness of inventory held at third parties.

G. 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 an inaccurate presentation of inventory on the balance sheet and in the related footnote disclosure. Specifically, DLA has neither implemented nor applied the costing and valuation methodologies set forth by Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*, and SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. For example:

- DLA values inventory using the moving average price (MAP). However, DLA is unable to provide supporting documentation of costs that are included or excluded to calculate the MAP.
- DLA began implementing inventory costing methodologies in accordance with SFFAS No. 48 in fiscal year (FY) 2016. However, DLA did not completely and accurately value inventory in accordance with SFFAS No. 48. For example, the values assigned for certain inventory items were based on the latest acquisition cost (LAC). The LAC values did not properly consider inventory acquired through the implementation date.
- DLA assigned zero-dollar values to unique material numbers and was not able to provide the basis for the zero-dollar valuation for all materials.
- Work in process (WIP) inventory items or components are provided to a production facility for kitting, assembly or modification, or to make an end item. Policies and procedures are not in place to record all costs, such as the assembly and labor costs, incurred during the kitting, assembly or modification process.

2111-3902072

A member firm of Ernst & Young Global Limited



- Valuation allowances for various inventory items, including excess, obsolete and unserviceable (EOU) inventory, inventory held for repair, inventory held at net realizable value, etc., are not appropriately documented or supported. The documentation for the valuation allowance for inventory held for repair does not sufficiently describe the methodology used to estimate the allowance or describe the rationale for adopting the methodology being used and the factors used in the estimation process.

H. Inadequate or Lack of Controls Over Financial Reporting of Inventory. DLA lacks controls to classify and present inventory appropriately in the financial statements. DLA accounting policy states that inventory balances are based on the following categories: inventory held for current sale, inventory held for future sale, EOU and inventory held for repair. DLA uses the inventory condition codes as the basis to classify inventory between each category. Controls are not in place to assign inventory the appropriate condition codes. In addition, DLA is unable to determine whether inventory classified as EOU meets the definition in SFFAS No. 3. As a result, DLA was unable to substantiate the amounts classified, presented or disclosed.

Recommendations

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

- A. Lack of or Inadequate Documentation of Inventory Accounting Policies, Procedures and Controls.** Document, update and finalize the process cycle memoranda (PCM) that document the end-to-end processes for inventory, including receiving, distributing, recording, processing and reporting. Perform a risk analysis and document risks associated with the DLA inventory business process. Review current control documentation and perform a gap analysis for internal controls at the financial statement assertion level.
- B. Lack of or Inadequate Documentation to Substantiate Inventory and Inventory-Related Transactions.**
- Develop and maintain documentation to support that inventory transactions occurred and are accurately recorded in the financial statements, including:
 - Standardizing data elements included in data extracts from APSRs and the general ledger. For example, data elements to tie material movements to the related financial postings.
 - Standardizing documentation requirements to support financial events.
- C. Lack of or Inadequate Policies, Procedures and Controls Over Inventory Processes.**
- **Inadequately Designed Controls Over Inventory Processes.** Design and implement internal control activities and include criteria, analyses, reviews and supporting thresholds used in the execution of all relevant internal controls. The control activities should align to and be executed consistently with DLA policies, and maintain sufficient documentation to evidence these control activities.

2111-3902072

A member firm of Ernst & Young Global Limited



- **Inventory Held for Others.** Develop policies and procedures related to inventory held for others to include the following:
 - Properly identifying the inventory owner of the material, as appropriate, such as identifying the owner on material labels upon receipt or segregating the inventory by owner.
 - Recording inventory gains/losses for inventory held on behalf of others to the appropriate owner to properly account for the gains/losses in accordance with DLA policy.
 - **In-Transit and Pipeline Inventory.** Develop and implement policies and procedures to properly validate and reconcile in-transit and pipeline inventory and to validate that balances are complete and accurate.
 - **Energy Inventory.** Design policies, procedures and controls to monitor field-site compliance with DLA Energy policies. The controls should monitor the performance of monthly or quarterly verifications. In addition, DLA should monitor the performance of manual readings on tanks with malfunctioning ATGs.
 - **Posting Inventory Adjustments in the General Ledger.** Design application-level controls that prevent users from posting transactions above their approved thresholds. Further, DLA's inventory process should include procedures to review transactions posted to verify that unauthorized transactions were not posted.
 - **Inventory Recorded in the Appropriate Period.** Design policies, procedures and controls to process and post transactions to the correct period in the general ledger and that an accrual is recorded at period-end for transactions that should be posted but have not been resolved to reflect recording in the proper period.
- D. Inadequate Policies, Procedures and Related Controls Over Inventory Physical Counts.** DLA should design and implement policies, procedures and controls as follows:
- The inventory count for Supply and Disposition should include a requirement whereby quantities in the perpetual inventory system are supported via physical counts at least once a year, either through a wall-to-wall, year-end count or adequately designed cycle counts in compliance with the DoD FMR.
- E. Lack of Controls for the Reconciliation Between Inventory APSR and the General Ledger.** Design policies and procedures to perform the IRF completely, accurately and timely. The policies should consider the following:
- Reconciling or resolving variances timely, including establishing thresholds for variances that require a review to be performed.
 - Including all inventory general ledger accounting codes in the IRF.
- F. Lack of Controls Over Inventory Held by Third Parties.** Design controls over inventory held by third parties by performing a reconciliation of third-party managed inventory balances to the general ledger balances and developing a comprehensive listing of vendors and military services that hold DLA-owned inventory on behalf of DLA. The control activities should include assessing the existence and completeness of inventory held at third parties.

2111-3902072

A member firm of Ernst & Young Global Limited



G. Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards. Design policies and procedures to implement the appropriate accounting standards, specifically SFFAS No. 3 and SFFAS No. 48. The policies and procedures should include:

- Substantiating that the inputs to the MAP calculation include or exclude costs as appropriate.
- Establishing opening inventory balances by valuing inventory using the deemed cost valuation methodologies in accordance with SFFAS No. 48 and verifying that inventory valuation complies with SFFAS No. 3 subsequent to the implementation of SFFAS No. 48.
- Assigning a proper value and unit of measure at the time of receipt.
- Tracking and recording all costs incurred during the kitting or assembly process to the WIP inventory.
- Documenting the methodology, rationale and processes used to estimate valuation allowances for items, including EOU inventory, inventory held for repair, inventory held at net realizable value, etc.

H. Inadequate or Lack of Controls Over Financial Reporting of Inventory. Design and implement controls to assign inventory items to the appropriate condition code, including controls over EOU inventory classification in accordance with SFFAS No. 3.

II. Fund Balance with Treasury

Fund Balance with Treasury (FBwT) represents the aggregate amount of funds in DLA's account with U.S. Treasury. Treasury's Financial Manual (TFM) Chapter 5100, Section 5120 requires agencies to implement effective and efficient reconciliation processes and perform timely reconciliations. However, deficiencies exist in 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; correct and review Defense Automatic Addressing System (DAAS) rejects; research and resolve differences between U.S. Treasury, disbursing system records, and accounting system records within a timely basis; and properly review cash balances throughout the year to prepare cash projections and determine whether DLA has enough cash to meet financial obligations.

B. Inappropriate Policies and Procedures for Recording Cash Collections. DLA does not have an appropriate process to record FBwT (cash collections) upon receipt. Interfund transactions are not processed by U.S. Treasury until month-end reporting; however, DLA records the cash collection transaction in the general ledger prior to when the transactions occur, resulting in a misstatement of FBwT.

2111-3902072

A member firm of Ernst & Young Global Limited



- C. 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 deficiencies identified 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; the process to identify and correct DAAS rejects timely; the process to research and resolve differences between U.S. Treasury, disbursing system records and accounting system records on a timely basis; and the process to determine that DLA has sufficient cash on hand to meet current financial obligations.
- B. Inappropriate Policies and Procedures for Recording Cash Collections.** Design and implement policies and procedures to properly record a debit to FBwT and a credit to accounts receivable (AR) when the cash transaction has occurred and cash has been received at U.S. Treasury.
- C. 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 processes and controls relevant to DLA, including the CMR and DRRT, and reconcile the transactions recorded in the general ledger to the transactions sent to 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 sells goods and services to the public or other federal entities. AR and revenue fall within the scope of DLA's order to cash process. In accordance with FMFIA, management is responsible for establishing and maintaining internal controls that provide reasonable assurance that revenues applicable to the agency's operations are properly recorded and accounted for to permit the preparation of reliable financial reports and maintain accountability of assets. Because of the nature of DLA's services, DLA has a significant volume of transactions in the order to cash process. This balance represents a substantial portion of their activity that involves receipt of funds by DLA in order to provide inventory to their 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

2111-3902072

A member firm of Ernst & Young Global Limited



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 (UCO), revenue and AR transactions.

- **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. Additionally, documentation does not include the processes to account for and report UCOs with public customers.
- **AR.** Documentation does not include the process to evaluate the collectability and validity of significantly aged AR (receivables include a significant amount of aged receivables (greater than 180 days)); the process to review, reconcile or clear negative accounts receivable balances in a periodic and consistent manner; and the process to account for, calculate and post the allowance for doubtful accounts.
- **Nonstandard Revenue.** Documentation does not include the process for the proper accounting treatment for cash advances received and sales transactions related to nonstandard revenue, such as emergency management situations and disaster relief efforts.
- **Scrap Sales Process.** Documentation does not include the process for the proper accounting treatment for sales transactions related to the scrap sales process.
- **Non-Monetary Exchange Transactions.** Documentation does not include the process for the accounting treatment for non-monetary exchange transactions.
- **Offsetting Transactions.** Documentation does not include the process and controls to analyze AR and AP transactions to determine proper offsetting, recording and presentation in accordance with the customer or vendor agreement. Additionally, the documentation does not include processes to account for the related budgetary accounts.

B. Lack of or Inadequate Controls Over AR, Revenue and Cash Collection Processes. DLA lacks or has inadequate controls, including the design of controls, over the following:

- **AR and Cash Collections.** DLA lacks controls to substantiate the validity of AR balances, including the use of a single account for multiple customers, and to apply collections from customers accurately and timely. As a result, invalid AR transactions were recorded in the financial statements.
- **Intragovernmental Transactions.** Intragovernmental transactions, including Military Interdepartmental Purchase Requests (MIPRs), are sales orders received from other federal agencies. DLA lacks controls to prevent services from being performed beyond the terms of the agreement and to prevent duplicate transactions from being recorded in the general ledger. As a result, duplicate sales orders were recorded in the general ledger. In addition, there were instances where revenue recorded, in aggregate, exceeded the total funding amount, or the services were performed outside the period of performance. For example, in 4 of our 14 samples of revenue arrangements, DLA was unable to provide sufficient documentation to support whether the appropriate accounting guidance was used.

2111-3902072

A member firm of Ernst & Young Global Limited



- **Revenue Recorded Accurately and in the Appropriate Period.** DLA lacks controls to review pricing updates and record revenue transactions appropriately and accurately in the period that the transaction occurred. As a result, a significant number of transactions were not posted using the correct price or were not recorded in the proper accounting period. In addition, the controls to validate that the accruals are recorded at the appropriate amount and in the correct period are not designed effectively.
 - **Fuel Exchange Agreements.** DLA does not have adequately designed controls around the fuel exchange agreement (FEA) process. For example, DLA does not reconcile the amounts receivable from, or payable to, foreign governments. In addition, sufficient documentation does not exist to evidence the performance of the control activities. As such, DLA is unable to demonstrate that the control was operating effectively.
- C. Lack of or Inadequate Documentation to Substantiate AR and Revenue Transactions.** DLA was unable to provide documentation that AR and UCO balances exist, or that revenue transactions occurred and are accurately recorded in the financial statements. Specifically, documentation was not available to support that:
- The AR balances (federal and with the public), UCO and deferred revenue transactions are complete and accurate, and reconcile to the general ledger and that the balances exist.
 - The revenue transactions recorded, including emergency management situations and disaster relief efforts, are complete and accurate and have occurred.
- 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 neither implemented nor applied the accounting set forth by SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. DLA performs services for other federal agencies without funding and records receivables from these transactions. DLA is unable to support revenue recognized from unfunded agreements, nor is an analysis performed on the collectability of the receivable related to those agreements. Uncollected billings related to unfunded agreements have been outstanding since FY 2017.

Recommendations

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

- A. Lack of or Inadequate Documentation of AR and Revenue Accounting Policies, Procedures and Controls.** Document, update and finalize the PCMs that document the end-to-end processes for AR and revenue.
- **UCOs.** The documentation should include the process to reconcile UCOs between the general ledger and sales legacy module completely, accurately and timely, to review the aged UCO balances for validity and to account for UCOs with public customers.
 - **AR.** The documentation should include the process to evaluate the collectability and validity of significantly aged AR (AR includes a significant amount of aged receivables

2111-3902072

A member firm of Ernst & Young Global Limited



(greater than 180 days)); the process to review, reconcile or clear negative AR balances in a periodic and consistent manner; and the process to account for calculating and posting the allowance for doubtful accounts.

- **Nonstandard Revenue.** The documentation should include the financial reporting requirements during emergency management situations, including disaster relief efforts. The policies should include acceptable deviations from the normal business process, documentation requirements and timelines for completion.
- **Non-Monetary Exchange Transactions.** The documentation should include the accounting and financial reporting requirements for non-monetary exchange transactions.
- **Scrap Sales Process.** The documentation should include the accounting and financial reporting requirements for the scrap sales process.
- **Offsetting Transactions.** The documentation should include the process and controls implemented to analyze customer and vendor agreements to determine proper offsetting, recording, and presentation of AR and AP transactions and the accounting for the related budgetary accounts.

B. Lack of or Inadequate Controls Over AR, Revenue and Cash Collection Processes.

- **AR and Cash Collections.** Design and implement controls to assess the existence and completeness of the receivable balances, including significantly aged receivables; controls to limit transactions in a customer account to a single customer, rather than a group of customers; and controls to properly, accurately and timely post payments and credits to customer accounts.
- **Intragovernmental Transactions.** Design and implement controls for intragovernmental transactions that include system controls to prevent services from being provided beyond the terms of the agreement (e.g., period of performance, funding amount) and to prevent duplicate transactions from being recorded in the general ledger.
- **Revenue Recorded Accurately and in the Appropriate Period.** Design and implement controls to properly record revenue transactions in the appropriate period; controls to review and validate pricing updates; controls to monitor sales transactions at or near period-end; controls to record revenue based on the proper triggering event; controls to manage and maintain documentation to substantiate the revenue transaction; and controls to validate that the accruals are recorded at the appropriate amount and in the correct period.
- **Fuel Exchange Agreements.** Design, document and implement controls around the FEA process and include criteria, analyses, reviews and supporting thresholds used in the execution of all relevant internal controls.

C. Lack of or Inadequate Documentation to Substantiate AR and Revenue Transactions.

- Develop documentation, including detailed listings of account balances, to substantiate that the population of AR (federal and with the public), UCO and deferred revenue transactions are complete and accurate and that the balances in the population exist. The listing should be reconciled to the general ledger.

2111-3902072

A member firm of Ernst & Young Global Limited



- Develop documentation to substantiate that the population of revenue transactions recorded, including emergency management situations and disaster relief efforts, are complete and accurate and have occurred.

D. Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards. Design and implement policies, procedures and controls to properly recognize revenue earned and to assess the collectability of the receivable related to unfunded work orders in accordance with SFFAS No. 7 and the DoD FMR.

IV. Accounts Payable and Expense

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

- **UDO.** The documentation does not include the process to review the validity of significantly aged UDO. As a result, there is a significant number of UDO transactions that had no current-year activity.
- **AP.** The documentation does not include the process to evaluate the validity of AP, including significantly aged AP and negative payables; the process to record invoices, including interfund transactions received, in the general ledger and submitted to DFAS for timely payment; and the process to pay invoices timely or assess interest penalties for late payments in accordance with the Prompt Payment Act.
- **Non-Monetary Exchange Transactions.** Documentation does not include the process for the proper accounting treatment for non-monetary exchange transactions.
- **ULO.** The documentation does not include the process to review the validity of significantly aged ULO.
- **Offsetting Transactions.** Documentation does not include the process and controls to analyze AR and AP transactions to determine proper offsetting, recording and presentation in accordance with the customer or vendor agreement.

2111-3902072

A member firm of Ernst & Young Global Limited



- **Foreign Currency Transactions.** Documentation does not include the processes and controls to account for transactions made in foreign currency, including the respective gains and losses.
- B. Lack of or Inadequate Controls Over UDO, ULO, AP, Expenses and Cash Disbursement Processes.** DLA lacks or has inadequate controls, including the design of controls, over the following:
- **Inadequately Designed Controls Over AP and Expense Processes.** Controls that have been implemented are not designed effectively. 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.
 - **UDO.** DLA lacks controls to approve and record obligations in a timely manner; controls to record downward and upward adjustments to UDO accurately and timely; and controls to close invalid UDO in a timely manner.
 - **Vendor Contracts.** DLA lacks controls to execute contracts in accordance with the Federal Acquisition Regulation (FAR) and record obligations timely for contracts, including Indefinite Quantity Contracts (IQC). For example, IQCs awarded did not have an obligation recorded at the contract award date because the IQC did not have a guaranteed minimum at contract award date.
 - **AP and Cash Disbursements.** DLA lacks controls to post goods receipts in a timely manner; review invoices prior to payment; and post payments, including payments that fail to post systematically, in a timely manner.
 - **AP and Expenses Recorded in the Appropriate Period.** DLA lacks controls to record AP and expense transactions appropriately and accurately in the period that the transaction occurred.
 - **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 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. Additionally, DLA lacks controls to properly classify vendors as federal or with the public at the transaction level.
- C. Lack of or Inadequate Documentation to Substantiate AP and Expense Transactions.** DLA was unable to provide documentation to support the existence of AP balances, or that 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, including AP, negative payables, UDO (paid and unpaid) and upward and downward adjustments to delivered and undelivered orders.
- D. Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards.** DLA does not have policies, procedures and controls to effectively implement accounting standards. Specifically, DLA has neither implemented nor applied the accounting

2111-3902072

A member firm of Ernst & Young Global Limited



set forth by SFFAS No. 1, *Accounting for Selected Assets and Liabilities*, No. 4, *Managerial Cost Accounting Standards and Concepts*; SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*; SFFAS No. 5, *Accounting for Liabilities of the Federal Government*; and SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. For example:

- DLA inappropriately expensed costs that should have been capitalized. For example, inventory purchased for resale was inappropriately expensed.
- AP and accrued liabilities are not recorded appropriately. For example, DLA policy allows for a liability to be recorded without confirming whether a transfer of title has occurred or service has been rendered. Further, DLA policy requires that only activities submitted by the contractors on the last day of the month are accrued and liabilities incurred prior to the last day of the month are not accrued.
- DLA does not match revenue with the related cost of sales where the customers place the order directly with the vendor, such as medical, clothing and textile sales. DLA does not record the revenue earned at the same time the liability is recorded.
- 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. This results in an understatement of expenses and payables, and a misstatement of UDO.

Recommendations

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

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

- **UDO.** The documentation should include the process to review the validity of significantly aged UDO, including a process to write off residual UDO for completed transactions.
- **AP.** The documentation should include the process to evaluate the validity of AP, including significantly aged AP and negative payables; the process to record invoices, including interfund transactions received, in the general ledger and submitted 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.
- **Non-Monetary Exchange Transactions.** The documentation should include the accounting and financial reporting requirements for non-monetary exchange transactions.
- **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.
- **Offsetting Transactions.** The documentation should include the process and controls implemented to analyze customer and vendor agreements to determine proper offsetting, recording, and presentation of AR and AP transactions.

2111-3902072

A member firm of Ernst & Young Global Limited



- **Foreign Currency Transactions.** The documentation should include the process and controls to identify, monitor, and account for foreign currency transactions.

B. Lack of or Inadequate Controls Over UDO, ULO, AP, Expenses and Cash Disbursement Processes.

- **Inadequately Designed Controls Over AP and Expense Processes.** Design and implement internal control activities and include criteria, analyses, reviews and supporting thresholds used in the execution of all relevant internal controls. In addition, 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.
- **UDO.** Design and implement controls to approve and record obligations in a timely manner; controls to record upward and downward adjustments to UDO accurately and timely; and controls to close invalid UDO 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 IQC. 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 post payments, including payments that fail to post systematically, in a timely manner.
- **AP and Expenses Recorded in the Appropriate Period.** Design and implement controls to record AP and expense transactions appropriately and accurately 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 balances exist, or that expense transactions occurred and are accurately recorded in the financial statements.

D. Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards. Design and implement policies, procedures and controls to record expenses incurred in the proper period; to properly classify costs; and to match revenue with the related cost of sales in accordance with SFFAS No. 1, No. 4, No. 5 and No. 7.

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

2111-3902072

A member firm of Ernst & Young Global Limited



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 their financial position and results of operations.

A. Lack of or Inadequate Documentation of Financial Reporting and Budgetary Processes.

DLA has not documented the end-to-end processes for funds management. Specifically, DLA has not documented the end-to-end processes to account for budgetary receipt. The documentation does not sufficiently include a description of the process to record budget authority, the transfer process, and 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 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 account 425400 – Reimbursements and Other Income Earned – Collected From Non-Federal Sources during FY 2021. In addition, the posting logic for various inventory transactions, such as recoupment from returns, disposal and material transfers, and service revenue transactions do not meet the corresponding TFM business events.

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

- **Beginning Balances for Budgetary Accounts.** DLA does not have controls to verify the accuracy of the beginning balances for budgetary accounts, such as Total Actual Resources Collected and Contract Authority Carried Forward accounts. As a result, DLA is unable to substantiate beginning balances recorded on the financial statements.
- **Trading Partner Transactions.** DLA does not have controls in place to validate and reconcile trading partner eliminations. Adjustments made to AR, AP, 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 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.
- **Interfaces Between Feeder Systems and the General Ledger.** DLA does not have adequate controls to interface and post transactions between feeder systems and the general ledger appropriately. As a result, failed interface transactions are not reviewed and resolved in a timely manner.

2111-3902072

A member firm of Ernst & Young Global Limited



- **Financial Statement Close Process.** DLA does not have adequately designed controls around the annual close and reconciliation processes, such as the monthly or quarterly reconciliation between the unadjusted trial balance (UTB) and the adjusted trial balance (ATB) 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. 53 Budget and Accrual Reconciliation and SFFAS 55 Amending Inter-Entity Cost Provisions.
- **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 JVs in the general ledger and the 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 and proper recording 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 were 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 adequate controls to review and approve transactions recorded with elevated access privileges. There were more than 13.4 million transactions recorded totaling approximately \$2.6 trillion using user roles with elevated access privileges.
- **Accounting for Direct Appropriations.** DLA does not have adequate controls to account for the receipt and expenditure of direct appropriations in the general ledger accurately and in a timely manner.
- **Accounting for Assets Held in Deposit Funds and Related Liabilities.** DLA does not have adequate controls in place to account for assets held in deposit funds and the related liabilities in accordance with SFFAS No. 1 and No. 5.

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.

2111-3902072

A member firm of Ernst & Young Global Limited



Recommendations

Consider the following corrective actions related to the deficiencies identified 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 United States Standard General Ledger (USSGL).** Design and implement controls that configure posting logic in the general ledger 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 litigation to identify, estimate, record and disclose contingent liabilities in the financial statements.
 - **Interfaces Between Feeder Systems and the General Ledger.** Design and implement controls to review and resolve interface transactions that fail to post to the general ledger.
 - **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 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.
 - **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.

2111-3902072

A member firm of Ernst & Young Global Limited



- **Accounting for Direct Appropriations.** Develop and implement policies, procedures and internal controls to properly record direct and expended appropriations in the general ledger in an accurate and timely manner.
- **Accounting for Assets Held in Deposit Funds.** Develop and implement policies, procedures and internal controls to properly record assets held within deposit funds and the related liabilities in accordance with U.S. GAAP.

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 PO and SO levels 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 their 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 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) 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.

2111-3902072

A member firm of Ernst & Young Global Limited



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; verifying that the parameters used to generate the reports or data are appropriate; judgmentally selecting a sample of transactions or balances in the report; and validating that the transactions are accurate.
- C. **Insufficient Oversight and Monitoring of Third-Party Service Providers.** Design and implement controls around the SOC 1 review process and validate CUECs are properly identified, designed and operating effectively.

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.

2111-3902072

A member firm of Ernst & Young Global Limited



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.

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

2111-3902072

A member firm of Ernst & Young Global Limited



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 three financially significant applications, 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.

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 allows 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 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.

2111-3902072

A member firm of Ernst & Young Global Limited



Security Management/Governance Over Implementation of Security Controls

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

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

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

- SOC 1 reports are not monitored and reviewed to assess CUECs, including validation of whether management's internal controls relevant to the CUECs, are designed, implemented, and operating effectively.
- For one financially significant application, the authorization for the security state of the organizational information system and the environment in which that system operates, is not documented, tracked, and reported.
- For one financially significant application, DLA management internal control procedures do not identify financially significant risks, establish and implement controls, track known risk exposures, and remediate control gaps.

Recommendations

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

Access and Segregation of Duties Controls

- Restrict access to authorized users in accordance with the least privilege principle. Review and approve all access, including justification of business needs.
- Routinely monitor and revalidate access needs for business users, privileged users, and inactive users.
- Monitor user activity, identify and audit security violations, and assess privileged and sensitive users and transactions.

2111-3902072

A member firm of Ernst & Young Global Limited



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

Configuration Management

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

Security Management/Governance Over Implementation of Security Controls

- Document risks and controls in place, identify gaps, and complete corrective actions to strengthen the internal control environment. Improve documentation, test and validate controls, and remediate findings.
- Establish a process to evaluate and incorporate service provider reports, findings, and controls into management's security documentation, governance process, and application control environment.

2111-3902072

A member firm of Ernst & Young Global Limited



Appendix B – Significant Deficiency

I. Property, Plant and Equipment

Property, plant and equipment (PP&E) is comprised of general equipment, 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 unable to support the existence, completeness, rights and obligations, or valuation of its PP&E.

- A. **Lack of or Inadequate Documentation of PP&E Accounting Policies, Procedures and 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 CIP has not been performed. DLA is in the process of establishing or revising its policies and procedures for performing these inventories on an ongoing basis. In addition, DLA does not have signed memorandums of understanding with the military services that outline the reporting responsibilities, such as depreciation and maintenance costs, for real property assets for which DLA is the primary user.
- 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:
 - The completeness and existence of general equipment assets.
 - The validity of PP&E additions and disposals.
- 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 control activities are 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.

2111-3902072

A member firm of Ernst & Young Global Limited



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 an 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 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 general equipment assets, including substantiating that the application of SFFAS No. 6 and SFFAS No. 50 was consistent and appropriate. For example, DLA could not support the value of 1 of 5 samples selected. To account for a significant number of assets that have not been valued, DLA assigned placeholder values to these assets until the valuation process is completed, resulting in misstatements in the financial statements.
- DLA is unable to support the values assigned to IUS assets in accordance with SFFAS No. 10.
- DLA has not established a policy to account for its leasing arrangements, nor has DLA 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 its 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 PP&E Accounting Policies, Procedures and Controls.** Document, update and finalize the PCMs that document the end-to-end processes and controls for PP&E. Complete the inventory of IUS and CIP to verify the existence and completeness of the accounting records. In addition, obtain signed memorandums of agreement with the military services that outline the reporting responsibilities, such as depreciation and maintenance costs, for real property assets owned by the services for which DLA is the primary user.
- B. Lack of or Inadequate Documentation to Substantiate PP&E and PP&E-Related Transactions.**
- Develop documentation to substantiate that all of DLA's general equipment assets are recorded accurately and completely.
 - Assess the data elements in the APSR to allow DLA to differentiate between assets that have been added to or removed from the capital PP&E population and assets that have changed or to assign a unique identifier to each asset that allows for additions and disposals to be identified.

2111-3902072

A member firm of Ernst & Young Global Limited



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.
- **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.

D. Lack of Policies, Procedures and Controls to Effectively Implement Accounting Standards. Design policies, procedures and controls 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:

- Substantiating the values, including the alternate values, assigned to general equipment assets and that the application of SFFAS No. 6 and SFFAS No. 50 is consistent and appropriate.
- 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 A-136.

II. Environmental Liabilities

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

- A. Inability to Reconcile EL Associated with the Corresponding Real Property.** DLA is unable to completely and accurately reconcile EL associated with the corresponding real property, such as buildings, fuel storage tanks and pipelines, that it manages.
- B. 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. In addition, DLA has not designed processes and controls to calculate environmental liabilities associated with general equipment.

2111-3902072

A member firm of Ernst & Young Global Limited



Recommendations

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

- A. **Inability to Reconcile EL Associated with the Corresponding Real Property.** Design and implement policies and procedures to reconcile the buildings, tanks and pipelines in the environmental closure and asbestos liabilities estimate to the PP&E listings and investigate differences.
- B. **Inadequate Controls Over Estimation Processes.** Design and implement adequate controls to estimate environmental liabilities associated with general equipment and compare actual costs to estimates to see if any changes to the estimation methodology are necessary.

2111-3902072

A member firm of Ernst & Young Global Limited



Ernst & Young LLP
1775 Tysons Blvd
Tysons, VA 22102

Tel: +1 703 747 1000
Fax: +1 703 747 0100
ey.com

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 Working Capital 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.

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

2111-3902072

A member firm of Ernst & Young Global Limited



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*

2111-3902072

A member firm of Ernst & Young Global Limited



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

2111-3902072

A member firm of Ernst & Young Global Limited

Management's Response to Audit Reports



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

NOV 08 2021

MEMORANDUM FOR DEPARTMENT OF DEFENSE OFFICE OF THE INSPECTOR
GENERAL

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

Thank you for the opportunity to comment on Ernst & Young, LLP's Independent Auditor Reports on the Defense Logistics Agency's (DLA), Working Capital Fund (WCF) 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!

A handwritten signature in black ink, appearing to read "McSkubic", is positioned above the printed name of the Director.

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 WCF. The IPA was engaged to perform the audit of DLA WCF'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 WCF financial statements consist of the following:

The Balance Sheets present those resources owned or managed by DLA WCF that represent future economic benefits (assets), amounts owed by DLA WCF that will require payments from those resources or future resources (liabilities), and residual amounts retained by DLA WCF comprising the difference (net position) as of September 30, 2021 and 2020.

The Statements of Net Cost present the net cost of DLA WCF operations for the years ended September 30, 2021 and 2020. DLA WCF's net cost of operations is the gross cost incurred by DLA WCF activities, less any exchange revenue earned and inter-entity eliminations from DLA WCF activities.

The Statements of Changes in Net Position present the change in DLA WCF's net position resulting from the net cost of DLA WCF'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 WCF, 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.



Pallet Partners

Airmen prepare to offload a pallet of bottled water in Galveston, Texas, Feb. 19, 2021. A team of 30 airmen traveled from California to Texas to support the Federal Emergency Management Agency's request to airlift 64 tons of bottled water to storm-ravaged areas.

Photo Credit: Air Force

Defense Logistics Agency - Working Capital Fund

BALANCE SHEETS

As of September 30, 2021 and 2020

(dollars in thousands)

	Unaudited FY 2021	Unaudited FY 2020 As Restated
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 2,706,222	\$ 3,915,418
Accounts Receivable, Net:		
Accounts Receivable, Net (Note 4)	2,265,316	2,262,830
Strategic Petroleum Reserve	123,306	123,306
Total Intragovernmental Accounts Receivable, Net	2,388,622	2,386,136
Total Intragovernmental	5,094,844	6,301,554
Other than Intragovernmental		
Cash and Other Monetary Assets	-	7,074
Accounts Receivable, Net (Note 4)	556,207	717,098
Inventory and Related Property, Net (Note 5)	22,348,772	21,837,879
General Property, Plant and Equipment, Net (Note 6)	810,370	754,564
Advances and Prepayments	95,645	89,068
Total Other than Intragovernmental	23,810,994	23,405,683
TOTAL ASSETS	\$ 28,905,838	\$ 29,707,237
LIABILITIES (Note 7)		
Intragovernmental		
Accounts Payable	\$ 175,668	\$ 225,139
Advances from Others	552,166	1,798,994
Other Liabilities:		
Benefits Program Contributions Payable and Other (Note 8)	54,493	52,716
Other Liabilities (Note 9)	2,897	1,007
Total Intragovernmental Other Liabilities	57,390	53,723
Total Intragovernmental	785,224	2,077,856
Other than Intragovernmental		
Accounts Payable	2,275,581	2,495,823
Environmental and Disposal Liabilities (Note 10)	1,272,377	1,187,141
Federal Employee Benefits Payable (Note 8)	156,838	159,850
Advances from Others and Deferred Revenue	3,642	6,407
Other Liabilities (Note 9)	298,804	295,028
Total Other than Intragovernmental	4,007,242	4,144,249
TOTAL LIABILITIES	4,792,466	6,222,105
Commitments and Contingencies (Note 11)		
NET POSITION		
Unexpended Appropriations - Funds from Other than Dedicated Collections	198,884	291,494
Cumulative Results of Operations - Funds from Other than Dedicated Collections	23,914,488	23,193,638
TOTAL NET POSITION	24,113,372	23,485,132
TOTAL LIABILITIES AND NET POSITION	\$ 28,905,838	\$ 29,707,237

The accompanying notes are an integral part of these statements.

Defense Logistics Agency - Working Capital 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
Energy		
Gross Cost	\$ 8,981,168	\$ 9,696,362
Less: Earned Revenue	(9,371,148)	(10,734,135)
Net Cost	<u>(389,980)</u>	<u>(1,037,773)</u>
Supply Chain Management		
Gross Cost	41,428,876	31,657,203
Less: Earned Revenue	(41,361,988)	(31,435,772)
Net Cost	<u>66,888</u>	<u>221,431</u>
Document Services		
Gross Cost	238,056	221,567
Less: Earned Revenue	(212,356)	(206,091)
Net Cost	<u>25,700</u>	<u>15,476</u>
Total Gross Cost	50,648,100	41,575,132
Less: Total Earned Revenue	<u>(50,945,492)</u>	<u>(42,375,998)</u>
NET COST OF OPERATIONS	<u>\$ (297,392)</u>	<u>\$ (800,866)</u>

The accompanying notes are an integral part of these statements.

Defense Logistics Agency - Working Capital 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	\$ 291,494	\$ 291,040
Appropriations Transferred-in/out	49,821	579,285
Appropriations Used	(142,431)	(578,831)
Net Change in Unexpended Appropriations	(92,610)	454
Total Unexpended Appropriations: Ending Balance	198,884	291,494
Cumulative Results of Operations		
Beginning Balances	23,193,638	23,315,727
Corrections of Errors	-	483,571
Beginning Balances, as Adjusted	23,193,638	23,799,298
Appropriations Used	142,431	578,831
Non-exchange Revenue	3,395	475
Transfers-in/out Without Reimbursement	117,340	(2,140,452)
Imputed Financing	163,152	155,107
Other	(2,860)	(487)
Net Cost of Operations	(297,392)	(800,866)
Net Change in Cumulative Results of Operations	720,850	(605,660)
Cumulative Results of Operations: Ending Balance	23,914,488	23,193,638
TOTAL NET POSITION	\$ 24,113,372	\$ 23,485,132

The accompanying notes are an integral part of these statements.

Defense Logistics Agency - Working Capital 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	\$ 508,695	\$ 222,506
Appropriations	49,821	579,285
Contract Authority	47,204,090	45,645,928
Spending Authority From Offsetting Collections	263,705	484,783
TOTAL BUDGETARY RESOURCES	\$ 48,026,311	\$ 46,932,502
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments	\$ 47,724,371	\$ 46,510,140
Unobligated Balance, End of Year:		
Apportioned, Unexpired Accounts	301,940	422,362
Unexpired Unobligated Balance, End of Year	301,940	422,362
Total Unobligated Balance, End of Year	301,940	422,362
TOTAL BUDGETARY RESOURCES	\$ 48,026,311	\$ 46,932,502
OUTLAYS, NET		
Outlays, Net	\$ 1,259,017	\$ (2,343,308)
AGENCY OUTLAYS, NET	\$ 1,259,017	\$ (2,343,308)

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 OUSD for Acquisition and Sustainment through the Assistant Secretary of Defense for Sustainment. DLA provides material 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 WCF.

The DLA WCF has the three major activity groups (DLA Energy, DLA SCM, and DLA Document Services) and two support programs, included within DLA SCM, as described below, to execute its mission to provide supply, logistics, distribution, and disposition service support. These activities are the primary revenue generators within DLA WCF.

DLA Activity Groups

DLA Energy (Fort Belvoir, Virginia) - provides petroleum products/lubricants, supply chain services, sustainment, restoration and modernization, transportation, aerospace energy, fuel quality/technical support, installation energy and utility services.

DLA Supply Chain Management:

Troop Support (Philadelphia, Pennsylvania) - consists of four commodities:

- Subsistence – food support for the military all over the world;
- C&T - clothing, textiles and equipment to U.S. service members, other Federal Agencies, and partner nations;

- C&E - construction materials, heavy equipment, tactical gear, firefighting equipment, minerals and precious metals to wood products, imaging and information equipment; and
- Medical - medical and pharmaceutical supplies.

Aviation (Richmond, Virginia) - provides repair parts and industrial items such as screws, nuts, and bolts, typically referred to as bench stock for aviation weapons systems.

Land and Maritime (Columbus, Ohio) - provides repair parts and industrial items such as screws, nuts, and bolts, typically referred to as bench stock for ground-based, maritime, aviation, and foreign military systems.

DLA Support Services Programs DLA's Support Services Programs provide distribution support to SCM and may also perform disposition services on behalf of the three DLA Activity Groups, as well as other Federal and public entities.

- DLA Distribution (New Cumberland, Pennsylvania) - provides storage and distribution solutions, transportation planning, logistics planning and contingency operations, as well as operating a global network of 34 distribution centers.
- DLA Disposition Services (Battle Creek, Michigan) - disposes of excess property by reutilization, transfer, and demilitarization, and conducts environmental disposal and reuse.
- DLA Document Services (New Cumberland, Pennsylvania) – provides automated document production, printing services, digital conversion, and document storage.



Travis AFB C-17 delivers aid to support two COCOMs

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 By:** U.S. Air Force photo by Chustine Minoda

B. Basis of Presentation and Accounting

Basis of Presentation and Accounting: The DLA WCF fiscal year ends September 30. The accompanying financial statements account for all resources for which DLA WCF is responsible. These financial statements present the financial position, results of operations, changes in net position, and the combined budgetary resources of DLA WCF, 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 WCF activities in accordance with U.S. GAAP promulgated by the FASAB⁶ 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 WCF financial statements reflect both accrual and budgetary accounting transactions, except as identified in Note 1.C., *Departures from U.S. GAAP*. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to the receipt or payment of cash. Budgetary accounting is based on concepts set forth by OMB Circular A-11, which provides instructions on budget execution. Budgetary accounting is designed to recognize the budgetary resources and the

related status of those budgetary resources, including the obligation and outlay of funds according to legal requirements, which in many cases is made prior to the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of Federal funds.

However, DLA WCF 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 WCF 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

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

preparing financial statements in accordance with U.S. GAAP. Therefore, DLA WCF is continuing the necessary actions required to bring its financial and nonfinancial systems and processes to generate financial statements and the accompanying notes in accordance with U.S. GAAP and in compliance with the reporting requirements of OMB Circular A-136. DLA is assessing financial feeder systems and processes and their conformance to existence, completeness, and accuracy requirements as required by U.S. GAAP and OMB Circular A-136. As DLA WCF identifies non-conforming data issues, the Agency will continue to implement interim mitigation processes to address these limitations. In addition, DLA WCF 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 obligated⁷ amounts and unobligated⁸ amounts for the fiscal year); and (3) Outlays, Net for the fiscal year, which is comprised of Outlays⁹ less Actual Offsetting Receipts (cash transactions). DLA WCF's budgetary resources¹⁰ include unobligated balances of resources from prior years and new resources, consisting of appropriations, contract authority, and spending authority from offsetting collections.

In FY 2020, Congress approved the Defense Working Capital Fund Prior Approval Request Reprogramming Actions: 20-10 and 20-13. As a result, the Combined Statements of Budgetary Resources includes transactions totaling \$4.0 million and \$241.0 million, respectively, for the non-expenditure transfer of prior year balances from DLA WCF, which increased Spending Authority from Offsetting Collections and reduced Unobligated Balance from Prior Year Budget Authority, net. The transactions did not increase the DLA WCF's available budgetary resources and were recorded in accordance with required posting logic under OUSD(C) guidance.

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 WCF. Intragovernmental liabilities are claims DLA WCF owes to other Federal entities, whereas Other than Intragovernmental assets and liabilities arise 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 WCF against public entities. Other than Intragovernmental liabilities are amounts that DLA WCF owes to public entities. DLA WCF is unable to accurately map its trading partners to separate Intragovernmental and Other than Intragovernmental transactions in accordance with 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 WCF engages in transactions with other DoD and Federal entities that generate inter-DoD and intragovernmental balances; however, DLA WCF 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 Treasury Financial Manual (TFM), Volume I, Part 2, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*. The 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 WCF is ultimately responsible for the accuracy of its trading partner data and initiating actions to reconcile balances with

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."

its trading partners; however, DLA WCF is unable to resolve the reconciling differences in amounts reported for the buyer/seller transactions reciprocal category with Other Defense Organizations (ODO), (refer to Note 1.C., *Departures from U.S. GAAP*, related to Intragovernmental/Intra-departmental and Other than Intragovernmental Transactions). A DoD reporting entity unable to provide detail transactions at the appropriate time of the financial statement reporting cycle must adjust its balance to match the seller's or buyer's supportable data.

Inter-fund Transactions: Inter-fund transactions and balances among DLA WCF activities (Energy, SCM, and Document Services) 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 WCF presents the Statements of Net Cost based on activities 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 WCF 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 WCF's estimates are based on historical experience, current events and other assumptions that are believed to be reasonable under the circumstances. Significant estimates underlying the accompanying financial statements include: (1) contingent liabilities; (2) environmental and disposal liabilities (EL); (3) accruals for accounts receivable related to aerospace, customer direct, Fuel Exchange Agreements (FEA), and inventory accruals; (4) allowance for doubtful accounts; (5) accounts payable MOCAS and outbound MIPR accruals; (6) undelivered orders; (7) Federal Employees' Compensation Act (FECA) liability; (8) inventory defined as Excess, Obsolete,

and Unserviceable (EOU); and (9) allowance for inventory held for repair as of the date of these financial statements.

C. Departures from U.S. GAAP

Financial management systems and processes continue to be evaluated and modified as DLA WCF strives to remediate its material weaknesses and record and report its financial activity in accordance with U.S. GAAP. Therefore, DLA WCF 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 WCF financial statements although other departures from U.S. GAAP may exist that have not been identified.

Definition of Reporting Entity: The DLA WCF has not completed analyzing material applicable business relationships with other organizations to identify consolidation entities, disclosure entities, or related parties in accordance with SFFAS 47, *Reporting Entity* (effective FY2018). As a result, DLA WCF is unable to determine if there are consolidation entities that are required to be consolidated and disclosed in DLA WCF 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 WCF does not have policies and compliant processes in place to present its major program costs aligned with DLA WCF 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 WCF 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. U.): The DLA WCF does not have compliant processes in place to recognize all significant inter-entity costs related to inputs of its goods or services provided to entities for a fee or user charge in accordance with SFFAS 55, *Amending Inter-Entity Cost*

Provisions, (effective FY 2019). 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.G. and Note 3): The DLA WCF is not able to account for FBWT in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, due to its inability to identify and reconcile the reported differences between DLA WCF's accounting system and Treasury. Monthly unsupported journal vouchers are made to adjust the FBWT balances in DLA WCF financial statements to match U.S. Treasury records.

Accounts Receivable, Net, Revenue, and Unfilled Customer Orders (Notes 1.H. 1.U. and 1.W., Notes 4; Note 5; and Note 12): The DLA WCF 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, *Accounting for Selected Assets and Liabilities*, 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 SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. More specifically:

Direct Sales - DLA WCF Holds the Inventory to be Sold: In some instances, the current distribution system that DLA WCF uses is not in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as revenue may be recognized before materials are shipped or delivered to the customer;

Consignment/Direct Sales - Third Party Holds the Inventory to be Sold: For inventory that is managed by a third party, revenue is recognized on the date DLA WCF bills the customer which may occur before DLA WCF releases control of the materials, which is not in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and*

Concepts for Reconciling Budgetary and Financial Accounting;

Customer Direct Sales: The customer direct process is where DLA WCF permits its customers to order goods directly from DLA WCF's authorized vendors. Under DLA WCF's business structure, DLA WCF has the obligation to pay the vendor and the right to collect payment from the customer. Therefore, DLA WCF incurs a liability and earns revenue at the time the customer accepts the goods from the vendor. However, while DLA WCF records an accrual for the liability incurred, DLA WCF does not account for the revenue earned at the same time in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*;

Customer Returns: The DLA WCF does not match the customer returns to the original sales orders and improperly decreases revenue, cost of goods sold, and contract authority liquidated for the amount of the return which is not in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*;

Fuel Exchange Agreement Business Process: The DLA WCF does not have policies and compliant processes in place to (1) properly adjust the budgetary accounts in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, when the netting of individual sales and purchase transactions occur; (2) recognize and value appropriately the replacement-in-kind transactions in accordance with SFFAS 3, *Accounting for Inventory and Related Property*; and (3) demonstrate that the monthly accrual methodology for FEA is in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 1, *Accounting for Selected Assets and Liabilities*;

Unfilled Customer Orders: The DLA WCF does not properly record UCO activity and is unable to support the UCO balance in the accounting system in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*;

Revenue: The DLA WCF performs services for other Federal entities and recognizes accounts receivable and revenue for these transactions without assessing the probability of collection which is not in accordance with Technical Bulletin

2020-1, *Loss Allowance for Intragovernmental Receivables* SFFAS 1, *Accounting for Selected Assets and Liabilities*, and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. In addition, DLA is unable to produce a population of customer disputes which impacts their ability to support the allowance for returns in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

In FY 2021, DLA WCF made adjustments in response to the error of not recognizing accounts receivable in prior periods for deposit funds due from OUSD. As such, DLA WCF restated the FY 2020 balances reported in the prior year Balance Sheet and Statement of Changes in Net Position to recognize the funding as a DLA WCF asset in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities* (refer to Note 17, Restatements of the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position); and

Foreign Currency: The DLA WCF does not have a policy and compliant processes in place to determine the significant effects, if any, of changes in the exchange rate related to recording foreign currency transactions in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. This also impacts accounts payable.

Inventory and Related Property, Net (Note 1.J. and Note 5): The DLA WCF does not have policies and compliant processes in place to account for inventory and related property, net or properly account for gains and losses on adjustments to inventory in situations where DLA

WCF owns the same material as held for a customer or held as EOU in accordance with SFFAS 3, *Accounting for Inventory and Related Property*, and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. Furthermore, DLA has not completed establishing inventory and related property beginning balances using deemed cost and has not made an unreserved assertion as permitted by SFFAS 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, (effective FY2017). More specifically:

Excess, Obsolete, Unserviceable: The DLA WCF does not have procedures in place to review and determine if additional material in its accounting system should be classified as EOU in accordance with SFFAS 3, *Accounting for Inventory and Related Property*. Upon receipt of EOU from other components or military services, the asset is recorded incorrectly as a gain rather than a transfers-in. Upon disposition of EOU, the expense is recorded incorrectly as cost of goods sold rather than determining the gain or loss based on the difference of the sale price and Net Realizable Value (NRV) in accordance with SFFAS 3, *Accounting for Inventory and Related Property*. The accounting treatment for both transfers-in and disposition of EOU are not in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

The DLA WCF is unable to provide the carrying value of the inventory before it was identified as EOU inventory, in accordance with SFFAS 3, *Accounting for Inventory and Related Property*;

Raw Materials and Inventory Work in Process: The DLA WCF does not properly account for inventory provided to



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

vendors against contracts and work orders for manufacturing and assembly in accordance with SFFAS 3, *Accounting for Inventory and Related Property*. These items should be initially accounted for as Raw Material, and then as Inventory Work in Process;

Additional Inventory Costs: The DLA WCF does not properly account for additional inventory costs in the manufacturing and assembly process, in accordance with SFFAS 3, *Accounting for Inventory and Related Property*;

Categories of Inventory: The DLA WCF does not have policies and procedures in place for management's criteria to determine the category of inventory in accordance with SFFAS 3, *Accounting for Inventory and Related Property*;

Customer Direct: In recording Customer Direct transactions, DLA WCF combines the purchase from the vendor and the cost of goods sold into a single entry in the accounting system that does not include the receipt or issuance of inventory; and

Goods Receipt: The DLA WCF does not have sufficient policies and procedures to properly account for receipts of goods when the receipted quantity does not match the purchase order quantity. In addition, under the contractual agreement, if the contractor delivers and DLA WCF receives quantities of any item in excess of the quantity called for, DLA WCF may retain such excess quantities without compensating the contractor. Rather than adjusting the unit cost based on the updated quantity received, DLA WCF is recording a gain to account for the excess items.

General Property, Plant and Equipment, Net (Note 1.K.; Note 6; and Note 17): The DLA WCF does not have policies and compliant processes in place to account for general PP&E, net, 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 buildings, general equipment, Construction-in-Progress (CIP), Internal Use Software (IUS), and IUS in Development using the alternative valuation methods permitted by SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, (effective FY2017). In addition, DLA WCF does not have compliant processes in place to account for impairment of facilities and equipment in accordance with SFFAS 44, *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*. More specifically:

Transferred assets: The DLA WCF is unable to determine the valuation of general equipment assets previously transferred from the military services in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*;

Internal-Use Software: The DLA WCF is unable to substantiate the valuation of internal-use software in accordance with SFFAS 10, *Accounting for Internal Use Software*, and SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*;

Internal-Use Software in Development: The DLA WCF 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*;

Construction-in-Progress Balances: The DLA WCF 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*;

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

Depreciation: The DLA WCF does not properly follow the policies and procedures to effectively implement and consistently apply depreciation and amortization, in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*, and SFFAS 10, *Accounting for Internal Use Software*;

Rights and Obligations: The DLA WCF is unable to substantiate whether DLA WCF has the rights and obligations to the recorded general PP&E assets in accordance with SFFAS 6, *Accounting for Property, Plant, and Equipment*; and

Transfers of Property Restatement: The DLA WCF receives property transfers from DLA GF upon construction project completion. DLA GF identified assets transferred into DLA WCF in FY 2021 that were placed in service in FY 2020 and prior fiscal years. The correction resulted in an increase to General Property, Plant and Equipment and Net Position by \$123.4 million and \$123.4 million, respectively (refer to Note 17, *Restatements of the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position*).

Leases (Note 1.L.): The DLA WCF 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*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*. As such, DLA WCF does not have any capital or operating leases reported or disclosed as of September 30, 2021 and 2020.

Advances and Prepayments - (Note 1.M.):

The DLA WCF does not have policies and compliant processes in place to record advances and prepayments related to organic manufacturing and outstanding contract financing payments in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*. Specifically, the accounts payable adjustment methodology for negative payable is inaccurate and does not in comply with TFM/USSGL posting logic.

Accounts Payable, Expenses, and Undelivered Orders (Notes 1.O. and 1.W; Note 7; and Note 13):

The DLA WCF does not have policies and compliant processes in place to account for accounts payable, expense accruals, and the related Undelivered Orders (UDOs) in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, and SFFAS 5, *Accounting for Liabilities of the Federal Government*. More specifically:

Accrual methodology for liabilities: The DLA WCF does not properly accrue liabilities in the period incurred, recognize the related expenses, and reduce UDOs in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*.

Capitalized Expenses: The DLA WCF does not properly recognize in its accounting records the full cost of the goods or services it receives as an expense in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*.

Negative payable: The DLA WCF processes allow for payment without receipt, thus resulting in a negative payable that is not in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*. This occurs when a payment is made prior to the goods receipts being posted in DLA WCF's accounting system. This results in an understatement of current year expenses and payables, and an overstatement of UDOs; and

Undelivered Orders: The DLA WCF does not have sufficient policies and procedures in place to record obligations at the

time contracts are awarded. In addition, DLA WCF is unable to support the UDO balance in the accounting system.

Environmental and Disposal Liabilities (Note 1.P; Note 10; and Note 11):

The DLA WCF does not have policies and compliant processes in place to reconcile asset listings to the amounts recorded for EL 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.N; Note 9; Note 10; and Note 11):

The DLA WCF did not complete its assessment of commitments and contingencies in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, and SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*.

Reconciliation of Net Cost to Net Outlays (Note 15):

The DLA WCF 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 WCF 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 WCF has not completed analyzing all applicable business relationships to determine if these arrangements or transactions indicate the existence of Public-Private Partnership (P3) relationships, risk-sharing arrangements or transactions lasting more than five years between public and private sector entities, in accordance with SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*, (effective FY2019). As a result, DLA WCF 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 WCF upon implementation. DLA WCF 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, <i>Accounting for Liabilities of the Federal Government</i> , and SFFAS 6, <i>Accounting for Property, Plant, and Equipment</i>	Omnibus Amendments FY2019
Adoption Required in FY	Deferred to FY 2024	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 FY 2024; earlier implementation is not permitted. SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government*, and SFFAS 6, *Accounting for Property, Plant, and Equipment*, revises the current Federal financial reporting standards for lease accounting and requires that Federal lessees recognize a lease liability and a leased asset at the commencement of the lease term, unless it meets any of the scope exclusions or the definition/criteria of short-term leases, or contracts or agreements that transfer ownership, or intragovernmental leases. SFFAS 57, *Omnibus Amendments 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

Initial Corpus: The DLA WCF received its initial corpus through an appropriation from the DWWCF. The corpus financed initial operations to obtain goods and services sold to customers on a reimbursable basis to maintain the corpus. In addition, DLA WCF receives direct or supplemental appropriations through DoD reprogramming actions, Title V (Revolving and Management Funds), IX (Overseas Contingency Operations), and X (Required Additional Appropriations). For the year ended September 30, 2020, DLA WCF received \$530.2 million in appropriations under

the Coronavirus Aid, Relief, and Economic Security (CARES) Act in support of COVID-19 mission activities. The CARES Act appropriations and transfers were not intended to be used for new obligations in FY 2020. The amount of contract authority realized was reduced in the amount equal to the budget authority received from these appropriations and transfers. DLA WCF did not receive additional appropriations related to COVID-19 activities in FY 2021. In addition, for the years ended September 30, 2021 and 2020, DLA WCF received direct appropriations in the amount of \$49.8 million and \$49.0 million, respectively (refer to Note 14, *Contributed Capital*).

The DWWCF consists of six activity groups. DLA WCF operates three of the six activity groups, which include DLA Energy, DLA SCM, and DLA Document Services. DFAS and the DISA operate the other three activity groups. DLA WCF is the cash manager for the DWWCF funding and is responsible for developing DWWCF activity group budget exhibits related to cash and monitoring cash execution. Although DLA WCF shares its accounting code with DFAS and DISA, each Agency receives their own separate Annual Operating Budget. OUSD(C) uses a data element referred to as a 'limit' to differentiate the various ODOs under Treasury Index (TI)-97. DLA WCF uses limits assigned to the TI-97 organizations to track spending at a level below the Treasury Account Symbol (TAS) level.

Contract Authority: The DLA Energy and DLA SCM receive contract authority for their operating and capital programs. Contract authority is a type of budget authority that permits obligations to be incurred in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. Typically, the Congress provides contract authority in an authorizing statute to allow DoD components to incur obligations in anticipation of the collection of receipts or offsetting collections that will be used to liquidate the obligations. Subsequently, the contract authority liquidates through the receipt of customer funds.

Spending Authority from Offsetting collections: The DLA Document Services receives spending authority from offsetting collections for its operation program. Spending authority from offsetting collections represent authority that permits obligations and outlays to be financed by reimbursements from the funding Agencies and requires the receipt of customer orders prior to incurring obligations.

F. Entity and Non-Entity Assets

The DLA WCF reports both entity and non-entity assets. Entity assets are assets that the reporting entity has authority to use in its operations. Management may have authority to decide how funds are used or it may be legally obligated to use the funds a certain way. Non-entity assets are not available for use in DLA WCF's operations. DLA WCF maintains stewardship accountability and reporting responsibilities for non-entity assets and will subsequently remit these non-entity assets to the Treasury. DLA WCF records a corresponding liability, custodial liability, for these accounts receivable. (Refer to Note 2, *Non-Entity Assets*, and Note 9, *Other Liabilities*).

G. Fund Balance with Treasury

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

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

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

The DLA WCF's accounting service provider, DFAS, uses suspense accounts to hold transactions temporarily prior to identifying the correct funding. Suspense account items

represent the amounts that are reported to U.S. Treasury at the Treasury Index (TI) Level (TI-17, TI-21, T-57, T-97), but have not yet been classified to a DLA WCF TAS. The transactions in suspense accounts include unidentified collections, disbursements, Recyclable Materials, and Intra-Governmental Payment and Collection Transactions at month end. DFAS researches suspense transactions to post them against the appropriate line of accounting. The current balances for DLA WCF 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 U.S. Treasury Regional Financial Centers and notifies DoD of differences in collection and disbursement data on the Statement of Differences (SOD) report. The current balances for DLA TF SOD transactions are derived from DFAS management analysis and the SOD UoT.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Fund Balance with Treasury, and Note 3, *Fund Balance with Treasury*.)

H. Accounts Receivable, Net

Accounts Receivable, Net: Accounts receivable represents amounts due to DLA WCF from other Federal entities (Intragovernmental) and the public (Other than Intergovernmental). DLA's accounts receivable arises from sales of inventory and services performed.

DLA WCF does not recognize an allowance for doubtful accounts from other Federal Agencies. All intragovernmental accounts receivable are presented as gross amounts in the Balance Sheets. DLA WCF presents its Other than Intragovernmental accounts receivable net of an allowance for doubtful accounts, which is based on a systematic methodology of grouped aged public accounts receivables. DLA WCF evaluates the allowance methodology and estimated allowance percentages quarterly based on historical average collections on aged public accounts receivable. The allowance for doubtful accounts is calculated based on the aged accounts receivable balances from the preceding month, with the exception of FEA accounts receivable, as these are reconciled in periodic settlements with the foreign governments (refer to Note 1.W, *Transactions with Foreign Governments and International Organizations*, for additional information on FEA sales and settlements).

Strategic Petroleum Reserve: DLA accounts receivable also includes other assets related to the Strategic Petroleum Reserve. DLA Energy's Strategic Petroleum Reserve consists of crude oil held by the Department of Energy (DoE) on behalf of DoD. Public Law 102-396, Section 9149 enacted in November 1992 established the requirement for DoE to acquire and maintain a strategic petroleum reserve for National defense purposes. Section 9149 provided appropriations for the acquisition, storage, and drawdown of such reserve. Proceeds from sales of this reserve will be deposited to DoD's accounts and remain available until expended. DoE reports this crude oil in inventory in their financial statements, with an offsetting custodial liability to DoD. By law, the reserve cannot be drawn down or released to DoD without a Presidential Order along with the advice from the Secretary of Defense. As of September 30, 2021 and 2020, none of the reserve has been drawn upon, therefore the full inventory remains on hand with DoE. Due to the nature of this asset, an allowance for doubtful accounts is not applicable or recognized as all proceeds from sales of the reserve must be remitted to DLA by law based on the Presidential Order and advice from the Secretary of Defense if executed.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Net, Revenue, and Unfilled Customer Orders, and Note 4, *Accounts Receivable, Net*.)

I. Cash and Other Monetary Assets

The DLA WCF cash and other monetary assets consist of bid deposits received from public sale customers and refund receivable from overpayments to a vendor. The DLA WCF Disposition Services manages the sale of EOU inventory deemed appropriate and safe for the general public. Bid deposits must be received from the customers prior to the auction of EOU. The amounts are held in escrow by DLA WCF until settlement occurs. Due to OUSD policy, the escrow account and the accompanying liability are not reported by DLA WCF, but rather reported on the consolidated ODO General Fund financial statements. As of September 30, 2020, the DLA WCF's Cash and Other Monetary Assets reported \$7.1 million in bid deposit collections. As of September 30, 2021 these amounts are reported in the consolidated ODO General Fund financial statements.

J. Inventory and Related Property, Net

The DLA WCF inventory is comprised of material held at DLA Energy and DLA SCM and categorized into:

Inventory Held for Sale: Inventory that is in the process of production for sale or to be consumed in the production of goods for sale or in the provision of services for a fee (refer to Note 1.A., *Reporting Entity*), for items held for sale by activity group. Additionally, DLA WCF has inventory held for sale, in-transit. This consists of material in transit from commercial and Government suppliers to the financial reporting entity or material in transit between storage locations.

Inventory Reserved for Future Sale: Inventory that is maintained and not readily available in the market or because there is more than a remote chance that they will eventually be needed (although not necessarily in the normal course of operations). Similar to the Inventory Held for Sale, the inventories primarily include weapon system repair parts from DLA Aviation and DLA Land and Maritime, and food and medical supplies from DLA Troop Support.

Inventory Held for Repair: Inventory that is damaged and requires repairs to make it suitable for sale, which includes consumable spares, repair parts and repairable items. Inventory Held for Repair is valued using the allowance method as described in SFFAS 3, *Accounting for Inventory and Related Property*, and DoD Financial Management Regulation (FMR), Volume 4, Chapter 4.

Excess, Obsolete, and Unserviceable Inventory: Excess inventory exceeds management requirements to meet DLA WCF's mission. Obsolete inventory is no longer needed due to technology, laws, customs, or operations. Unserviceable inventory is damaged inventory that is more economical to dispose of than to repair.

Inventory Valuation: The DLA WCF uses the Moving Average Cost (MAC) method to value Inventory Held for Sale, Reserved for Future Sale and Held for Repair. Inventory Held for Repair is valued at MAC less an allowance for the estimated repair cost. The allowance is calculated based on 2.0% of the total value of Inventory Held for Repair. The MAC is calculated each time inventory is purchased dividing the total cost of units available by the number of total units available.

EOU inventory is valued at its expected NRV. An NRV factor is applied to the assets' original acquisition value to determine NRV. In FY 2020, DLA WCF Disposition changed its NRV calculation of EOU inventory for scrap and usable material. Previously, EOU identified as scrap was valued using the average sales price per unit sold. Usable material was valued using: (1) all revenues including those that were not attributed to

the sale or disposition of EOU, (2) the cost the customer would have incurred for purchasing the material (cost avoidance), and (3) less the costs of operations. DLA identified an error in the methodology to calculate the NRV factor which resulted in an updated NRV factor of zero and the reporting of EOU at a NRV of zero as of September 30, 2021 and 2020.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Inventory and Related Property, Net, and Note 5, *Inventory and Related Property, Net*.)

K. General Property, Plant and Equipment, Net

The DLA WCF general PP&E consists of buildings, CIP, structures, linear structures, IUS, IUS in development, and general equipment that are used to facilitate the Agency's mission. The land that these assets reside on is not owned by DLA WCF.

Capitalization Threshold: The DLA WCF general PP&E assets are recorded at historical acquisition cost plus improvements when an asset has a useful life of two or more years, and the acquisition cost exceeds the \$250,000 capitalization threshold, effective October 01, 2013. The general PP&E assets acquired prior to October 1, 2013, were capitalized at various thresholds and are carried at the remaining net book value. However, some of the assets capitalized after October 1, 2013 do not exceed the \$250,000 capitalization threshold.

In FY 2020, DLA WCF transferred real property assets to the Military Departments and is in process of establishing Memorandum of Agreements (MOAs) with the Military Departments for the use of real property and the recording of

related imputed costs, in accordance with DoD policy.

The DLA WCF continues to validate its general PP&E balances by verifying the existence and completeness, confirming rights and obligations by validating documentation from the military services to ensure DLA WCF is the appropriate Financial Reporting Organization (FRO), and documenting processes through reviewing and updating policy guidance to define the procedures used for the valuation method. DLA WCF has not yet finalized the inventory and valuation process for their general PP&E. Accordingly, DLA WCF has not made an unreserved assertion that the opening balances of general PP&E for FY 2021 are presented fairly in accordance with U.S. GAAP and SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*.

The DLA WCF determines the useful life of its general PP&E using the asset classification and the type of assets based on the DoD FMR 7000.14-R Volume 4, Chapters 24, 25, 27 and the OUSD Memorandum *"Financial Reporting Policy for Real Property Estimated Useful Lives, Land Valuation, and Accounting for Real Property Outside of the United States."*

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to General Property, Plant and Equipment, Net; Note 6, *General Property, Plant, and Equipment, Net*; and Note 17, *Restatements of the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position*.)

L. Leases

As of September 30, 2021 and 2020, DLA WCF has not completed the process of developing policies and procedures to identify, evaluate, record, and report capital and operating leases in accordance with SFFAS 5, *Accounting for Liabilities*

Depreciation Method and Useful Life

Asset Classes	Depreciation/ Amortization Method	Useful Life (Years)
Buildings, Structures, and Facilities	Straight-line	20, 40 or 45
IUS	Straight-line	2, 5 or 10
General Equipment	Straight-line	5 or 10
CIP	Not Applicable	Not Applicable
IUS in development	Not Applicable	Not Applicable

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.)

M. Advances and Prepayments

Advances: Assets such as civil service employee pay and travel advances, and certain contract financing payments not reported elsewhere in DLA WCF Balance Sheets.

The DLA SCM conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, DLA WCF may provide financing payments. The Federal Acquisition Regulation, Part 32, defines contract financing payments as “authorized disbursements to a contractor prior to acceptance of supplies or services by the Government”.

Prepayments: Payments made in advance of the receipt of goods and services. DLA WCF’s policy is to expense and/or properly classify assets when the related goods and services are received.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Advances and Prepayments.)

N. 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 WCF recognizes contingent liabilities in DLA WCF’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 WCF evaluates all contingent liabilities based on three criteria: probable, reasonably possible and remote.

The DLA WCF 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 WCF records an accrual for contingent liabilities if

it is probable and reasonably estimable and discloses those contingencies that are reasonably possible in Note 11, *Commitments and Contingencies*, of the financial statements. DLA WCF does not disclose or record contingent liabilities when the loss is considered remote.

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; Note 9, *Other Liabilities*; Note 10, *Environmental and Disposal Liabilities*; and Note 11, *Commitments and Contingencies*.)

O. Liabilities

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

Liabilities Covered and not Covered by Budgetary Resources:

Liabilities covered by budgetary resources include those liabilities for which Congress appropriated funds and are otherwise available to pay amounts due as of the Balance Sheet dates. Liabilities not covered by budgetary resources are amounts owed in excess of available, congressionally appropriated funds and, therefore, no budgetary resources are available to pay amounts due as of the Balance Sheet dates but will require future funding to liquidate the obligation. (Refer to Note 7, *Liabilities Not Covered by Budgetary Resources*.)

Liabilities not Requiring Budgetary Resources:

Liabilities that have not in the past required and will not in the future require the use of budgetary resources are referred to as liabilities not requiring budgetary resources.

Current and Noncurrent Liabilities: The DLA WCF discloses its other liabilities between current and noncurrent liabilities in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*. The current liabilities

represent liabilities that DLA WCF expects to settle within the 12 months of the Balance Sheet dates. Noncurrent liabilities represent liabilities that DLA WCF does not expect to be settled within the 12 months of the Balance Sheet dates (refer to Note 9, *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 WCF. DLA WCF 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 when an invoice is received and posted without a goods receipt). DLA WCF also accrues liabilities incurred at month-end but not yet recorded using data from Third Party Payment Systems, Government Purchase Card (GPCs), various feeder systems, and estimates of costs incurred when goods or services received but not invoiced.

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, and Note 7, *Liabilities Not Covered by Budgetary Resources*.)

P. Environmental and Disposal Liabilities

ELs 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 WCF is responsible for accurate reporting of EL and expenses for the real property and/or equipment that it records and reports in its financial statements as assets. DLA identifies and estimates accrued EL through its annual cost-to-complete (CTC) process. DLA's accrued EL comprises of environmental cleanup costs associated with restoration of environmental sites on real property that it does not own but has received contract authority 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 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; Note 10, *Environmental and Disposal Liabilities*; and Note 11, *Commitments and Contingencies*.)

Q. Payroll and Annual Leave Accruals

Accrued payroll consists of salaries, wages, and other compensation earned by employees, but not yet disbursed as of the Balance Sheet date. DLA 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 9, *Other Liabilities*).

R. 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 WCF 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 WCF. DLA WCF 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 WCF. As a result, DLA WCF recognizes an intragovernmental liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by DLA. (Refer to Note 7, *Liabilities Not Covered by Budgetary Resources*, and Note 8, *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 Intragovernmental, 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, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model); and (2) incurred but not reported claims were estimated using historical incurred benefit liabilities and payments. (Refer to Note 7, *Liabilities Not Covered by Budgetary Resources*, and Note 8, *Federal Employee Benefits Payable and Related Other Liabilities*.)

S. Pension Benefits

Based on the effective Federal government start date, DLA WCF'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 applies to calculate and recognize imputed costs, as reported in its Statements of Net Cost, and a corresponding imputed financing sources in the Statements of Changes in Net Position. DLA WCF 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.

T. 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 remaining 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 WCF's unexpended

appropriations primarily consist of supplemental appropriations and overseas contingency operations.

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

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Net, Revenue, and Unfilled Customer orders and Accounts Payable, Expenses, and Undelivered Orders, and Note 13, *Undelivered Orders*.)

U. Revenue and Other Financing Sources

Exchange and Non-exchange Revenue: The DLA WCF classifies revenue as either exchange revenue or non-exchange revenue. Exchange revenue arises when DLA WCF 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.

The DLA WCF activities recognize exchange revenue from the sale of petroleum products from DLA Energy, weapon system repair parts from DLA Aviation and DLA Land and Maritime, food and medical supplies from DLA Troop Support, DLA Disposition sells eligible DoD excess personal property or its residual materials from disposal operations, or from the reimbursements for goods and services provided to other DoD activities, other Federal Agencies and the public. The sale of materials include DLA WCF's Direct sales and Customer Direct sales. DLA WCF's Direct sales are from DLA WCF stock to the customer, whereas Customer Direct sales are from the vendor directly to the customer.

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

DLA Energy Standard Fuel Price: The DLA WCF uses a Standard Fuel Price (SFP) per barrel of fuel sold to customers to include DoD, U.S. Coast Guard, and Foreign Governments.

DLA WCF is responsible for recommending a SFP to OUSD(C). In the process of determining the recommended SFP, DLA WCF considers the amount necessary to recover the cost of the products and services. Upon receiving DLA WCF's proposed SFP, OUSD(C) performs an evaluation of the proposed SFP and determines the final SFP that DLA WCF is required to use for DLA WCF Energy sales.

OUSD(C) sets the final SFP based on OMB derived product assumptions and approved non-product costs for DLA Energy. In FY 2020, OUSD directed DLA WCF to decrease the FY 2020 SFP from \$124.32 per barrel to \$99.12 per barrel. On September 17, 2020, OUSD(C) set the SFP effective October 1, 2020, at \$99.54 per barrel. DLA WCF was able to recover the full costs of the goods and services provided by DLA Energy in FY 2020. Without the consideration of intragovernmental eliminations, during the fiscal year ended September 30, 2021, DLA WCF did not recover the full costs of the goods and services provided based on the set SFP.

DLA Energy Cost Plus: Federal civilian Agencies and other authorized customers are charged cost plus as follows, (1) for Customer Direct sales, customers are charged the acquisition cost of fuel billed to DLA Energy by the vendor on the day of delivery plus the cost plus rate and (2) for DLA Direct Sales, customers are charged the average acquisition cost of fuel plus the cost plus rate. The cost plus rate for FY 2021 is \$0.06 per gallon. The cost plus rate for FY 2020 was \$0.055 cents per gallon.

Supply Chain Cost Recovery Rate: The DLA WCF establishes the selling price in two separate methods depending on the type of items. For Non-National Stock Numbers (NSNs), which include part numbers, local stock numbers or service materials as described in a vendor's product catalog or contract solicitation that a customer can order, the selling price is based on latest acquisition cost plus a Cost Recovery Rate (CRR). The latest acquisition cost is the cost of acquiring the goods and services. The CRR is a percentage added to the acquisition cost that allows DLA WCF to recover the full cost of the goods and services provided, including depreciation of capital assets, in accordance with U.S. Code Title 10, § 2208.

For NSNs, a standard price is established annually. The selling price is based on the average acquisition cost over the course of the previous twelve months, other material cost (testing, transportation, etc.) and the CRR.

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 WCF's other financing sources come from unexpended appropriation transfers-in and non-expenditure transfers-in initiated by OUSD, and are 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 is the estimated fair value at the date of transfer.

The DLA WCF receives property transfers from DLA GF upon construction project completion. DLA GF identified assets transferred into DLA WCF in FY 2021 that were placed in service in FY 2020 and prior fiscal years. The correction resulted in an increase to Transfers-In by \$41.4 million (refer to Note 17, Restatements of the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position).

Imputed Financing and Imputed Cost: In certain cases, DLA WCF 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 WCF 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 WCF 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 WCF financial statements.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Receivable, Net; Revenue, and Unfilled Customer Orders and Inventory and Related Property, Net; Note 4, *Accounts Receivable, Net*; Note 5, *Inventory and Related Property, Net*; Note 12, *Exchange Revenue*; and Note 17, *Restatements of the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position*.)

V. Expenses

Expenses are recognized when there are outflows, usage of assets, or incurrences of liabilities (or a combination) from carrying out functions related to DLA WCF's activity groups, 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 and Note 17, *Restatements of the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position*).

W. Transactions with Foreign Governments and International Organizations

The DLA WCF sells defense articles and services to foreign governments and international organizations. Foreign Military Sales (FMS) are governed under the provisions of the Arms Export Control Act of 1976.

DLA Energy enters into fuel supply and services transactions with foreign governments in accordance with DoD Directives 5530.3 and 2010.9, under international agreement statutory authorities. Direct Bills and FEA are governed under the provisions of Acquisition Cross Servicing Agreements or Title 10 Section 2922 (e). The FEAs are international acquisition and cross-servicing agreements established between DLA and the Military Departments of other nations. DLA Energy utilizes FEAs to account for fuel provided by foreign militaries to the U.S. Military as well as fuel provided by DLA to other nations. For FEA transactions, settlement occurs on a periodic basis as prescribed in the FEA. Upon settlement with the foreign country, the purchases of fuel from foreign governments net against sales to the foreign government. Settlement can be made either in fuel or cash. Settlement in fuel is based on the agreed upon price. For cash settlements, the agreements

typically call for reciprocal pricing (i.e., prices cannot be more than the participants charge their military service components). Payment for fuel after offsetting quantities is based on a quantity and a price and is an arms-length transaction.

DLA Aviation, DLA Distribution, DLA Energy, DLA Troop Support and DLA Land & Maritime support FMS by working directly with Military Departments to fulfill orders for FMS customers. In these cases, the respective Military Department acts as the implementing Agency, and not DLA.

DLA Disposition Services conducts the sale of excess defense articles to authorized foreign governments. Property is issued free to grant aid eligible countries and for the adjusted present value for non-grant-aid-eligible countries. All FMS customers are charged for packing, crating and handling. DLA Disposition Services is reimbursed for administration costs only. This program is overseen and reported by the Defense Security Cooperation Agency (DSCA).

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

X. 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 included changes in the presentation to: Note 4, *Accounts Receivable, Net*; Note 7, *Liabilities Not Covered by Budgetary Resources*; Note 8, *Federal Employee Benefits Payable and Related Other Liabilities*; Note 9, *Other Liabilities*; and Note 15, *Reconciliation of Net Cost to Net Outlays*. The reclassifications had no effect on total assets, total liabilities, or net position.

Note 2: Non-Entity Assets (Unaudited)

Non-Entity Assets as of September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

	FY 2021	FY 2020 As Restated
Other than Intragovernmental Assets		
Cash and Other Monetary Assets	\$ -	\$ 7,074
Accounts Receivable, Net	2,897	1,007
Total Other than Intragovernmental Assets	2,897	8,081
Total Non-Entity Assets	2,897	8,081
Total Entity Assets	28,902,941	29,699,156
Total Assets	\$ 28,905,838	\$ 29,707,237

Cash and Other Monetary Assets consist of bid deposit collections received from public sales and held in escrow by DLA WCF until settlement occurs.

Accounts Receivable, Net consists of administrative fees, interest, and penalties and fine receivables.



Food Pantry

Arizona National Guard service members prepare and distribute groceries for area residents at a food pantry in Snowflake, Ariz., June 22, 2021. The Arizona National Guard activated more than 800 Arizona guardsmen to support food banks during the COVID-19 emergency response. **Photo By:** Air Force Tech. Sgt. Dillon Davis, Air National Guard

Note 3: Fund Balance with Treasury (Unaudited)

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

	FY 2021	FY 2020
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	\$ 301,940	\$ 422,362
Obligated Balances Not Yet Disbursed	2,404,282	3,493,056
Total Fund Balance with Treasury	\$ 2,706,222	\$ 3,915,418

Status of Fund Balance with Treasury presents the budgetary and proprietary resources that constitute DLA WCF 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., contract authority and budgetary receivables).

Unobligated Balance - Available represents 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. As of September 30, 2021 and 2020, DLA WCF does not have unobligated unavailable balances.

Obligated Balance Not Yet Disbursed represents 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 WCF does not have non-budgetary FBwT.

Other Information includes the following tables summarizing the undistributed collections and disbursements between U.S. Treasury and DLA WCF 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 WCF Trial Balance	Balances Not Yet Recorded in DLA Accounting System - Undistributed
Collections	\$ 40,593,842	\$ 40,658,374	\$ (64,532)
Disbursements	\$ 41,852,859	\$ 41,940,193	\$ (87,334)

FY 2020 Adjustments of Undistributed Collections and Disbursements (dollars in thousands)			
Transaction Type	Treasury Balance based on CMR	DLA WCF Trial Balance	Balances Not Yet Recorded in DLA Accounting System - Undistributed
Collections	\$ 42,583,412	\$ 42,621,112	\$ (37,700)
Disbursements	\$ 40,240,105	\$ 40,249,417	\$ (9,312)

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

Note 4: Accounts Receivable, Net (Unaudited)

Accounts Receivable, Net as September 30, 2021 and 2020, respectively, consists of the following (dollars in thousands):

FY 2021			
	Accounts Receivable	(Less: Allowance for Doubtful Accounts)	Accounts Receivable, Net
Intragovernmental Accounts Receivable, Net			
Energy	\$ 144,853	\$ -	\$ 144,853
Supply Chain Management	2,083,015	-	2,083,015
Document Services	37,448	-	37,448
Total Intragovernmental Accounts Receivable, Net	\$ 2,265,316	\$ -	\$ 2,265,316
Intragovernmental Strategic Petroleum Reserve			
Strategic Petroleum Reserve	\$ 123,306	\$ -	\$ 123,306
Total Intragovernmental Strategic Petroleum Reserve	\$ 123,306	\$ -	\$ 123,306
Other than Intragovernmental Accounts Receivable, Net			
Energy	\$ 241,778	\$ (30,601)	\$ 211,177
Supply Chain Management	356,558	(12,614)	343,944
Document Services	1,086	-	1,086
Total Other than Intragovernmental Accounts Receivable, Net	\$ 599,422	\$ (43,215)	\$ 556,207

FY 2020 As Restated			
	Accounts Receivable	(Less: Allowance for Doubtful Accounts)	Accounts Receivable, Net
Intragovernmental Accounts Receivable, Net			
Energy	\$ 171,621	\$ -	\$ 171,621
Supply Chain Management	2,068,062	-	2,068,062
Document Services	23,147	-	23,147
Total Intragovernmental Accounts Receivable, Net	\$ 2,262,830	\$ -	\$ 2,262,830
Intragovernmental Strategic Petroleum Reserve			
Strategic Petroleum Reserve	\$ 123,306	\$ -	\$ 123,306
Total Intragovernmental Strategic Petroleum Reserve	\$ 123,306	\$ -	\$ 123,306
Other than Intragovernmental Accounts Receivable, Net			
Energy	\$ 399,346	\$ (16,734)	\$ 382,612
Supply Chain Management	671,800	(337,907)	333,893
Document Services	593	-	593
Total Other than Intragovernmental Accounts Receivable, Net	\$ 1,071,739	\$ (354,641)	\$ 717,098

(continued on next page)

Of the total other than intragovernmental accounts receivable, net, criminal restitutions, net consist of \$2.8 million and \$6.0 million, as of September 30, 2021 and 2020, respectively. The gross amount of criminal restitutions consists of \$5.0 million and \$336.8 million with a related allowance of doubtful accounts of \$2.2 million and \$330.8 million as of September 30, 2021 and 2020, respectively.

Interest Receivable totaled \$1.3 million and \$0.8 million as of September 30, 2021 and 2020, respectively.

The Strategic Petroleum Reserve is for National defense purposes and includes crude oil held by the DoE on behalf of DoD. The strategic petroleum reserve is valued at historical acquisition cost.

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

Note 5: Inventory and Related Property, Net (Unaudited)

Inventory and Related Property, Net as of September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

	Valuation Method	FY 2021	FY 2020
Inventory Categories:			
Held for Sale	MAC	\$ 21,982,848	\$ 21,493,330
Reserved for Future Sale	MAC	249,657	254,179
Held for Repair	MAC	118,640	92,215
Less: Allowance for Repairs		(2,373)	(1,845)
Total Inventory and Related Property, Net		\$ 22,348,772	\$ 21,837,879

MAC = Moving Average Cost

As of September 30, 2021 and 2020, respectively, DLA SCM is holding \$96.8 million and \$111.8 million, respectively, of inventory not available for sale due to litigation.

All inventory identified as EOU has an expected Net Realizable Value of zero as of September 30, 2021 and 2020.

In accordance with the CARES Act, HHS provided 20.0 million cloth facemasks to DLA at no cost, between April and May 2020, for distribution to the DoD workforce in order to meet operational requirements during the COVID-19 public health emergency.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Inter-Entity Cost and Inventory and Related Property, Net.)

Note 6: General Property, Plant and Equipment, Net (Unaudited)

General Property, Plant and Equipment, Net 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:			
Buildings, Structures, and Facilities	\$ 143,120	\$ (11,610)	\$ 131,510
Internal-Use Software	705,967	(655,674)	50,293
General Equipment	431,323	(361,739)	69,584
Internal-Use Software in Development	53,672	-	53,672
Construction-in-Progress	505,311	-	505,311
Total General PP&E, Net	\$ 1,839,393	\$ (1,029,023)	\$ 810,370

FY 2020 As Restated			
	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value
Major Asset Classes:			
Buildings, Structures, and Facilities	\$ 243,608	\$ (106,865)	\$ 136,743
Internal-Use Software	687,171	(615,950)	71,221
General Equipment	466,878	(375,509)	91,369
Internal-Use Software in Development	45,369	-	45,369
Construction-in-Progress	409,862	-	409,862
Total General PP&E, Net	\$ 1,852,888	\$ (1,098,324)	\$ 754,564

The DLA WCF Building, Structures, and Facilities primarily consist of fuel storage tanks, tanker hydration systems, supply chain warehouses, and office buildings. These are transitory assets from DLA's Construction-in-Progress (CIP) to real property to Military Department (MILDEPs). Software primarily

consists of e-Procurement software, Risk Based Inspection software, and DAI software. General Equipment primarily consists of fuel handling systems, conveyor systems, scrap shredders, and electronic security systems.

(continued on next page)

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

	FY 2021	FY 2020 As Restated
General PP&E, Net - Beginning Balances	\$ 754,564	\$ 2,646,557
Capitalized Acquisitions	139,888	104,925
Dispositions	(15,962)	(15,225)
Depreciation	(76,117)	(216,192)
Transfers in/out without reimbursements	7,997	(1,765,501)
General PP&E, Net - Ending Balances	\$ 810,370	\$ 754,564

Effective FY 2020, DoD's policy regarding real property is that it must be reported in the financial statements of the military service that is the Installation Host having jurisdiction of the real property asset.

As of September 30, 2021, DLA WCF disposed of 269 assets and transferred 19 assets to the military services, in the amount of \$12.5 million and \$16.7 million, respectively. These amounts consisted of an acquisition value and accumulated depreciation, for the dispositions and transfers, of \$110.8 million and \$98.3 million, and \$17.9 million and \$1.2 million, respectively. As of September 30, 2021, DLA WCF had 9 Real Property assets remaining with a net book value of \$131.5 million. 5 of the assets were for the Navy, 3 of the assets were for the US Marine Corps (USMC) and the remaining 1

belonged to the Air Force. The remaining total acquisition value and accumulated depreciation was \$143.1 million and \$11.6 million, respectively.

As of September 30, 2020, DLA WCF transferred 8,092 real property assets in the amount of \$2.1 billion to the military services. This amount consisted of an acquisition value and accumulated depreciation of \$6.4 billion and \$4.3 billion, respectively.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to General Property, Plant and Equipment, Net, and Leases, and Note 17, Restatements of the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position.)



One Aircraft, Two Missions

A C-17 Globemaster III awaits take-off Jan. 28, 2021, at Travis Air Force Base, California. The C-17 was part of a mission to transport 35,950 pounds of firefighting equipment and personal protective equipment to Guatemala and Ramstein Air Base, Germany, respectively.

Photo Credit: U.S. Air Force, Senior Airman Christian Conrad

Note 7: 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
Intragovernmental Liabilities		
Accounts Payable	\$ 128	\$ 224
Other Liabilities - Benefits Program Contributions Payable and Other	14,230	16,105
Total Intragovernmental Liabilities	14,358	16,329
Other than Intragovernmental Liabilities		
Environmental and Disposal Liabilities	1,071,128	1,043,609
Federal Employee Benefits Payable	156,838	159,850
Other Liabilities	496	466
Total Other than Intragovernmental Liabilities	1,228,462	1,203,925
Total Liabilities Not Covered by Budgetary Resources	1,242,820	1,220,254
Total Liabilities Covered by Budgetary Resources	3,546,749	4,993,770
Total Liabilities Not Requiring Budgetary Resources	2,897	8,081
Total Liabilities	\$ 4,792,466	\$ 6,222,105

Accounts Payable (Intragovernmental)

consist of judgment fund liabilities.

Other Liabilities-Benefits Program Contributions Payable and Other (Intragovernmental) consist of unfunded accrued FECA liability based on DOL records.

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 consist of \$201.2 million and \$143.5 million, respectively.

Federal Employee Benefits Payable (Other than Intragovernmental) are comprised of FECA actuarial liability based on DOL records.

Other Liabilities (Other than Intragovernmental)

are comprised of contingent legal liabilities to recognize the information obtained from DLA General Counsel for the cases determined to be probable (liability).

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders; and Accounts Receivable, Net, Revenue, and Unfilled Customer Orders; and *Commitments and Contingencies*; Note 8, *Federal Employee Benefits Payable and Related Other Liabilities*; Note 10, *Environmental and Disposal Liabilities*, and Note 11, *Commitment and Contingencies*.)

Note 8: Federal Employee Benefits Payable and Related Other Liabilities (Unaudited)

Federal Employee 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	\$ 35,117	\$ (35,117)	\$ -
Unfunded FECA Liability	15,215	(985)	14,230
Other Post Employment Benefits Due and Payable	4,161	(4,161)	-
Total Intragovernmental Other Liabilities	\$ 54,493	\$ (40,263)	\$ 14,230
Other than Intragovernmental Federal Employee Benefits Payable			
Actuarial FECA Liability	\$ 156,838	-	\$ 156,838
Total Other than Intragovernmental Federal Employee Benefits Payable	\$ 156,838	\$ -	\$ 156,838

FY 2020			
	Liabilities	(Less: Assets Available to Pay Benefits)	Unfunded Liabilities
Intragovernmental Other Liabilities			
Employer Contribution and Payroll Taxes Payable	\$ 31,138	\$ (31,138)	\$ -
Unfunded FECA Liability	18,412	(2,307)	16,105
Other Post Employment Benefits Due and Payable	3,166	(3,166)	-
Total Intragovernmental Other Liabilities	\$ 52,716	\$ (36,611)	\$ 16,105
Other than Intragovernmental Federal Employee Benefits Payable			
Actuarial FECA Liability	\$ 159,850	-	\$ 159,850
Total Other than Intragovernmental Federal Employee Benefits Payable	\$ 159,850	\$ -	\$ 159,850

(continued on next page)

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 WCF.

Other Post Employment Benefits Due and Payable (Intragovernmental) consist of amounts due to former or inactive employees (not retired) and/or beneficiaries.

Actuarial FECA Liability (Other than Intragovernmental) are workers' compensation benefits developed by the DOL Office of Workers' Compensation Programs (OWCP) and provided to DLA WCF 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 OMB's 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.

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



Mountain Flight

Navy Petty Officers 2nd Class Aaron White and Richard Derrick participate in a mountain flying training event in Fallon, Nev., April 9, 2021. **Photo By:** Navy Chief Petty Officer Shannon Renfroe

Note 9: 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
Intragovernmental Other Liabilities			
Custodial Liabilities	\$ 2,897	\$ -	\$ 2,897
Total Intragovernmental Other Liabilities	\$ 2,897	\$ -	\$ 2,897
Other than Intragovernmental Other Liabilities			
Accrued Funded Payroll and Benefits	\$ 298,311	\$ -	\$ 298,311
Liability for Undeposited Collections	-	-	-
Contract Holdbacks	-	(3)	(3)
Contingent Liabilities	496	-	496
Total Other than Intragovernmental Other Liabilities	\$ 298,807	\$ (3)	\$ 298,804

FY 2020			
	Current	Non-Current	Total
Intragovernmental Other Liabilities			
Custodial Liabilities	\$ 1,007	\$ -	\$ 1,007
Total Intragovernmental Other Liabilities	\$ 1,007	\$ -	\$ 1,007
Other than Intragovernmental Other Liabilities			
Accrued Funded Payroll and Benefits	\$ 287,474	\$ -	\$ 287,474
Liability for Bid Deposits	7,074	-	7,074
Contract Holdbacks	-	14	14
Contingent Liabilities	466	-	466
Total Other than Intragovernmental Other Liabilities	\$ 295,014	\$ 14	\$ 295,028

Custodial Liabilities (Intragovernmental) are liabilities for collections reported as non-exchange revenues where DLA is acting on behalf of another Federal entity. (Refer to Note 2, *Non-Entity Assets*.)

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

Liability for Bid Deposits (Other than Intragovernmental) are amounts received for the collection of funds offered on bid auction or negotiated sales basis. A liability is recognized until settlement occurs. (Refer to Note 2, *Non-Entity Assets*.)

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.

Contingent Liabilities (Other than Intragovernmental) are a loss determined to be probable and the amount is estimable based on the outcome of an uncertain future event. The current portion is related to legal contingencies. (refer to Note 11, *Commitments and Contingencies*).

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Accounts Payable, Expenses, and Undelivered Orders; and Commitments and Contingencies, and Note 11, *Commitments and Contingencies*.)

Note 10: 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		
Other Accrued Environmental Liabilities - Non-BRAC:		
Environmental Corrective Action	\$ 420,990	\$ 430,909
Environmental Closure Requirements	850,255	688,412
Asbestos	1,132	67,820
Total Environmental and Disposal Liabilities	\$ 1,272,377	\$ 1,187,141

The DLA WCF EL are comprised of two primary elements: (1) existing obligations supporting the Defense WCF environmental restoration programs; and (2) the CTC which includes anticipated future costs necessary to complete the environmental restoration requirements at DLA Energy and Non-Energy environmental restoration sites.

In FY 2021 and FY 2020, DLA WCF utilized the Remedial Action Cost Engineering and Requirements (RACER) software to generate the CTC estimates of anticipated future costs. DLA WCF includes EL for environmental corrective action sites under both DLA Energy and Non-Energy management and asset-related EL.

FY 2021 cost estimates for sites under DLA Energy management were generated for a total of 3,845 sites, which includes 77 sites with environmental corrective action costs, 3,750 assets with environmental closure requirements costs, and 18 assets with asbestos costs. Cost estimates for sites under Non-Energy management were generated for a total of 104 sites, which includes two sites with environmental corrective action costs, 89 assets with environmental closure requirements costs, and 13 assets with asbestos costs. In FY 2021 and FY 2020, there were PP&E transfers impacting the E&DL balance for WCF.

FY 2020 cost estimates for sites under DLA Energy management were generated for a total of 5,128 sites, which includes 71 sites with environmental corrective action costs, 3,058 assets with environmental closure requirement costs, and 1,999 assets with asbestos costs. Cost estimates for sites under Non-Energy management were generated for a total of 1,207 sites, which includes one site with environmental corrective action costs, 110 assets with environmental closure requirement costs, and 1,096 assets with asbestos costs.

Types of Environmental Liabilities and Disposal Liabilities:

The DLA WCF is responsible for the recognition, measurement, reporting, and disclosure of Non-BRAC EL and Environmental Disposal for General Equipment. Non-BRAC EL are specifically related to past and current installation restoration activities and operations, and closure and disposal of PP&E. All clean-up and disposal actions are conducted in coordination with regulatory Agencies, other responsible parties, and current property owners.

The DLA WCF reportable EL is under Other Accrued EL – Non-BRAC and includes the following line items:

Environmental Corrective Action: EL associated with the cleanup sites not eligible for DERP funding, typically conducted under Resource Conservation and Recovery Act (RCRA) or other Federal or state statutes and regulations;

Environmental Closure Requirements: EL associated with the future closure/decommissioning of facilities on an installation that have environmental closure requirements to include fuel storage tanks and pipelines; and

Asbestos: EL associated with the removal, containment, and/or disposal of friable (immediate health threat) and nonfriable (not an immediate health threat): (1) asbestos-containing materials from property; or (2) material and/or property that consists of asbestos-containing material at permanent or temporary closure or shutdown of associated general PP&E on Non-BRAC installations.

The DLA WCF assessed its General Equipment inventory and does not currently have reportable EL for these or any other EL categories as listed on the DoD FMR Volume 6B, Chapter 10 – Note to the Financial Statements, Paragraph 1017, Figure

10-31. Environmental and Disposal Liabilities (March 2021).

Applicable Laws and Regulations for

Cleanup Requirements: The DLA WCF 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 WCF is required to comply with the following laws and regulations for Corrective Actions, where applicable: The Comprehensive Environmental Response, Compensation, and Liability Act; the Superfund Amendments and Reauthorization Act; 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 WCF is named as a potentially responsible party by a regulatory Agency. DLA WCF reports corrective action-related EL in accordance with SFFAS 5: *Accounting for Liabilities of the Federal Government* and Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

The DLA WCF is also required to ensure all hazardous substances are removed prior to closing or disposing of PP&E assets, such as Petroleum, Oil, and Lubricant storage tanks and pipelines and General Equipment in accordance with applicable Federal, State, and local laws and regulations. DLA WCF reports EL associated with closures of PP&E in accordance with SFFAS 5: *Accounting for Liabilities of the Federal Government*, SFFAS 6: *Accounting for Property, Plant, and Equipment*, Federal Financial Accounting and Auditing Technical Release 11: *Implementation Guidance on Cleanup Costs Associated with Equipment*, and Federal Financial Accounting and Auditing Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, and Equipment*.

The DLA WCF is required to abate or properly dispose of asbestos containing material in accordance with the Toxic Substances Control Act. DLA WCF reports EL associated with asbestos cleanup in accordance with Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, and Technical Release 10: *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*.

Additionally, DLA WCF reports EL associated with asbestos cleanup in accordance with DoD FMR Volume 4, Chapter

24 – Real Property (Section 240204.A. – Recognition Responsibility), which requires that real property assets be reported on the financial statements of the installation where they are located. As a result, asbestos related cleanup that was previously reported by DLA due to operational use of the assets are now reported by the asset owner, e.g. the Host Installation. Because asbestos is inherent to building construction and not a result of DLA's use, the Asbestos EL for transferred real property assets has also transferred to the Host Installation.

Methods for Assigning Estimated Total Cleanup Costs to Current Operating

Periods: To estimate future environmental costs, DLA WCF 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 WCF 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 the 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 inclusion in the CTC estimates if applicable. DLA WCF EL estimates are created annually for all projected requirements to achieve site closure 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 the DLA EL Management SOPs, the DoD 7000.14-R FMR Volume 4, Chapter 13 – Environmental and Disposal Liabilities (April 2018); and the OUSD memorandum

for Strategy for Environmental & Disposal Liabilities Audit Readiness (September 30, 2015).

Revised CTC estimates and prior year obligations are reported in the balance as of September 30. As of the reporting date, material changes to approved CTC estimates for six sites were identified through the Roll Forward review. In accordance with the Roll Forward process, costs were recalculated to capture the changes, and revised costs are reflected in the Environmental Corrective Action EL balance stated above. In addition, DLA WCF 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 WCF EL includes prior year obligations and the estimate of future costs necessary to complete requirements. DLA WCF has instituted extensive controls to ensure that these estimates are accurate and reproducible. The cost estimates produced through the Environmental Liabilities Management 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 costs may materially vary from the accounting estimates if agreements with regulatory Agencies require remediation or closure activities to a different degree than anticipated when calculating the estimates. WCF EL can be further affected if investigation of the environmental sites reveals contamination levels that differ from the estimated parameters.

The calculation of DLA WCF EL relies on site/asset inventories. Asset inventories obtained from the DLA system of record provide the basis for asset-related EL estimates, which includes Other Accrued Environmental Liabilities – Non-BRAC Environmental Closure Requirements, and Asbestos. The EL for these line items are estimated annually to account for changes to inventories.

The DLA WCF 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/data is available to create an estimate of future costs that would be included in the EL balance.

Unrecognized Costs: The DLA WCF systematically recognizes asset-related DLA WCF EL over the useful life of general PP&E assets in accordance with DoD FMR Volume 4, Chapter 13, Paragraph 130203 (April 2018). The total recognized Asbestos EL balance is stated above in the footnote and the associated unrecognized Asbestos EL is \$32.2 thousand and \$17.6 million as of September 30, 2021 and 2020, respectively. The total recognized Environmental Closure Requirements DLA WCF EL is stated above in the footnote and the associated unrecognized Environmental Closure EL is \$61.9 million and \$21.1 million as of September 30, 2021 and 2020, respectively. DLA has no reportable EL for General Equipment assets. Asset-related EL are amortized based on the useful life of the assets as defined in DoD FMR Volume 4, Chapter 24 – Real Property, Paragraph 240206.B, Table 24-1: DoD Useful Lives for Depreciable Real Property Assets (October 2019).

Cleanup Costs Associated with Overseas Environmental Liabilities: Total overseas cleanup EL includes 971 environmental closure requirements assets (888 tanks and 83 pipelines) at 87 installations across 17 countries/territories; eight asbestos cleanup-related requirements assets at five installations across four countries/territories; and five environmental corrective action sites at five installations across three countries/territories.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities and Commitments and Contingencies; Note 7, *Liabilities Not Covered by Budgetary Resources*; and Note 11, *Commitments and Contingencies*.)

Note 11: Commitments and Contingencies (Unaudited)

Accrued and reasonably possible legal, contract financing payment, and environmental contingent liabilities as of September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

FY 2021				
	Accrued Liabilities	Estimated Range of Loss		
		Lower End	Upper End	
Legal Contingencies				
Probable	\$ 496	\$ 496	\$ 5,680	
Reasonably Possible		\$ 2,189	\$ 210,535	
Environmental Contingencies				
Probable	\$ 1,272,377	\$ -	\$ -	
Reasonably Possible		\$ -	\$ -	
Contract Financing Payment Contingencies				
Probable	\$ -	\$ -	\$ -	
Reasonably Possible		\$ -	\$ -	

FY 2020					
		Accrued Liabilities	Estimated Range of Loss		
			Lower End	Upper End	
Legal Contingencies					
Probable	\$	466	\$	466	\$ 5,475
Reasonably Possible			\$	7,376	\$ 252,017
Environmental Contingencies					
Probable	\$	1,187,141	\$	-	\$ -
Reasonably Possible			\$	-	\$ -
Contract Financing Payment Contingencies					
Probable	\$	-	\$	-	\$ -
Reasonably Possible			\$	-	\$ -

Legal Contingencies: The DLA WCF is a party in various administrative proceedings and legal actions related to claims for environmental damages, equal opportunity matters, employee or applicant related matters, contract related matters, and contractual bid protests. DLA's Automated Workflow and Reporting System (AWARS) is used by the Office of General Counsel to report the outcomes and possible liability amounts of open cases.

The DLA WCF has accrued the lower end of the range for probable contingent liabilities for legal actions where the Office of General Counsel considers an adverse decision probable and the amount of loss is estimable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. DLA WCF records contingent liabilities (refer to Note 9, *Other Liabilities*) within Other Liabilities in the Balance Sheets.

Cases for which legal counsel determines an adverse outcome is reasonably possible and the possible financial outflow is measurable, are not recorded, but disclosed as reasonably possible for financial reporting purposes.

Of the 120 legal matters classified as "Reasonably Possible", there are 23 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. In these 23 matters, which include matters where there is not a claimed amount against the government, the total amount claimed is \$60.0 thousand and is disclosed in the table above.

Environmental Contingencies: The DLA WCF has developed a process to identify, estimate, and record contingent EL. The WCF does not estimate a potential range of loss in this process. Where DLA WCF is aware of probable and measurable future outflow of resources due to a past event or exchange transaction, the appropriate program categories are reported in Note 10, *Environmental and Disposal Liabilities*.

Potential Loss Related to Economic Price Clause Contracts: The DLA WCF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. DLA WCF has limited automated system processes by which it captures or assesses these potential liabilities; therefore, the amounts reported may not fairly present DLA WCF's total contingent liabilities. Known contingencies that are considered both measurable and probable have been recognized and recorded as liabilities in the Balance Sheets. DLA WCF does not have contract financing payment contingencies as of September 30, 2021.

Commitments: The DLA WCF does not have obligations related to canceled appropriations for contractual commitments.

(Refer to Note 1.C., *Departures from U.S. GAAP*, related to Environmental and Disposal Liabilities; and Commitments and Contingencies, Note 9, *Other Liabilities*; and Note 10, *Environmental and Disposal Liabilities*.)

Note 12: Exchange Revenue (Unaudited)

The DLA WCF pricing policy for SCM and Energy Management is to seek full cost recovery for products and services provided. These DLA WCF activities maintain the goal to break-even over a single year or two-year period; however, the SCM may request a waiver from the OUSD(C) to recover costs beyond the budget year to maintain a stabilized CRR. DLA WCF establishes its selling or standard prices in the budget to ensure sufficient budgetary resources are available to cover the costs of operations. The prices are normally stabilized or fixed during execution to mitigate the impact of unforeseen fluctuations. DLA WCF will not change the prices during the fiscal year unless prior approval from OUSD(C) is received, except for those instances in which the SCM out-of-cycle price changes may be made without OUSD(C) approval.

The DLA Energy Management generally bills its customers using petroleum standard price mandated by OUSD(C). OUSD(C) establishes the standard price for petroleum and product costs on an annual basis (refer to Note 1.U, *Revenue and Other Financing Sources*, related to non-NSN and cost-plus pricing).

For the years ended September 30, 2021 and 2020, DLA WCF recognized other accounting gains of approximately \$9.6 billion and \$2.2 billion, respectively, and losses of approximately \$9.3 billion and \$2.0 billion, respectively, derived from supply chain

(continued on next page)

activities involving MAC updates, receipts without purchase orders, errors due to inventory receipts, NRV updates, and disposal of demilitarized property.

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

Note 13: 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	\$ 1,814,726	\$ 1,945,087
Total Intragovernmental Undelivered Orders	1,814,726	1,945,087
Other than Intragovernmental Undelivered Orders		
Unpaid	21,980,443	21,355,746
Paid	95,645	89,068
Total Other than Intragovernmental Undelivered Orders	22,076,088	21,444,814
Total Undelivered Orders	\$ 23,890,814	\$ 23,389,901

UDOs represent the amount of goods and/or services ordered to perform DLA WCF'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 WCF does not have intragovernmental paid UDO balances.

Due to system limitations, DLA WCF is unable to determine the Intragovernmental and Other than Intragovernmental

allocation of UDOs. DLA WCF 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.

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

Note 14: Contributed Capital (Unaudited)

The DLA WCF received additional funding through the allotment of appropriations from the: (1) DoD reprogramming actions for the year ended September 30, 2021 of \$49.8 million; and (2) CARES Act and DoD reprogramming actions for the year ended September 30, 2020 of \$579.2 million.

Note 15: Reconciliation of Net Cost to Net Outlays (Unaudited)

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

	FY 2021		
	Intragovernmental	Other than Intragovernmental	Total
NET COST	\$ (32,334,435)	\$ 32,037,043	\$ (297,392)
Components of Net Cost That are Not Part of Net Outlays			
General Property, Plant and Equipment Depreciation	-	(76,117)	(76,117)
General Property, Plant and Equipment Disposal	-	(15,962)	(15,962)
Cost of Goods Sold	(5,654,464)	(27,017,880)	(32,672,344)
Net Gains/(Losses)	-	320,922	320,922
Other	-	(1,968)	(1,968)
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	2,486	(160,891)	(158,405)
Cash and Other Monetary Assets	-	(7,074)	(7,074)
Advances and Prepayments	-	6,577	6,577
(Increase)/Decrease in Liabilities:			
Accounts Payable	49,471	220,242	269,713
Environmental and Disposal Liabilities	-	(85,236)	(85,236)
Federal Employment Benefits Payable	-	3,012	3,012
Advances from Others and Deferred Revenue	1,246,828	2,765	1,249,593
Other Liabilities	(3,667)	(3,776)	(7,443)
Financing Sources:			
Imputed Financing	(163,152)	-	(163,152)
Total Components of Net Cost That are Not Part of Net Outlays	(4,522,498)	(26,815,386)	(31,337,884)
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of General Property, Plant and Equipment	-	139,888	139,888
Acquisition of Inventory and Related Property	1,675	32,594,511	32,596,186
Financing Sources:			
Other	2,860	(3,395)	(535)
Transfer in/out without Reimbursements	-	(2,690)	(2,690)
Total Components of Net Outlays That are Not Part of Net Cost	4,535	32,728,314	32,732,849
NET OUTLAYS	\$ (36,852,398)	\$ 37,949,971	1,097,573
Outlays, Net, Statements of Budgetary Resources			1,259,017
Reconciling Difference			\$ (161,444)

FY 2020 As Restated			
	Intragovernmental	Other than Intragovernmental	Total
NET COST	\$ (31,690,179)	\$ 30,889,313	\$ (800,866)
Components of Net Cost That are Not Part of Net Outlays			
General Property, Plant and Equipment Depreciation	-	(216,192)	(216,192)
General Property, Plant and Equipment Disposal	-	(15,225)	(15,225)
Cost of Goods Sold	(5,461,727)	(25,943,360)	(31,405,087)
Net Gains/(Losses)	-	405,690	405,690
Other	-	3,837	3,837
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	413,342	(426,682)	(13,340)
Cash and Other Monetary Assets	-	7,074	7,074
Advances and Prepayments	-	2,895	2,895
(Increase)/Decrease in Liabilities:			
Accounts Payable	(36,989)	246,391	209,402
Environmental and Disposal Liabilities	-	85,098	85,098
Federal Employment Benefits Payable	-	20,685	20,685
Advances from Others and Deferred Revenue	(1,783,266)	515	(1,782,751)
Other Liabilities	(2,631)	(39,798)	(42,429)
Financing Sources:			
Imputed Financing	(155,107)	-	(155,107)
Total Components of Net Cost That are Not Part of Net Outlays	(7,026,378)	(25,869,072)	(32,895,450)
Components of Net Outlays That are Not Part of Net Cost			
Acquisition of General Property, Plant and Equipment	-	104,925	104,925
Acquisition of Inventory and Related Property	226,632	31,579,004	31,805,636
Financing Sources:			
Other	487	(475)	12
Transfer in/out without Reimbursements	-	-	-
Other Reconciling Items:			
Temporary Timing Differences	(397,855)	-	(397,855)
Total Components of Net Outlays That are Not Part of Net Cost	(170,736)	31,683,454	31,512,718
NET OUTLAYS	\$ (38,887,293)	\$ 36,703,695	(2,183,598)
Outlays, Net, Statements of Budgetary Resources			(2,343,308)
Reconciling Difference			\$ 159,710

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 Combined 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) cost financed by other Federal entities (imputed inter-entity cost).

For FY 2021, the key reconciling differences between the net cost and the net outlays for DLA WCF included: (1) the cost of goods sold were operating expenses for inventory purchases and have no impact on net outlays; (2) Advances from Others and Deferred Revenue were primarily due to decreases in cash advances from the HHS and FEMA related to COVID-19 relief efforts (refer to Note 16, COVID-19 Activity); and (3) the acquisition of inventory were capitalized expenditures paid for, and have no impact on net cost.

FY 2020, the key reconciling differences between the net cost and net outlays for DLA WCF included: (1) the cost of goods sold, which are operating expenses for inventory purchases that have no impact on net outlays; (2) increases in advances for others, which was due to cash advances from the HHS and FEMA related to COVID-19 relief efforts (refer to Note 16, COVID-19 Activity) and an additional \$39.1 million from FEMA for Hurricane Laura relief efforts; and (3) the acquisition of inventory, which are capitalized expenditures paid for, that have no impact on net cost.

The resulting reconciling difference is primarily 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*.

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

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



DLA Distribution Delivers Johnson & Johnson Vaccines to Overseas Troops

Johnson & Johnson vaccines are packaged for shipping to overseas troops from Defense Logistics Agency Distribution Susquehanna, Pennsylvania, March 12, 2021, as part of the federal response to COVID-19. **Photo Credit:** Matthew Mahoney, DLA Distribution Public Affairs

Note 16: COVID-19 Activity (Unaudited)

On March 27, 2020, Congress signed the CARES Act under P.L. 116-136. The CARES Act appropriated \$1,450.0 million to the Department of Defense Working Capital Fund as a transfer of current year authority. The allocation of the \$1,450.0 million is as follows: (1) \$475.0 million Navy Working Capital Fund, (2) \$475.0 million to Air Force Working Capital Fund; and (3) \$500.0 million to the Defense-Wide Working Capital Fund. The OUSD-C Program/Budget allocated the Defense-Wide Working Capital Fund appropriation of \$500 million to the DLA SCM. In August 2020, DLA received additional \$30.2 million CARES Act funding through OUSD(C) internal reprogramming. The funding did not provide new obligation authority and was executed through contract authority.

The CARES Act funding was used to purchase PPE to ensure DoD has sufficient stock available for personnel to follow

COVID-19 health protocols and continue its mission through the Coronavirus pandemic.

The DLA SCM expended budgetary resources related to CARES Act appropriations totaling \$0.0 thousand and \$530.2 million for the years ended September 30, 2021 and 2020, respectively. DLA SCM did not receive appropriated budgetary resources from other COVID-19 supplemental appropriations or other acts in FY 2021.

COVID-19 appropriated activities for DLA SCM are summarized for the years ended September 30, 2021 and 2020 (dollars in thousands):

	FY 2021	FY 2020
Budgetary Resources		
Appropriations	\$ -	\$ 530,200
Total Budgetary Resources	<u>-</u>	<u>530,200</u>
Obligations Incurred	-	530,200
Budgetary Resources Remaining Available	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

In addition, HHS and FEMA entered into Intragovernmental Agency Agreements (IAAs) with DLA for DLA SCM to deliver goods and services. These goods include ventilators, Battelle sterilization units, personal protective equipment, medical supplies, and food supplies to support the National COVID-19 response through the Public Health and Social Services Emergency Fund (Provider Relief Fund) appropriated as part of the CARES Act.

Defense Health Agency (DHA) entered into an agreement with HHS for the distribution of COVID-19 vaccines to the DoD. DLA SCM was designated by the DoD to manage, track, and distribute COVID-19 vaccines to OCONUS Military services and other Defense customers. The DLA SCM does not have title to the vaccines and is not designated as an owner of the vaccine inventory in the agreement. DLA SCM does not hold any Moderna, Janssen or Pfizer vaccine in

inventory for resale to customers. The vaccines are delivered weekly and distributed within days of receipt. While in-transit, DLA SCM bears no liability for loss or replacement. As a result, the vaccine quantities are posted to DLA Distribution Standard System and EBS solely for the purpose of accountability, tracking and distribution. DLA is required by 10 U.S.C. 2208, "Working-Capital Funds" and OSD regulations to recover all costs for products and services as a DWWCF entity. DLA will recover its costs for the reimbursable services provided in support of this effort under agreements with HHS or DHA, as appropriate. Applicable funding agreement(s) are in place to fully reimburse DLA for all costs in support of COVID-19 vaccine storage and distribution response operations via reimbursable orders.

As of September 30, 2021 and 2020, DLA WCF has received a

(continued on next page)

total of \$2.5 billion and \$1.9 billion in cash advances since the beginning of the COVID-19 pandemic. Remaining advances as of September 30, 2021 and 2020 totaled \$552.2 million and \$1.8 billion, respectively. In addition, DLA has reimbursable agreements without advances to provide goods and services for COVID-19 relief efforts totaling \$2.9 billion with HHS and

FEMA for the year ended September 30, 2021 and \$1.1 billion with HHS for the year ended September 30, 2020. COVID-19 activities for DLA SCM are summarized by supply chain and scope for the years ended September 30, 2021 and 2020 (dollars in thousands):

HHS FY 2021					
DLA Organization	Item Description	Unfilled Customer Orders with Advance	Unfilled Customer Orders without Advance	Earned Revenue	Available Reimbursable Amount
Medical	Ventilators Test Components	\$ 1,627,500	\$ 2,131,931	\$ 1,332,338	\$ 2,427,093
C&E and Medical	PPE	-	7,730	1,349	6,381
C&E	PPE and Battelle CCDS Systems	767,674	269,131	874,958	161,847
C&E and C&T	PPE for Surge Sites	-	377,497	377,450	47
C&T	PPE	-	92,834	72,282	20,552
C&T and Medical	PPE	-	2,030	783	1,247
Total		\$ 2,395,174	\$ 2,881,153	\$ 2,659,160	\$ 2,617,167

HHS FY 2020					
DLA Organization	Item Description	Unfilled Customer Orders with Advance	Unfilled Customer Orders without Advance	Earned Revenue	Available Reimbursable Amount
Medical	Ventilators Test Components	\$ 865,000	\$ 203,725	\$ 51,856	\$ 1,016,869
C&E and Medical	PPE	-	1,350	120	1,230
C&E	PPE and Battelle CCDS Systems	780,835	430,092	158,253	1,052,674
C&E and C&T	PPE for Surge Sites	-	450,000	72,503	377,497
C&T	PPE	-	2,500	470	2,030
C&T and Medical	PPE	-	-	-	-
Total		\$ 1,645,835	\$ 1,087,667	\$ 283,202	\$ 2,450,300

(continued on next page)

FEMA FY 2021					
DLA Organization	Item Description	Unfilled Customer Orders with Advance	Unfilled Customer Orders without Advance	Earned Revenue	Available Reimbursable Amount
HQ Staff	National Response Coordination Center staffing	\$ 25	\$ -	\$ 25	\$ -
Distribution	Storage	8,003	-	7,853	150
Medical	Test components, pharmaceuticals, medical supplies and human remains pouches.		48,152	30,039	18,113
C&E and C&T	PPE	113,816	-	85,201	28,615
C&E	PPE	-	3,593	3,590	3
C&T	PPE	-	16,469	947	15,522
Subsistence	Food boxes and meals	-	-	-	-
Total		\$ 121,844	\$ 68,214	\$ 127,655	\$ 62,403

FEMA FY 2020					
DLA Organization	Item Description	Unfilled Customer Orders with Advance	Unfilled Customer Orders without Advance	Earned Revenue	Available Reimbursable Amount
HQ Staff	National Response Coordination Center staffing	\$ 66	\$ -	\$ 63	\$ 3
Distribution	Storage	4,500	-	1,097	3,403
Medical	Test components, pharmaceuticals, medical supplies and human remains pouches.	15,498	-	5,034	10,464
C&E and C&T	PPE	260,500	-	146,350	114,150
C&E	PPE	-	-	-	-
C&T	PPE	-	-	-	-
Subsistence	Food boxes and meals	8,432	-	6,583	1,849
Total		\$ 288,996	\$ -	\$ 159,127	\$ 129,869

The DLA WCF recognized revenue in relation to the COVID-19 relief effort totaling \$3.1 billion for the year ended September 2021, which consists of revenue recognized from: (1) FEMA and HHS above totaling \$2.8 billion for DLA WCF Troop Support; (2) other Federal entities (e.g., USMC, Navy, Army, Air Force, etc.) totaling \$261.8 million for DLA WCF Troop Support; and (3) other DLA WCF activities totaling \$18.3 million.

The DLA WCF recognized revenue in relation to the COVID-19 relief effort totaling \$676.0 million for the year ended September 30, 2020, which consists of revenue recognized from: (1) FEMA and HHS above totaling \$442.3 million for DLA WCF Troop Support; (2) other Federal entities (e.g., USMC, Navy, Army, Air Force, etc.) totaling \$221.7 million for DLA WCF Troop Support; and (3) other DLA WCF activities totaling \$12.0 million.

(Refer to Note 5, Inventory and Related Property, for inventory received from HHS.)

The impact of COVID-19 activity to Fund Balance with Treasury (refer to the Balance Sheets and Note 3, Fund Balance with Treasury), Accounts Receivable, and Accounts Payable (refer to the Balance Sheets and Note 4, Accounts Receivable, Net), Net Position (refer to the Balance Sheets and Statements of Changes in Net Position), Gross Cost (refer to the Statements of Net Cost), and New Obligations (refer to the Combined Statements of Budgetary Resources) cannot be quantified 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*, and the MD&A Analysis of Systems, Controls and Legal Compliance: Compliance with Laws and Regulations, DATA Act.

Note 17: Restatements of the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position (Unaudited)

In FY 2021, DLA WCF 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 WCF's Net Position reported on the financial statements to be understated by \$521.2 million. DLA WCF made adjustments to recognize the transfer-in of capitalized assets and the related depreciation expense, which were not recorded in prior periods. In addition, DLA WCF made adjustments to recognize accounts receivable, which was not recorded in prior periods.

The DLA WCF receives property transfers from DLA GF upon construction project completion. DLA GF identified assets transferred into DLA WCF in FY 2021 that were placed in service in FY 2020 and prior fiscal years. The correction required adjustments to the FY 2020 Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position by increasing General Property, Plant and Equipment by \$123.4

million and increasing Gross Cost by \$3.7 million resulting in an overall decrease in Net Cost and increase in Net Position of \$3.7 million and \$123.4 million, respectively. In addition, \$85.7 million from the prior period adjustment to Net Position relate to corrections prior to FY 2020.

The DLA WCF recognized deposit funds that are due from OUSD. The correction required prior period adjustments to the FY 2020 Balance Sheet and Statement of Changes in Net Position by increasing Accounts Receivable, Net by \$397.9 million, resulting in an overall increase in Net Position of \$397.9 million.

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



All Aboard

Marines board the USS Lewis B. Puller from an inflatable boat during visit, board, search and seizure training in the Persian Gulf, March 19, 2021. **Photo By:** Marine Corps Sgt. Sarah Stegall

Balance Sheet (dollars in thousands) As of September 30, 2020	Unaudited FY 2020 As Previously Reported ¹¹	Unaudited FY 2020 Adjustments	Unaudited FY 2020 As Restated
ASSETS (Note 2)			
Intragovernmental			
Fund Balance with Treasury (Note 3)	\$ 3,915,418	-	\$ 3,915,418
Accounts Receivable and Other (Note 4)			
Accounts Receivable, Net	1,864,975	397,855	2,262,830
Strategic Petroleum Reserve	123,306	-	123,306
Total Intragovernmental Accounts Receivable, Net	1,988,281	397,855	2,386,136
Total Intragovernmental Assets	5,903,699	397,855	6,301,554
Other Than Intragovernmental			
Cash and Other Monetary Assets	7,074	-	7,074
Accounts Receivable, Net (Note 4)	717,098	-	717,098
Inventory and Related Property, Net (Note 5)	21,837,879	-	21,837,879
General Property, Plant and Equipment, Net (Note 6)	631,176	123,388	754,564
Advances and Prepayments	89,068	-	89,068
Total Other Than Intragovernmental	23,282,295	123,388	23,405,683
TOTAL ASSETS	\$ 29,185,994	\$ 521,243	\$ 29,707,237
LIABILITIES (Note 7)			
Intragovernmental			
Accounts Payable	\$ 225,139	-	\$ 225,139
Advances from Others and Deferred Revenue	1,798,994	-	1,798,994
Other Liabilities:			
Benefits Program Contributions Payable and Other (Note 8)	52,716	-	52,716
Other Liabilities (Note 9)	1,007	-	1,007
Total Intragovernmental Other Liabilities	53,723	-	53,723
Total Intragovernmental Liabilities	2,077,856		2,077,856
Other than Intragovernmental			
Accounts Payable	2,495,823	-	2,495,823
Environmental and Disposal Liabilities (Note 10)	1,187,141	-	1,187,141
Federal Employee Benefits Payable (Note 8)	159,850	-	159,850
Advances from Others and Deferred Revenue	6,407	-	6,407
Other Liabilities (Note 9)	295,028	-	295,028
Total Other than Intragovernmental Liabilities	4,144,249	-	4,144,249
TOTAL LIABILITIES	\$ 6,222,105	\$ -	\$ 6,222,105
Commitments and Contingencies (Note 11)			
NET POSITION			
Unexpended Appropriations-Funds from Other than Dedicated Collections	\$ 291,494	-	\$ 291,494
Cumulative Results of Operations-Funds from Other than Dedicated Collections	22,672,395	521,243	23,193,638
TOTAL NET POSITION	22,963,889	521,243	23,485,132
TOTAL LIABILITIES AND NET POSITION	\$ 29,185,994	\$ 521,243	\$ 29,707,237

¹¹ 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
Energy			
Gross Cost	\$ 9,692,755	\$ 3,607	\$ 9,696,362
Less: Earned Revenue	(10,734,135)	-	(10,734,135)
Net Cost	(1,041,380)	3,607	(1,037,773)
Supply Chain Management			
Gross Cost	31,657,088	115	31,657,203
Less: Earned Revenue	(31,435,772)	-	(31,435,772)
Net Cost	221,316	115	221,431
Document Services			
Gross Cost	221,567	-	221,567
Less: Earned Revenue	(206,091)	-	(206,091)
Net Cost	15,476	-	15,476
Total Gross Cost	41,571,410	3,722	41,575,132
Less: Earned Revenue	(42,375,998)	-	(42,375,998)
NET COST OF OPERATIONS	\$ (804,588)	\$ 3,722	\$ (800,866)



Preparing the Workspace

Air Force Staff Sgt. Vittoria Gonzalez and Air Force Staff Sgt. Ayanna Blanco, aerospace medical technicians assigned to the 161st Medical Squadron, prepare a workspace to be used for the administration of the COVID-19 vaccine at Cesar Chavez Cultural Center in San Luis, Arizona, March 30, 2021.

Photo By: Army Sgt. Laura Bauer

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	\$ 291,040	\$ -	\$ 291,040
Appropriations Received	-	-	-
Appropriations Transferred-in/out	579,285	-	579,285
Appropriations Used	(578,831)	-	(578,831)
Net Change in Unexpended Appropriations	454	-	454
Total Budgetary Financing Sources	454	-	454
Total Unexpended Appropriations: Ending Balance	291,494	-	291,494
Cumulative Results of Operations			
Beginning Balances	23,315,727	-	23,315,727
Correction of Errors	-	483,571	483,571
Beginning Balances, as Adjusted	23,315,727	483,571	23,799,298
Appropriations Used	578,831	-	578,831
Nonexchange Revenue	475	-	475
Transfers-in/out Without Reimbursement	(2,181,846)	41,394	(2,140,452)
Imputed Financing	155,107	-	155,107
Other	(487)	-	(487)
Net Cost of Operations	(804,588)	3,722	(800,866)
Net Change	(643,332)	37,672	(605,660)
Cumulative Results of Operations	22,672,395	521,243	23,193,638
TOTAL NET POSITION	\$ 22,963,889	\$ 521,243	\$ 23,485,132



Ramstein Support

Air Force Capt. Ranon Barber stacks dinner meals at Ramstein Air Base, Germany, Aug. 26, 2021. Barber supported Operation Allies Refuge through building pods, replacing old cots with new ones and stocking meals for evacuees from Afghanistan.

Photo By: Air Force Airman Jared Lovett

Required Supplementary Information (Unaudited)

Deferred Maintenance and Repairs

The DLA WCF pays for the operating cost of five stewardship properties. These properties were transferred in FY 2020 to the Department of the Army, and the Army is responsible for all financial reporting for these assets (i.e., financial reporting and disclosures such as, but not limited to, note disclosures, deferred maintenance and repair, and other required supplemental information (RSI). DLA WCF and the Army continue to negotiate the final transfer of all responsibilities of these assets as of September 30, 2021. In addition, DLA also pays for operation costs related to RP transferred out to other Military Services since FY 2020 and continue usage of these properties.

Therefore, DLA WCF included the additional disclosure related to the maintenance and repair needs of these assets which were identified primarily through the condition assessment process. Maintenance and repairs that were not performed when they should have been or were scheduled and delayed for a future period are considered Deferred Maintenance and Repairs (DM&R). DM&R for the years ended September 30, 2021 and 2020, respectively, consist of the following (dollars in thousands):

	Beginning Balance	Ending Balance
Active		
Category 1: Building, Structures, and Linear Structure (Enduring Facilities)	\$ 1,065,542	\$ 1,102,050
Category 2: Building, Structures, and Linear Structure (Heritage Assets)	9	15
Total Active	<u>\$ 1,065,551</u>	<u>\$ 1,102,065</u>
Inactive and Excess		
Category 3: Building, Structures, and Linear Structure (Excess Facility or Planned for Replacement)	\$ -	\$ -
Total Inactive and Excess	-	-
Total Deferred Maintenance	<u>\$ 1,065,551</u>	<u>\$ 1,102,065</u>

M&R Policies Installation & Equipment (DM-I) manages only the DLA Non-Energy portion of the Sustainment, Restoration, and Maintenance (SRM) program. DLA Energy runs a separate SRM program independent of DM-I. DM-I continues to conduct condition assessments of DLA non-Energy facilities using the US Army Corps of Engineer Sustainment Management System (SMS) BUILDER. The Under Secretary of Defense memorandum dated Sep 10, 2013, mandated use of the reported SMS BUILDER for all DoD facilities. BUILDER captures all assessed facility deficiencies or work items

categorized by fiscal year along with a cost estimate. As a result, BUILDER generates a consistent and uniform Facility Condition Index (FCI) for assessed DoD facilities.

M&R Prioritization Planning, programming, and execution of the DLA Non-Energy SRM program is executed IAW DLAI 4165.02 (dated 30 Oct 2018) using the following priorities:

- Life, health, and safety concerns (cannot mitigate)
- Facilities with an FCI of 60 or less

- c. Security deficiencies including cyber security (cannot mitigate)
- d. Environmental deficiencies addressing non-compliance (cannot mitigate)
- e. Warfighter support facilities (mission failure)
- f. Energy conservation projects (as mandated)
- g. Warfighter support facilities (mission impact)
- h. Routine maintenance (no mission impact)

Field sites submit their candidate projects ranked with the above-prioritized criteria. Prioritized DLA non-Energy projects, forming a 1 – N list, are submitted to a Sustainment (maintenance and repair) board for review and voting similar to the MILCON Installation Level Review Board. The DLA Chief of Staff and DLA's MSCs chiefs of staff chair the Sustainment board. Approved projects above the MSC funding line move forward for execution based on the priority list.

For DLA Energy, the SRM program is executed IAW DLA Energy P-12 and the DLA Energy SRM Handbook. All work is prioritized by the Service Control Point in accordance with Service and DoD mission priorities.

Acceptable Condition Standards OSD and DLA considers an asset acceptable when it is in good condition with an assigned minimum FCI of 80%. Failing facilities have an FCI below 60% whereas facilities are classified in "Poor"

condition with an FCI between 60 and 79. This acceptance criterion is in accordance with the Under Secretary of Defense memorandum dated Apr 29, 2014, titled Facility Sustainment and Recapitalization Policy. DLA also considers life, health, safety, and mission when assessing acceptable conditions. For Non-Energy, BUILDER has three separate criteria to assist in the assessment of DLA facilities: the FCI, Condition Index (CI), and BUILDER Condition Index (BCI). Those technical criteria are used differently to assess facility conditions.

Capitalization of DM&R The deferred maintenance and repair information presented relates to all DLA operated DoD facilities where DLA has the maintenance responsibility and is not solely restricted to capitalized assets.

Asset Exclusions The deferred maintenance and repair information include only facilities in Active (ACT) and To Be Acquired (TBA) status. It excludes facilities in a semi-active status, caretaker, out granted, non-functional, environmental hold status, closed, disposed, excess, surplus, or returned to the service Components.

Changes year-to-year The change of deferred maintenance and repair balance is due to an increase in the DLA footprint and further deterioration of the DLA infrastructure due to a reduction in the repair and maintenance budget. The increase in the DLA Plant Replacement Value is due to changes in asset valuation implemented in EBS.



Field Figures

Marines participate in a patrolling session during the Infantry Marine Course at Marine Corps Base Camp Pendleton, California, March 31, 2021. The 14-week pilot course was designed to create better trained and more lethal entry level infantry Marines prepared for near-peer conflicts. **Photo By:** Marine Corps Sgt. Jeremy Laboy

Combining Statements of Budgetary Resources

The Combining Statements of Budgetary Resources combines the availability, status, and outlays of DLA WCF's budgetary resources. The following schedules provide the Combining Statements of Budgetary Resources disaggregated by DLA

WCF activities for the years ended September 30, 2021 and 2020, respectively.

(Refer to Note 1.B., *Basis of Presentation and Accounting*, related to Combined Statements of Budgetary Resources.)

Defense Logistics Agency - Working Capital Fund COMBINING STATEMENT OF BUDGETARY RESOURCES For the Year Ended September 30, 2021 (dollars in thousands)

	Energy	Supply Chain Management	Document Services	FY 2021 Total
BUDGETARY RESOURCES				
Unobligated Balance From Prior Year Budget Authority, Net	\$ 92,155	\$ 286,109	\$ 130,431	\$ 508,695
Appropriations	-	49,821	-	49,821
Contract Authority	13,680,969	33,523,121	-	47,204,090
Spending Authority From Offsetting Collections	55	2,600	261,050	263,705
TOTAL BUDGETARY RESOURCES	\$ 13,773,179	\$ 33,861,651	\$ 391,481	\$ 48,026,311
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments	\$ 13,773,179	\$ 33,662,766	\$ 288,426	\$ 47,724,371
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	198,885	103,055	301,940
Unexpired Unobligated Balance, End of Year	-	198,885	103,055	301,940
Total Unobligated Balance, End of Year	-	198,885	103,055	301,940
TOTAL BUDGETARY RESOURCES	\$ 13,773,179	\$ 33,861,651	\$ 391,481	\$ 48,026,311
OUTLAYS, NET				
Outlays, Net	\$ 32,217	\$ 1,190,833	\$ 35,967	\$ 1,259,017
AGENCY OUTLAYS, NET	\$ 32,217	\$ 1,190,833	\$ 35,967	\$ 1,259,017

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

	Energy	Supply Chain Management	Document Services	FY 2020 Total
BUDGETARY RESOURCES				
Unobligated Balance From Prior Year Budget Authority, Net	\$ (153,612)	\$ 198,885	\$ 177,233	\$ 222,506
Appropriations	-	579,285	-	579,285
Contract Authority	11,979,260	33,666,668	-	45,645,928
Spending Authority From Offsetting Collections	245,767	-	239,016	484,783
TOTAL BUDGETARY RESOURCES	\$ 12,071,415	\$ 34,444,838	\$ 416,249	\$ 46,932,502
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments	\$11,979,260	\$34,236,349	\$294,531	\$46,510,140
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	92,155	208,489	121,718	422,362
Unexpired Unobligated Balance, End of Year	92,155	208,489	121,718	422,362
Total Unobligated Balance, End of Year	92,155	208,489	121,718	422,362
TOTAL BUDGETARY RESOURCES	\$ 12,071,415	\$ 34,444,838	\$ 416,249	\$ 46,932,502
OUTLAYS, NET				
Outlays, Net	\$ (1,508,088)	\$ (860,515)	\$ 25,295	\$ (2,343,308)
AGENCY OUTLAYS, NET	\$ (1,508,088)	\$ (860,515)	\$ 25,295	\$ (2,343,308)



**DLA Flu Program –
Ahead of the Curve for 2021**

Army Sgt. Martin Manalo prepares to administer a flu shot at the chapel annex Jan. 15, 2021, on Caserma Ederle. The Defense Logistics Agency Troop Support Medical supply chain ensures warfighters like this have the vaccines available to administer on members, dependents and retirees on time each flu season. **Photo By:** Army



SECTION 3

Other Information (Unaudited)

Warrior Readiness ►

Service members participate in a live-fire training event at Schofield Barracks, Hawaii, Dec. 30, 2020, as part of Operation Wardog Kila, a joint Army-Marine Corps exercise.

 **Photo Credit:** Army Sgt. Sarah Sangster

147





SECTION 3

In this section ▼

- 150** Foregone Revenue
- 151** Management Challenges
- 155** Summary of Financial Statement Audit and Management Assurances
- 159** Payment Integrity

Blue Angels

The Blue Angels, the Navy's flight demonstration squadron, conduct their final flight with the legacy F/A-18 C/D Hornets over Pensacola, Florida., Nov. 4. The 2020 show season marked the end of the service life of the aircraft. The Blue Angels are transitioning to the F/A-18 E/F Super Hornet platform.

 **Photo Credit:** MC2 Cody Hendrix/Navy

Foregone Revenue

DLA provides a fuel service to both military and public entities. The price for fuel supplied is determined by OUSD(C). Often, DLA prices do not match market prices, and therefore DLA can incur a loss in terms of forgone revenue for a given fiscal year. Foregone revenue denotes the difference between the price DLA charges in exchange transactions and the full cost or market price. DLA Energy's incurred forgone revenue from fuel sales totaled \$809.9 thousand and \$0.0 thousand for the years ended September 30, 2021 and 2020, respectively. The demand for the quantity of petroleum products did not change as a result of the difference in price. DLA WCF does not track forgone revenue for the SCM and Document Services activity

groups. In addition, the forgone revenue, disclosed below, is presented on a net basis. However, higher prices based on full cost or market price might reduce the quantity of goods or services demanded and, therefore, the difference between revenue received and such higher prices does not necessarily provide an indication of revenue foregone.

Foregone Revenue cannot be quantified due to limitations of financial and non-financial management processes and systems that support the financial statements, as disclosed in Note 1.B., Basis of Presentation and Accounting.

Energy Foregone Revenue

(dollars in thousands)

	FY2021	FY2020	FY2019	FY2018	FY2017
Energy Foregone Revenue	\$ (810)	-	-	\$ (1,305,345)	\$ (882,729)
Total Foregone Revenue	\$ (810)	-	-	\$ (1,305,345)	\$ (882,729)



Guiding Gesture

Navy Chief Petty Officer Bernam Tapang directs the loading of cargo aboard the USS Ronald Reagan during a replenishment in the Philippine Sea, May 27, 2021. **Photo Credit:** Navy Seaman Santiago Navarro

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.

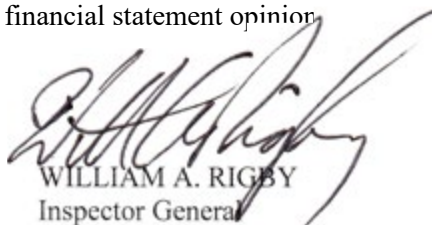
- e. **Supply Chain Security and Risk Management.** DLA needs to continually evaluate our supply chains for single-point failures to prevent disruptions to DLA’s Warfighter and Whole of Government customers. The supply risk management process is critical to identify risks to our supply chains while developing 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 WCF financial statements identified seven material weaknesses for DLA WCF. 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: FY2021 Summary of the Financial Statement Audit

Audit Opinion	Disclaimer				
Restatement	Yes				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Inventory	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, summarized in the table below. 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 non-conformances 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.

Table 2 summarizes DLA's FY2021 material weaknesses associated with WCF.

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
Oversight and Monitoring	1	-	-	-	-	1
Financial Reporting	1	-	-	-	-	1
Fund Balance with Treasury	1	-	-	-	-	1
Plan-to-Stock: Inventory	1	-	-	-	-	1
Order-to-Cash: Accounts Receivable and Revenue	1	-	-	-	-	1
Procure-to-Pay: Accounts Payable and Expenses	1	-	-	-	-	1
Total Material Weaknesses	6	-	-	-	-	6



Virginia National Guard

U.S. soldiers with the Virginia National Guard listen to a squad leader briefing after arriving near the Capitol in Washington on, Jan. 13, 2021. **Photo By:** Master Sgt. Matt Hecht/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 oversight 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



Into the Night

As the sun sets, airmen from the Air Force’s 48th Rescue Squadron get the chance to practice their extrication skills in the dark during a July 31 training session at the DLA Disposition Services yard at Kandahar, Afghanistan. **Photo By:** Marcus Wierman

Payment Integrity

The Payment Integrity Information Act of 2019 (PIIA) (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

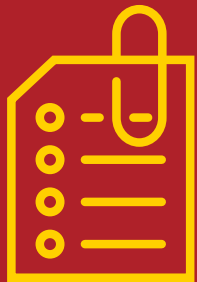
(including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes duplicate payments, any payment made to an ineligible recipient, any payment for an ineligible good or service, any payment for a good or service not received (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/afr2021.aspx>



Transport Team

Army UH-60 Black Hawk helicopters transport Marines during Fuji Viper at Combined Arms Training Center, Camp Fuji, Japan, Jan. 21, 2021. The exercise allows units to improve proficiency in infantry and combined arms tactics. **Photo Credit:** Marine Corps Lance Cpl. Alexis Moradian



APPENDIX

A / B / C

Midair Refuel ►

An Air Force KC-10 pilot controls the aircraft during a midair refueling mission over Southwest Asia, Jan. 4, 2020.



Photo Credit: Air Force Staff Sgt. Trevor McBride

160





Appendix A: Summary of FMFIA Definitions and Reporting

Category	Definition	Reporting
Control Deficiency	<p>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.</p> <p>B. Deficiency in Design: A deficiency in design exists when:</p> <p>(1) a control necessary to meet a control objective is missing</p> <p>(2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met.</p> <p>C. Deficiency in Implementation: A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system.</p> <p>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.</p>	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	<p>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.</p> <p>B. Internal Control Over Operations: A material weakness in internal control over operations might include, but is not limited to conditions that:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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.</p>	<p>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.</p>

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.

DLA Major Subordinate Commands

The following are DLA WCF MSCs:

DLA TROOP SUPPORT

, headquartered in Philadelphia, Pennsylvania, is DLA's lead center responsible for managing food, clothing, medical supplies, C&E, and general and industrial supplies worldwide. Troop Support delivers optimal, global supply chain solutions to Warfighters and other valued partners through five LOEs: Warfighter First, Global Posture, Strong Partnerships, Whole of Government, and Always Accountable. DLA Troop Support accomplishes these missions through the following Supply Chains: Subsistence, C&T, C&E, Medical, and IH.

DLA LAND AND MARITIME

, headquartered in Columbus, Ohio, is the primary source for repair parts for DoD weapon systems. DLA Land and Maritime supply chains support U.S. Army, U.S. Navy Surface and Subsurface, and USMC customers through dedicated customer relations, while working with numerous suppliers to fulfill requirements for assigned stock classes across the DoD. Furthermore, DLA Land and Maritime supply chains provide logistical services directly to Army and USMC industrial sites and Navy shipyards.

DLA AVIATION

, headquartered in Richmond, Virginia, is the primary source for repair parts and operating supply items for 2,300 major weapon systems. The DLA Aviation supply chain provides mapping, kitting, chemical, petroleum packaging, gases, and cylinder items to the military services. In addition, DLA Aviation provides engineering, sustainability, ozone depleting substances reserve, and industrial plant equipment services.

DLA DISTRIBUTION

, headquartered in New Cumberland, Pennsylvania, is responsible for the receipt, storage, issuance, packing, preservation, and transportation of items worldwide. It operates a network of distribution centers around the world that provide timely and quality support to the Warfighters. Their Global Stock Position Plan ensures rapid distribution of critical military items. DLA Distribution's overseas distribution operations are located in Europe, Middle East, and Pacific Asia regions.

DLA ENERGY, headquartered in Fort Belvoir, Virginia, serves as DLA's executive agent for the bulk petroleum supply chain. DLA Energy's business includes:

- Selling petroleum and aerospace fuels
- Arranging for petroleum support services
- Providing facility/equipment maintenance on fuel infrastructure
- Performing energy-related environmental assessment and cleanup
- Storing and transporting for bulk and aerospace products, and Performing quality functions for petroleum in support of the military services, as well as for the privatization of their utility systems
- Providing Installation Energy products and Utility Services

DLA DISPOSITION SERVICES, headquartered in Battle Creek, Michigan, has 1,328 civilians and 13 active duty military in a global network of 103 field locations in 16 countries, 2 territories, and 41 states. DLA Disposition Services receives EOU DoD property and provides ultimate disposal services through reutilization, transfer, donation, and sales. Property not reutilized within DoD is available for transfer to other Federal agencies or for donation to authorized non-profit organizations or state and local governments. Property not reused, transferred, or donated is either competitively sold or disposed of in an environmentally safe manner. DLA Disposition Services also arranges for the worldwide disposal of hazardous waste in compliance with laws and regulations.

Appendix C: Abbreviations & Acronyms

A&FP	Accounting & Finance Policy Directorate	DCAS	Defense Contract Administration Services
A/BO	Approving/Billing Officials	DCIA	Debt Collection Improvement Act
ACT	Active	DFAS	Defense Financial and Accounting Services
ADA	Anti-Deficiency Act	DAI	Defense Agencies Initiative
AFR	Agency Financial Report	DISA	Defense Information System Agency
A/OPC	Agency/Organization Program Coordinators	DLA	Defense Logistics Agency
APR	Annual Performance Report	DM-I	Installation Management – Installation & Equipment
AWARS	Automated Workflow and Reporting System	DM&R	Deferred Maintenance and Repairs
BCI	BUILDER Condition Index	DoD	Department of Defense
BRAC	Base Realignment and Closure	DoE	Department of Energy
C&E	Construction and Equipment	DOL	Department of Labor
C&T	Clothing and Textiles	ODCFO	Deputy Chief Financial Officer
CAC	Common Access Card	DQP	Data Quality Plan
CAPs	Corrective Action Plans	DSA	Defense Supply Agency
CARES	Coronavirus Aid, Relief, and Economic Security (CARES) Act	DSS	Distribution Standard System
CCMD	Combatant Command	DWWCF	Defense-Wide Working Capital Fund
CCs	Critical Capabilities	EBS	Enterprise Business System
CFO	Chief Financial Officers	ECC	Resource Planning Central Component
Charge Card Act	Charge Card Abuse Prevention Act	EL	Environmental and Disposal Liabilities
CI	Condition Index	EOU	Excess, Obsolete, and Unserviceable
CIO	Chief Information Officer	ERM	Enterprise Risk Management
CIP	Construction-in-Progress	ERP	Enterprise Resource Planning
CMR	Cash Management Report	FASAB	Federal Accounting Standards Advisory
COLA	Cost-of-Living Adjustments	FBwT	Fund Balance with Treasury
COTS	Commercial Off-the-Shelf	FCI	Facility Condition Index
COVID-19	Coronavirus-19	FEA	Fuel Exchange Agreements
CPM	Component Program Manager	FECA	Federal Employees' Compensation Act
CRO	Chief Risk Officer	FEMA	Federal Emergency Management Agency
CRR	Cost Recovery Rate	FERS	Federal Employees Retirement System
CSRS	Civil Service Retirement System	FFMIA	Federal Financial Management Improvement Act
CTC	Cost To Complete	FFMSR	Federal Financial Management System Requirements
DATA Act	Digital Accountability and Transparency Act of 2014	FMFIA	Federal Managers' Financial Integrity Act

FMR	Financial Management Regulations	NSA	National Security Agency
FMS	Foreign Military Sales	NSNs	Non-National Stock Numbers
FPA	Federal Program Agencies	OCONUS	Outside the Continental United States
FRDAA	Fraud Reduction and Data Analytics Act	ODCFO	Office of the Deputy Chief Financial Officer
FRO	Financial Reporting Organization	ODOs	Other Defense Organizations
FY	Fiscal Year	OI	Other Information
GAAP	Generally Accepted Accounting Principles	OIG	Office of the Inspector General
GAO	Government Accountability Office	OMB	Office of Management and Budget
GF	General Fund	OPM	Office of Personnel Management
GMRA	Government Management Reform Act	OSD	Office of the Secretary of Defense
GPC	Government Purchase Card	OSHA	Occupational Safety and Health Administration
GPRA	Government Performance and Results Act	OUSD	Office of the Under Secretary of Defense
GSA	General Services Administration	OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
HHS	Health and Human Services	OWCP	Office of Workers' Compensation Programs
HQ	Headquarter	P3	Public-Private Partnerships
ICOFs	Internal Controls Over Financial Systems	PMO	Program Management Office
ICOR	Internal Control over Reporting	PP&E	General Property, Plant, and Equipment
ICOR-O	Internal Control over Operations	PPA	Prompt Payment Act
ID	Identification	PPE	Personal Protective Equipment
IH	Industrial Hardware	R&D	Research & Development
IOD	Insight on Demand	RACER	Remedial Action Cost Engineering and Requirements
IPA	Independent Public Accounting	RCRA	Resource Conservation and Recovery Act
IPERA	Improper Payments Elimination and Recovery Act of 2010	RSI	Required Supplementary Information
IPERIA	Improper Payments Elimination and Recovery Improvement Act	RMIC	Risk Management and Internal Control
IPs	Improper Payments	SAO	Senior Accountable Official
IT	Information Technology	SAP	Systems Applications and Product
IUS	Internal Use Software	SCM	Supply Chain Management
LOEs	Lines of Effort	SFFAS	Statement of Federal Financial Accounting Standards
MAC	Moving Average Cost	SFIS	Standard Financial Information Structure
MOA	Memorandum of Agreement	SFP	Standard Fuel Price
MOCAS	Mechanization of Contract Administration Service	SLOA	Standard Line of Accounting
MSC	Major Subordinate Command	SOA	Statement of Assurance
NDAA	The National Defense Authorization Act	SMC	Senior Management Council
NDS	National Defense Strategy	SMS	Sustainment Management System
NFR	Notice of Findings and Recommendations	SNS	Strategic National Stockpile
NRV	Net Realizable Value	SRM	Sustainment, Restoration and Maintenance

TAS	Treasury Account Symbol
TBA	To Be Acquired
TDD	Treasury Direct Disbursing
TF	Transaction Fund
TI	Treasury Index
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

Acknowledgments

This AFR was prepared with the energies and talents of many employees across DLA and contract partners. A special note of appreciation is extended to the many diligent employees in the Financial Reporting Division within the Office of the CFO, for your time and efforts in preparing the AFR.

The DLA also would like to thank the Audit Task Force for coordinating the external audit of the Agency's financial statements.

The DLA offers our sincerest thanks and acknowledgment to the DLA Director, Senior Executive Leaders and their respective staff for their commitment to improve financial accountability and transparency, while executing the primary mission of Sustaining the Warfighter.

Defense Logistics Agency

The Nation's Combat Logistics Support Agency



WARFIGHTER ALWAYS!

8725 John J. Kingman Road
Fort Belvoir, Virginia 22060
www.dla.mil

