U.S. ARMY

FISCAL YEAR
2021

AMERICA'S ARMY
TRANSFORMING FOR THE FUTURE

United States Army Annual Financial Report

AMERICA'S ARMY

TRANSFORMING FOR THE FUTURE

Stress shoot event (U.S. Army photo by Spc. Michael Schwenk)

FY 2021 REPORT CONTENT

FISCAL YEAR
2021

The Nation has called upon the United States Army to bravely serve and defend the American people and allies for the last 246 years. Through it all, the Army has been committed to its people, sustaining readiness, and continuing with efforts to meet its modernization goals.

The Army's dedication to health and safety of our soldiers, and taking care of our communities, has been demonstrated over and over again during this challenging year. In addition to its own mission-related activities, the Army was involved in many humanitarian efforts. The Army administered more than one million COVID-19 vaccines at more than 80 medical treatment facilities around the world to servicemembers, families, civilians, contractors, and eligible beneficiaries. This directly supported mission-essential functions of the Department of Defense by protecting the readiness of active-duty, Reserve, and National Guard soldiers. For additional support to our ation's healthcare, the Army deployed medical task forces to help hard-hit communities battling COVID-19 surges, while National Guard soldiers deployed troops to local community hospitals to support overburdened healthcare workers.

During 2021, the Army supported numerous Combatant Command requests, with over 171,000 deployed soldiers, in more than 140 countries, across 6 continents. In 2021, we saw the end of Operation Freedom's Sentinel in Afghanistan. The impact of the 20-year long war will be recognized by current and future generations throughout the world. The brave and heroic soldiers who served in Afghanistan displayed the truest form of patriotism for the Army and the United States.

In support of modernization efforts, the Army began testing the Modernization Displacement and Repair Sites, or MDRS, to support modernization and equipment divestiture. Historically, it would take up to 12 to 18 months for units to shift equipment out of their inventories. The Regionally Aligned Readiness and Modernization Model process, or ReARMM, reduces that window down to less than 6 months by shifting equipment from units to MDRS for disposition or disposal of equipment, ensuring that the "right equipment" is always available for aligned forces. These programs will be implemented in 2022.

This report discusses the completeness and reliability of Army data, the material weaknesses impeding our ability to obtain a clean audit opinion and the corrective actions we are taking to remediate them. To support the Army's mission, Army leadership relies on accurate financial reports to make informed decisions. The above mentioned operations would not be possible without the combined efforts to establish the budget, execute funding, and account for every transaction. The moral stewardship of soldiers, civilians, and our contract partners over financial data reflects the ongoing efforts and commitment throughout the Army to ensure the financial statements are an accurate representation of accounting for Army activities.

CHRISTINE E. WORMUTH
Secretary of the Army

TRANSFORMING FOR THE FUTURE

The COVID-19 pandemic has caused citizens across the globe to accommodate a new lifestyle. The past year also brought many significant headlines to the forefront, including natural disasters, the insurrection at the United States Capitol, and the historic withdrawal of United States troops from Afghanistan, which marked the end of a two-decade war. As we navigate through this challenging environment, the Army's mission to deploy, fight, and win our nation's wars has remained constant, and our steadfast soldiers have quickly adapted to supporting the frontlines. It is critical to ensure that our force maintains operational readiness, and the Army is continually committed to ensuring the health and safety of our soldiers, family members, retirees, and civilians both at home and abroad.

The impact of the Army's support on the frontlines will continue to touch our nation for generations to come. The men and women of the United States Army have gone above and beyond the scope of their operations to help anyone in need. In addition to their stellar work ethic, soldiers have taken the Army mission to heart by continually defending not only our nation, but people all over the world. The challenges we have faced are not met with quick or easy solutions, nor will they be resolved within a single year's time or budget. The Army has a responsibility to maximize its resources, operate transparently and execute its budget, according to law and policy. The Assistant Secretary of the Army for Financial Management and Comptroller [ASA (FM&C)] has continued to resource the Army through sound financial management and comptrollership, from budget formulation to financial statement audits. The Army's audit environment and daily business practices are cohesive. Issues and findings noted in this report as identified by the independent auditors allow us to identify areas of improvement and continuously apply corrective actions to address these issues and better the Army's operations.

The Army's leadership is focused on reforming the Army's financial practices to improve performance and optimize purchasing power through efficient budget execution. We are taking an active role to improve accountability and transparency. By investing in our workforce, we will improve our business practices and technological advances to ultimately achieve a clean audit opinion on the Army's financial statements. We are committed to demonstrating that our soldiers, civilians, and processes are reliable and ready to implement crucial and beneficial changes today to meet tomorrow's demands.

CARAL E. SPANGLER

Assistant Secretary of the Army, Financial Management and Comptroller

Soldiers board a flight to deploy as part of a regular rotation of forces to support the United States' commitment to Southeast Asia partners and allies. (U.S. Army photo by Spc. Robert Wormley III)

AMERICA'S ARMY TRANSFORMING FOR THE FUTURE

United States Army Annual Financial Report

Soldiers receive training on the vaccine process from Federal Emergency Management Agency officials. (U.S. Army photo by Sgt. Robert O'Steen)

SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS

ARMY GENERAL FUND OVERVIEW

Today the United States Department of the Army (Army) consistently provides trained and ready forces for combat operations to a standard of excellence. A sustainable Army is an innovative Army that can adapt rapidly to challenges of the future. To maintain our land power dominance, we continue concentrating our efforts on these strategic priorities—Readiness, Modernization, Reform, and People—to ensure America's Army is always ready, now and in the future. Strategic efforts in those areas are coupled with our enduring priorities to take care of our Soldiers, Civilians, and their Families; to re-commit to the Army values and warrior ethos that guide us; and to strengthen relationships with allies and partners.

The many demands on the Nation's resources will put downward pressure on defense budgets in the future, forcing a continuous assessment by the Army on how it spends its dollars to meet national objectives. To continue to improve readiness, modernize the force, implement effective reforms, and protect our people, the Army requires predictable resources. With consistent, strategy-based funding over time, the Army can increase capacity, train contingency forces, close critical modernization gaps, and rebuild installation and training infrastructure – all while maintaining excellence in the execution of current operations. The Army aims to achieve the objectives in the defense planning guidance, which is critical to the Army accomplishing assigned missions to a standard expected by the American people.

For fiscal year (FY) 2021, Army General Fund (GF) received $173 billion in appropriated funds. The Army GF's received budgetary resources to offset the impact of and efforts related to the COVID-19 global pandemic in the amount of $1.3 billion. The Army's primary uses for *Coronavirus Aid, Relief, and Economic Security (CARES) Act* (P.L. 116-136) funding included:

- Purchase of medical supplies and equipment
- Purchase of non-medical personal protective equipment (PPE)

- Enhancements of information technology (IT) equipment and services to facilitate increased telework operations and delivery of distributed learning in lieu of on-site training
- Increased cost of conducting initial entry and advanced individual training with appropriate distancing measures
- Increased cleaning and sanitizing contracts
- Cost of isolation measures to include stocking Meals, Ready to Eat (MREs), to be served to Soldiers, in lieu of dining facility operations to maintain social distancing.

The Army continues to support other federal agencies participating in Operation Warp Speed through Army contracting support, facilitating the procurement of supplies that will be needed to distribute and administer approved COVID-19 vaccines.

The Army is a performance-based organization and as such is committed to working towards specific measurable goals derived from a defined mission to continually improve operations. The following discussion provides evaluation of the FY 2021 Army GF performance aligned with the Army's four principal strategic goals: readiness, modernization, reform, and people.

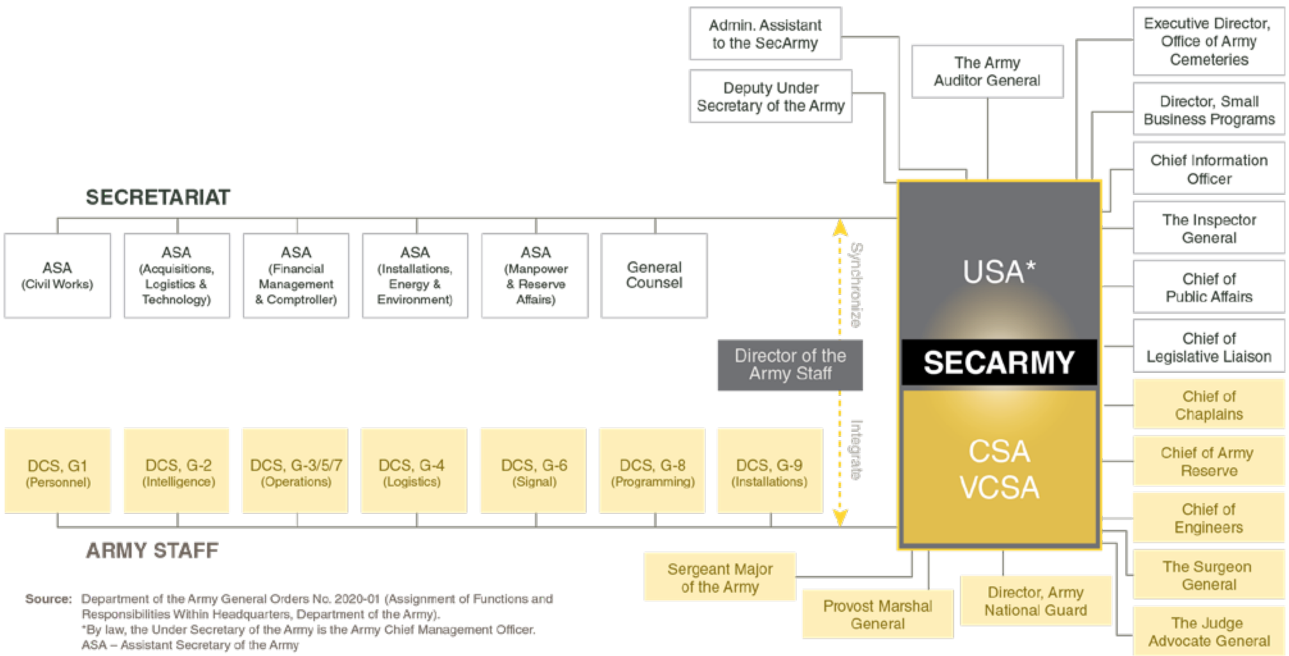
MISSION AND ORGANIZATION OF THE ARMY

The Army mission remains constant: to deploy, fight, and win our Nation's wars by providing ready, prompt, and sustained land dominance by Army forces across the full spectrum of conflict as part of the Joint Force. The Army mission is vital to the Nation because we are a service capable of defeating enemy ground forces and indefinitely seizing and controlling those things an adversary prizes most - its land, resources, and population. The Army uses the GF to accomplish most of its mission. The GF consists of assets and liabilities used to finance the daily and long-term operations of the U.S. Federal Government.

The Army's organization supports and sustains the mobilization, training, and deployment of its Soldiers anywhere in the world. Headquarters, Department of the Army (HQDA) (Figure 1), under the direction of the Secretary of the Army (SECARMY), leads and manages the entire Army. The HQDA Staff is composed of the Secretariat and the Army Staff (ARSTAF). The HQDA Staff:

- Develops policies, plans, and programs.
- Establishes and prioritizes requirements.
- Provides resources to organize, man, train, and equip Soldiers to meet the combatant commands' current and future operational requirements and other needs as defined by the President and the Secretary of Defense.

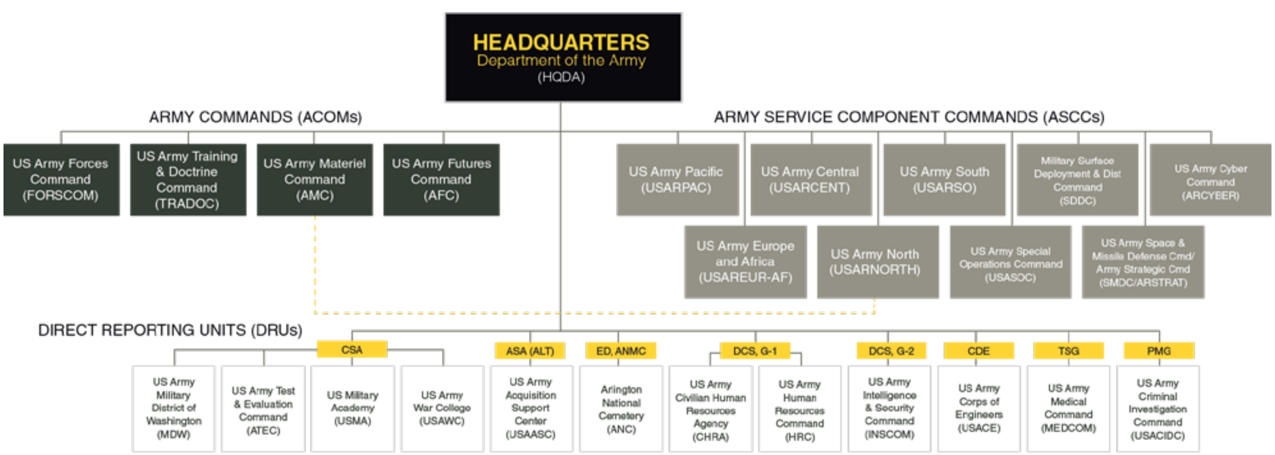
FIGURE 1. Headquarters, Department of the Army (HQDA)



Source: Department of the Army General Orders No. 2020-01 (Assignment of Functions and Responsibilities Within Headquarters, Department of the Army).
*By law, the Under Secretary of the Army is the Army Chief Management Officer.
ASA – Assistant Secretary of the Army

Organizations reporting to HQDA as part of the Army's command structure (Figure 2) include the Army Commands (ACOMs), Army Service Component Commands (ASCCs), and Direct Reporting Units (DRUs). The operational Army consists of numbered armies, corps, divisions, brigades, and battalions that conduct the full range of military operations. The institutional Army supports the operational Army by providing the infrastructure necessary to man, train, equip, deploy, and ensure the readiness of all Army forces.

FIGURE 2. Army Command Structure



(As of 18 November 2020)

Designates the Principal Official for reporting purposes.
Designates a major subordinate command.

An Army paratrooper descends over a drop zone during training. (U.S. Army photo Paolo Bovo)

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS – GENERAL FUND

Maintaining credible strategic land-power requires the Army continually assess and refine its readiness, modernization, reformation, and people; how it operates, manages its human capital, and increases its capabilities. The Army continually builds globally responsive and regionally engaged strategic land forces with a versatile mix of capabilities, formations, and equipment that are mission tailored, scalable, and cost effective. The following sections discuss the Army GF's performance objectives and results as they relate to the Army mission.

Readiness

Strategic Goal 1: *Provide ready and trained forces ensuring the Army is ready to engage all enemies, foreign and domestic.*

Training must be tough, realistic, iterative, and dynamic to support Multi-Domain Operations. The Multi-Domain Army of 2035 introduces a transformational change to joint warfighting. By 2035, the Army will enable the Joint Force to maneuver and prevail from competition through conflict with a calibrated force posture of multi-domain capabilities that provide overmatch through speed and range at the point of need. Dynamic employment and posture of Army forces during competition will provide range in depth to penetrate complex anti-access/area-denial (A2/AD) systems and achieve cross-domain effects, creating opportunities and providing options to deter, deescalate, or promptly transition to win the first battle. Army formations and capabilities will provide the necessary speed, both physical and cognitive, to achieve decision dominance required for a faster-paced, distributed, and complex operating environment. The Multi-Domain Army will set the conditions for the Joint Force to fight and win integrated campaigns necessary to defeat state actors. All training must contribute to accomplishing the mission and achieving the Vision. Field Manual 7-0, Training (14 June 2021) provides doctrinal guidance on training leaders and Soldiers.

Threat capabilities should include weapons of mass destruction; advanced cyberspace, electronic warfare, space, and contested space capabilities; information operations/warfare; precision air and ground high-volume and long-range fires; advanced integrated anti-access/area-denial and air defense systems; and complex terrain including subterranean and dense urban areas. The training environment needs to provide leaders as many training repetitions as possible to sustain proficiency in their core tasks. The complexities and speed of training conditions with command and control (C2) will develop leaders and units able to quickly adapt and exploit temporary windows of opportunity in the Operational Environment (OE).

Training environments must provide the conditions for large scale combat operations and multi-domain operations. Commanders should use the intelligence-informed regional decisive action training environments (DATE) to construct scenarios. Using DATE ensures training for land operations is dynamic and complex, while providing continuity of training conditions across all training domains, as well as within live, virtual, and constructive (LVC) environments and the Synthetic Training Environment (STE). Training conditions promote leader development by emphasizing "how" and not "what" to think about the OE and threat conditions. The Opposing Forces (OPFOR) remains a freethinking sparring partner, well versed in potential adversaries' future tactics and capabilities in all phases of conflict and operating in all domains (land, air, maritime, space, and cyberspace). The training environment creates realistic actions/reactions/counteractions so leaders can learn from the consequences of their decisions, and units can refine or validate their tactics, techniques, and procedures as part of the lessons learned process.

Army Training must continuously adjust its methods and processes to adapt to a wide variety of external forces such as an evolving geopolitical landscape, natural disasters, global pandemics, limited resources, and other unforeseen external / environmental challenges. The Army manages readiness by first looking at unit capabilities, and then by identifying the appropriate training and continually assessing and evaluating that training.

Regionally Aligned Readiness and Modernization Model (ReARMM) is the Army's new Force Generation Model. ReARMM, as a strategy, is designed to address the contemporary challenges of the current operational environment within the Competition-Crisis-Conflict-Change framework. The model is designed to meet Competition demand, for both known Global Force Management Allocation Plan (GFMAP) and contingency Directed Readiness Table (DRT) requirements, while remaining flexible enough to respond to limited duration crises or the start of a conflict. ReARMM is an evolution from past models, as it seeks to generate required levels of current readiness while simultaneously generating future readiness by protecting deliberate force modernization efforts. ReARMM is centered on the principles of predictability, stability, and synchronization in concert with regional alignment to generate readiness for competition requirements. This allows a disciplined, resource-informed approach to the generation of readiness for both current and future requirements while allowing leaders and units to accomplish Army People Strategy tasks and SECARMY/CSA "People First" priorities.

Objective 1.1: *Training Soldiers*

The Army's institutional training and education system for Soldiers includes Initial Military Training (IMT), professional military education, and special skills / functional training. Throughout their career, Soldiers acquire knowledge and skills through resident courses, mobile training teams, and distributed learning. The goal of institutional training is to generate the required quantity of highly proficient Soldiers able to meet the Army's readiness objectives and execute Army missions consistent with their Military Occupational Specialty (MOS).

Performance Indicators: Table 1 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 1.1.a: Fill rate. The fill rate or execution rate measures the number of Soldiers sent to training (input) as a percentage of the number of trained Soldiers needed (quota). In Table 1, the fill rate is calculated as Fill % (Qta) = Input/Quota.
- Measure 1.1.b: Graduation rate. The graduation rate measures the number of Soldiers who graduated from their assigned training as a percentage of input. In Table 4, the graduation rate is calculated as Grad % = Grad/Input.

Table 1 displays data from FY 2017 – FY 2020 for 10 categories of institutional training, including IMT. The objective of IMT is to achieve a quota fill rate of at least 95% and a graduation rate of at least 90%. The Army's overall FY 20 quota fill rate decreased to 83% from the FY 19 fill rate of 85% due to the impact of COVID-19–related restrictions upon travel and class size. Overall, the Army was able to mitigate the impacts of the coronavirus on training by rescheduling or cancelling classes, reducing class sizes, expanding the use of distributed learning (dL) and transitioning some face-to-face instruction to video-based instruction to reduce exposure to the virus and meet social distancing and testing mandates. It was able to achieve its graduation objective most of the time. The Army will continue to work toward meeting training quotas to assure its Soldiers are always ready. Note: Complete FY 2021 data was not available at the time of AFR publication as some courses were still in session.

TABLE 1. Individual Training

	FY 2017					FY 2018					FY 2019					FY 2020				
Training Category	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %	Quota	Input	Grad	Fill % (Qta)	Grad %
AIT	97230	82429	80070	85%	97%	103519	86743	84375	84%	97%	97470	80962	78273	83%	97%	91113	76383	75025	84%	98%
BCT	91256	73501	67698	81%	92%	102631	74994	67808	73%	90%	86340	74379	68009	86%	91%	86950	68293	64471	79%	94%
BOLC	14831	12600	12289	85%	98%	15582	12935	12641	83%	98%	16363	14165	13877	87%	98%	15881	13715	13487	86%	98%
IERW	985	1045	1049	106%	100%	1088	1052	1023	97%	97%	1088	1088	1097	100%	101%	1057	1087	1053	103%	97%
IERW-CC	990	918	897	93%	98%	1088	1132	1109	104%	98%	1157	1134	1122	98%	99%	1145	1125	1088	98%	97%
INITIAL LANG	675	639	490	95%	77%	842	720	436	86%	61%	899	797	260	93%	33%	1126	974	561	87%	58%
OCS	4282	3126	2770	73%	89%	4566	3779	3471	83%	92%	4153	4044	3290	97%	81	3844	3394	3123	88%	92%
OSUT	37428	31416	28212	84%	90%	37848	31533	28221	83%	89%	39577	32487	27573	82%	85%	34487	29357	26285	85%	90%
WOBC	3313	2966	2948	90%	99%	3734	3121	3103	84%	99%	3462	3040	3018	88%	99%	3639	3266	3249	90%	99%
WOCS	2831	2441	2317	86%	95%	2842	2501	2420	88%	97%	2655	2642	2510	99%	95%	2494	2510	2373	101%	95%
TOTAL	**253821**	**211081**	**198740**	**83%**	**94%**	**273740**	**218510**	**204607**	**80%**	**94%**	**253164**	**214738**	**199029**	**85%**	**93%**	**241736**	**200104**	**190715**	**83%**	95%

Training Categories

AIT: Advanced Individual Training
BCT: Basic Combat Training
BOLC: Basic Officer Leader Course
IERW: Initial Entry Rotary Wing
IERW-CC: Initial Entry Rotary Wing – Common Core
INITIAL LANG: Initial Language
OCS: Officer Candidate School
OSUT: One Station Unit Training
WOBC: Warrant Officer Basic Course
WOCS: Warrant Officer Candidate School

Quota Fill and Grad Rates:

>= 95%
95% – 89%
89% – 79%
<= 79%

Note 1: Data reflects Army students only; all Components
Note 2: All data is based on start date, i.e., if a class starts in FY 2019 and graduates in FY 2020, it is counted as FY 2019 data.
Note 3: Data based on Army Training Requirements and Resources System (ATTRS) reports as of September 23, 2021.
Note 4: Complete FY 2021 data was not available at the time of the AFR publication as some courses were still in session.

Objective 1.2: *Training Units*

The Army trains, as part of a joint team, to shape OEs, prevent conflict, and conduct large-scale combat operations. The Army does this by conducting tough, realistic, and challenging training at home stations, at Combat Training Centers (CTC), and while deployed. The Army's CTC Program remains the foundation of an integrated training strategy that builds trained, proficient, and combat-ready units and leaders to conduct operations as part of the Joint Force.

Performance Indicators: Table 2 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 1.2.a: Percent of scheduled brigades completing CTC rotations.

Performance Results: 78% of brigades scheduled to participate in a CTC rotation during FY 2021 completed training. It was Army Senior Leaders' decisions to cancel 1 JRTC Rotation and 3 NTC Rotations. Otherwise, the CTC Program would have 100% execution.

TABLE 2. Brigade Training

	FY 2021	
	Target	Actual
Percent of scheduled brigades completing CTC rotations	100%	78%

TABLE 3. CTC Rotations Completed

Type of CTC Rotation Completed	Assigned Brigade Combat Team (BCT)	Rotations Completed
Maneuver: Decisive Action/Unified Land Operations (DA/ULO)	Active BCT	14
	Army National Guard (ARNG) BCTs	4
Command Post Exercises	Army Service Component Commands	2
	Army Corps	2
	Army Divisions	8
	Army BCTs	3
	Army Sustainment Brigades	6
	Functional/ Multifunctional Brigades	25
	Army Special Forces	2

Scanning a sector as smoke billows behind. (U.S. Army photo by Staff Sgt. Edward Siguenza)

Objective 1.3: *Developing Adaptive Army Leaders*

Unit training and leader development are the Army's lifeblood. Competent, ethical leaders with a warrior mentality are the Army's competitive advantage. No technology or advanced weaponry or platforms can replace the contribution that well-trained leaders bring to the Service. The Army leader development strategy is the key to preparing the Army for large-scale combat operations. The increasingly uncertain, complex, and interconnected global environment demands that the Army invest in leader development. This development is the life-long synthesis of training, education, and experience acquired through opportunities in the operational, institutional, and self-development domains. These efforts will allow the Army to be ready to deploy, fight, and win decisively against any adversary.

Performance Indicators: Table 4 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 1.3.a: Number of graduates in each course as compared to the quota.

Performance Results: Table 4 displays results of professional development courses within the Noncommissioned Officer Professional Development System (NCOPDS) and Officer Education System (OES). The table provides the number of trained Soldiers needed to meet readiness (quota) and the number of Soldiers graduating from training (grads). The Army will continue to strive to meet the quotas for professional development courses.

TABLE 4. Professional Development

		Professional Development									
		Noncomissioned Officer Professional Development System (NCOPDS)					Officer Education System (OES)				
Number of Leaders Trained		Basic Leader Course	Advanced Leader Course	Senior Leader Course	Master Leader Course	Sergeant Major Course Resident/ Ph2 Non-resident	Warrant Officer Advance Course Resident	Warrant Officer Staff Course Resident/ Non-resident	Warrant Officer Senior Staff Course Resident/ Non-resident	Intermediate Level Education Resident/ Common Core	Senior Service College Resident/ Distance Learning
FY 2017	Quota	38216	29615	18966	276	3025	3355	2272	860	11491	1827
	Grads	35194	29669	19385	306	2465	2812	1977	892	8253	1567
FY 2018	Quota	41998	40855	23349	4076	3172	3067	2499	810	12782	1824
	Grads	40361	36506	21802	3714	2709	2867	1886	693	8355	1773
FY 2019	Quota	44012	39840	23367	5514	2824	2606	2377	924	9924	1849
	Grads	42967	35863	22399	5145	1127	2179	1727	750	5942	750
FY 2020	Quota	42984	29046	18562	5601	2572	2685	2045	867	11122	1974
	Grads	43009	24129	16296	5210	2331	2577	1211	797	7763	1476

Note 1: Data reflects Army students only; all Components
Note 2: All data is based on start date, i.e., if a class starts in FY 2019 and graduates in FY 2020, it is counted as FY 2019 data.
Note 3: Data based on Army Training Requirements and Resources System (ATTRS) reports as of September 23, 2021.
Note 4: Complete FY 2021 data was not available at the time of AFR publication as some courses were still in session.

Modernization

Strategic Goal 2: *To make Soldiers and units more prepared to win our nation's wars, then return home safely.*

Modernization of the Army is critical to achieving the Army's mission. The Army has reached an inflection point: we can no longer afford to defer modernizing our formations and capabilities without risking overmatch and the ability to accomplish our mission on future battlefields. Given the challenges and trends of the strategic environment, reforming our modernization model to one that can tap the full potential of technological advancement is a strategic imperative.

Building the future Army to outpace 21st century threats requires investing, developing, and fielding weapons and platforms with next generation technology by 2028 that will provide our formations with distinct advantages over near-peer competitors in six prioritized capability areas of investment:

- Long-Range Precision Fires (LRPF): Develop platforms, capabilities, munitions, and formations that restore U.S. Army dominance in range, lethality, mobility, precision and target acquisition.
- Next Generation Combat Vehicles (NGCV): Develop combat vehicles that integrate other close combat capabilities in manned, unmanned, and optionally manned teaming that leverages semiautonomous and autonomous platforms in conjunction with the most modern firepower, protection, mobility, and power generation capabilities.
- Future Vertical Lift (FVL): A set of manned, unmanned, and optionally manned platforms that can execute attack, lift, and reconnaissance missions on the modern and future battlefield at greater range, altitude, lethality, and payload.
- Army Network: An integrated system of hardware, software, and infrastructure that is sufficiently mobile, reliable, user-friendly, discreet in signature, expeditionary and which the Army uses to fight effectively in any environment in which the electromagnetic spectrum is denied or degraded.
- Air and Missile Defense (AMD): A series of mobile integrated platforms, capabilities, munitions, and formations that ensure our future combat formations are lethal while remaining protected from modern advanced air and missile delivered fires, to include drones.
- Soldier Lethality: A holistic series of capabilities, equipment, training, and enhancements that span all fundamentals of combat: shooting, moving, communicating, protecting, and sustaining to ensure our Soldiers are more lethal and less vulnerable on the modern battlefield.

To provide a comprehensive plan for modernization going forward, the Army aligned the six modernization priorities with objectives across three successive future year defense programs (FYDP): Near (present to FY 2023) to close critical capability and capacity gaps, Mid (FY 2024 to FY 2028) to achieve overmatch and

Army National Guardsmen perform aerial maneuvers in an AH-64 Apache. (U.S. Army photo by Sgt. Jovi Prevot) begin fielding next generation capabilities for Multi-Domain Operations (MDO); and Far (FY 2029 to FY 2034) to strengthen overmatch and fully field next generation capabilities for MDO. One of the programs within FYDP includes the Science and Technology (S&T) Program which will identify, develop, and demonstrate technology options that inform and enable effective and affordable capabilities for the Soldier. These programs will set a basis for the modernization of the future Army. The objectives below were established based on the six modernization priorities and highlight some of the goals achieved during FY 2021.

Objective 2.1: *Department of Defense Information Network – Army (DoDIN-A) Global Security Strategy.*

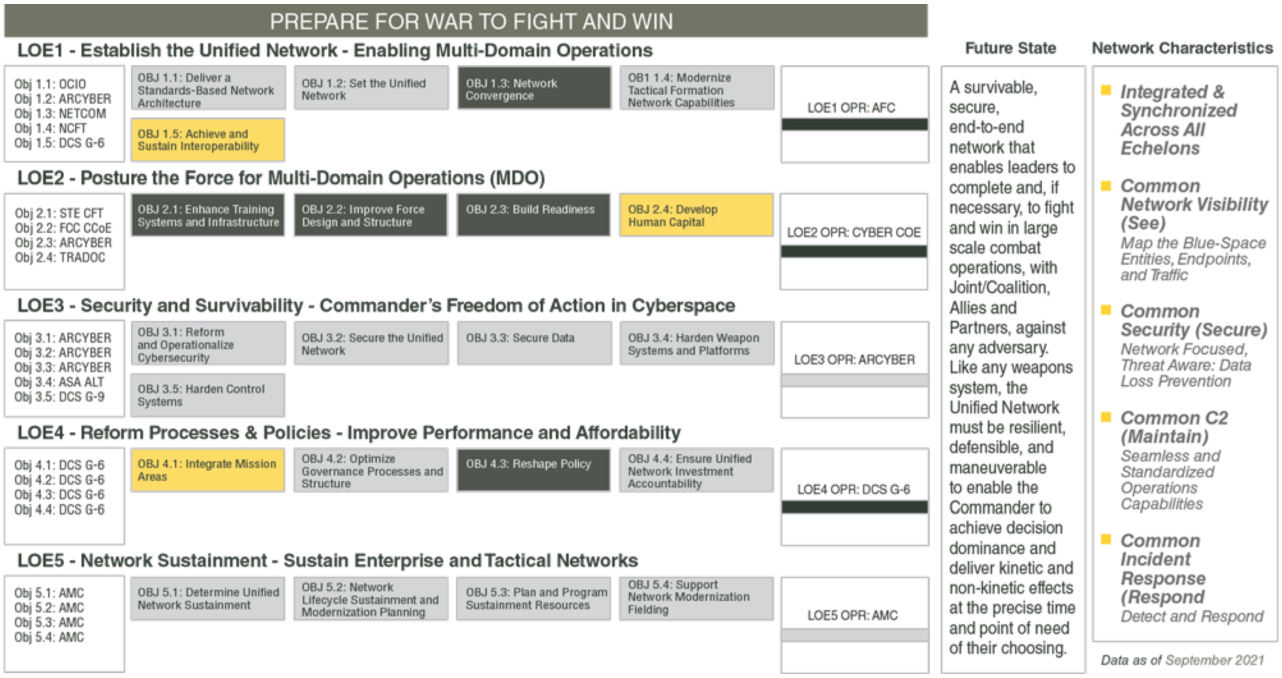
The National Defense Strategy and the Army Strategy note that the global security environment is increasingly complex and characterized by challenges to the free and open international order and the re-emergence of long-term, strategic competition between nations. These circumstances require a focused assessment of threats, strategic adjustments based on the changing character of warfare, and a transformation of the Department of Defense. Army Senior Leaders directed that a holistic Army Network Strategy be implemented to actively work towards gaining network superiority for the Army as a part of the joint force. As there are multiple agencies within the Army that are undertaking efforts to modernize the Army's network capabilities, the U.S. Army established the Army Network Plan Framework (ANPF) to organize and coordinate these efforts and to accelerate modernization of the Army's network. The ANPF parallels and enables the Army Campaign Plan over multiple phases and time horizon. The ANPF aligns with the Army Strategy's focus on building readiness, modernizing, reforming the Army, and strengthening alliances and partnerships while taking care of our people and living the Army values.

The ANPF mirrors the Army Strategy's priorities and supports the Army's intent to build a multi-domain ready force by 2035. The ANPF was reviewed and is undergoing updates for 2022; the ANPF will become the Army Unified Network Plan (AUNP). The revisions are aimed at addressing Army modernization priorities and to provide a unified approach to enhance network structure, operation, and capability by 2028. The AUNP is currently undergoing a Senior Level Review and will be implemented in FY 2022. The current ANPF establishes five Lines of Effort (LOEs) critical to shaping the future Army:

LOE 1: Modernize the Network – Agile and Accelerated Technology and Capability Development
LOE 2: Shape the Force – Ready Forces Prepared for High-Intensity Conflict
LOE 3: Reform Processes and Policies – Improve Performance and Affordability
LOE 4: Network Sustainment – Comprehensive Enterprise and Tactical Sustainment
LOE 5: Security and Survivability – Commander's Freedom of Action within Cyberspace

Figure 3 displays The Army Network Plan Framework inclusive of all LOEs listing the objectives and future state of the network. Metrics supporting the ANPF have been reported since July 2019. For current status, this visualization can be accessed real-time at: *https://www.sms.army.mil/dashboards/ 885360438/shared/A36382F87802D22FC23FEE940A59833D66F2AEFF595C5DA4*

FIGURE 3. Army Network Plan Framework

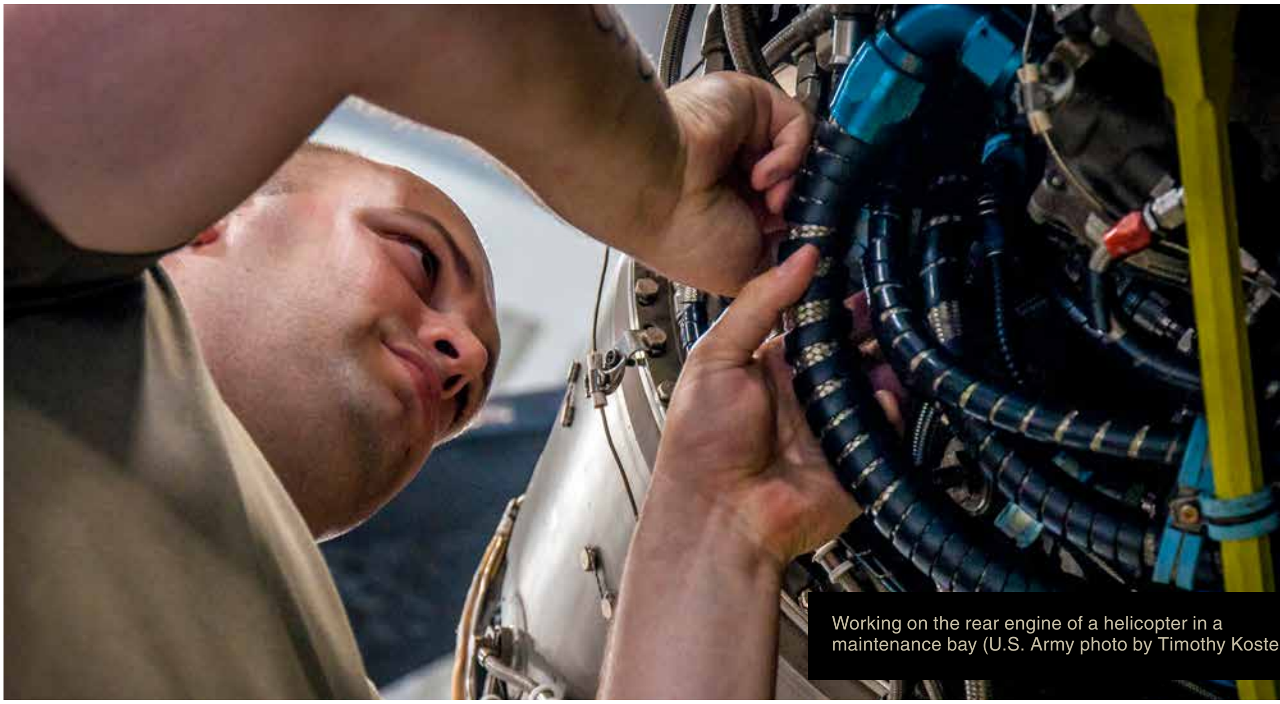


This framework is a critical element of achieving the overarching Army Vision. Implementation of the ANPF LOEs and their aligned objectives will modernize, shape and reform the Army's network and policy to better enable mission accomplishment. The modernization efforts represent changes in policy, equipment, and procedures, as well as, complex systems engineering to ensure common environments, responsiveness, and capability, globally. Accordingly, no single measure can serve as an indicator of objective achievement. Therefore, the Army uses measure indices to determine the risk surrounding modernization outcomes arrayed across the ANPF LOEs. The index for each LOE is supported by objectives, which in turn are supported by many metrics that roll-up to establish a risk assessment.

Performance Measure / Indicators: The ANPF is currently supported by 138 key performance indicators that are a combination of quantitative and qualitative metrics. The performance indicators are reported monthly and are housed in an Army system of record. The indicators selected by the ANPF community, vetted and approved by senior leaders, are outcome-based measures that change over time, in order to continue to support the LOE they are assigned.

Below is a sample of the current measures that are performance indicators in determining progress in meeting this objective.

- Measure 2.1.a: Objective 1.2.1-3, the % Execution of Planned Experimentation Events
- Measure 2.1.b: Objective 1.4.1-1, the % of Common Operating Environment (COE) Resourcing (Funding)
- Measure 2.1.c: Objective 2.1.1-2, the % of Synthetic Training Environment (STE) Capacity Available (Virtual/Gaming and Live)
- Measure 2.1.d: Objective 2.2.1-2, the # Completed Manpower Model Studies to HQDA
- Measure 2.1.e: Objective 3.3.2-1, the % of Policy Conflicts Resolved



Working on the rear engine of a helicopter in a maintenance bay (U.S. Army photo by Timothy Koster)

- Measure 2.1.f: Objective 3.5.1-1, the % Variance between General Fund Enterprise Business System (GFEBS) and Improved Target Acquisition System (ITAS)
- Measure 2.1.g: Objective 5.2.1-2, the % of installations Joint Regional Security Stack (JRSS) compliant
- Measure 2.1.h: Objective 5.5.3-1, the % of site with integrated ICS continuous monitoring

Each of these metrics support the LOE and Objectives they are grouped under. Currently LOE 4 is still working to identify relevant performance indicators for Network Sustainment. The individual metric performance values are combined to create a performance score that is normalized across all elements of the ANPF (e.g. a score of 3 or less is high risk and indicates 'red' or progress obstacles, and a score of 7 or higher is low risk and indicates 'green' or on track). The goal score of 10 indicates perfect performance or 100% achievement. Blank cells indicate that no performance information was reported at the indicated junction.

Performance Results: Table 5 below displays the annualized risk assessment, based on all the supporting indicators reported, displaying the score and represented by a corresponding stoplight color.

TABLE 5. Army Network Plan Framework Annualized Performance Indicators for the overarching plan

	Performance Roll-up			
	FY 2020		FY 2021	
ANPF	**Score***	**Goal**	**Score***	**Goal**
The Army Network Plan	4.73	10	4.63	10
LOE1 – Modernize the Network	4.08	10	5.64	10
LOE2 – Shape the Force	7.22	10	6.7	10
LOE3 – Reform Processes and Policies	4.98	10	5.31	10
LOE4 – Network Sustainment		10	0.1	10
LOE5 – Security and Survivability	2.64	10	5.4	10

*A score of 3 or less is high risk and indicates 'red' or progress obstacles, and a score of 7 or higher is low risk and indicates 'green' or on track

TABLE 6. Army Network Plan Framework Annualized Lines of Effort Objectives Performance Indicators

Army Network Plan Framework		Performance Roll-Up			
		FY 2020		FY 2021	
Line of Effort	**Objectives**	**Score***	**Goal**	**Score***	**Goal**
LOE 1 – Modernize the Network	OBJ 1.1 Deliver Standards Based Architecture	0	10	4.07	10
	OBJ 1.2 Modernize Mission Command Network	6.02	10	7.06	10
	OBJ 1.3 Set the Enterprise	3.46	10	9.84	10
	OBJ 1.4 Achieve and Sustain Interoperability	6.84	10	6.9	10
LOE2 – Shape the Force	OBJ 2.1 Enhance Training Systems and Infrastructure	8.61	10	8.24	10
	OBJ 2.2 Improve Force Design and Structure	8.15	10	8.15	10
	OBJ 2.3 Build Readiness	6.67	10	6.67	10
	OBJ 2.4 Develop Human Capital	5.43	10	5.28	10
LOE 3 – Reform Processes and Policies	OBJ 3.1 Integrate Mission Areas	4.35	10	4.24	10
	OBJ 3.2 Optimize Governance Processes and Structure	3	10	6	10
	OBJ 3.3 Reshape Policy	8.7	10	7.59	10
	OBJ 3.4 Transform Army Enterprise Architecture (AEA)	2.2	10	2.2	10
	OBJ 3.5 Ensure IT Investment Accountability	5.89	10	6.33	10
LOE 4 – Network Sustainment	OBJ 4.1 Determine Network Sustainment Requirements		10		10
	OBJ 4.2 Network Lifecycle Sustainment Planning		10		10
	OBJ 4.3 Plan and Program Sustainment Resources		10		10
	OBJ 4.4 Support Network Modernization Fielding		10		10
	OBJ 4.5 Sustain Enterprise and Tactical Networks		10		10
LOE 5 – Security and Survivability	OBJ 5.1 Manage Risk	6.88	10	6.48	10
	OBJ 5.2 Secure Army Networks	1.11	10		10
	OBJ 5.3 Secure Data	2.56	10		10
	OBJ 5.4 Harden Weapon Systems and Platforms	0	10	7.78	10
	OBJ 5.5 Harden Control Systems		10	6.67	10

*A score of 3 or less is high risk and indicates 'red' or progress obstacles, and a score of 7 or higher is low risk and indicates 'green' or on track

Reform

Strategic Goal 3: *To maximize the value of every dollar, operate transparently, and use resources wisely*

In order to reform the Army's current culture, we must continue to foster a commitment to fiscal responsibility and accountability, while continuing to achieve our mission. Continued attention to controlling and reducing the cost of overhead and management structures, while ensuring the associated activities are not negatively impacted, is essential. Instilling a strong cost- and efficiency-conscious culture across the Army through leadership and policy implementation is critical to enabling the Army of the future to deliver value to the Warfighter. Knowing what it costs to deliver business capabilities allows Army leaders to assess the return on investment, leading to improved decision making across the organization. The objectives below align to the overall goal of reform.

Objective 3.1: *Re-stationing Forces*

On January 25, 2013, the Secretary of Defense directed a European Infrastructure Consolidation (EIC) analysis with a focus on reducing long-term expenses through footprint consolidation and eliminating excess capacity, while ensuring that the infrastructure properly supports our operational requirements and strategic commitments. The Army, other services, and four joint service working groups, identified and analyzed opportunities for consolidation of common support functions, such as logistics, training, medical, command, control, communications, computers, and information technology. The status of EIC actions in FY 2021 are provided below.

Performance Indicators: Table 7 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 3.1.a: Percent of EIC actions completed.

Performance Results: In 2021, the Secretary of Defense approved a U.S. European Command (EUCOM) request, supported by the Army, to reverse EIC actions at Daumerie Caserne, in Belgium and five sites in Germany: Amelia Earhart, Barton Barracks, Husterhoeh Kaserne, Pulaski Barracks, and Wielimdorf Warehouse due to changes in the operational environment in Europe. Retaining these sites avoids significant construction costs that would be incurred if the sites were divested and the replacement capabilities built elsewhere.

TABLE 7. EIC Performance Results

EIC Performance Results[1]	FY 2018	FY 2019	FY 2020	FY 2021
Number of EIC Actions scheduled to complete	3	1	4	3
Number of EIC Actions completed	2	2	2	0
Percentage	67%	200%	50%	0%

[1] Army EIC Business Plan Coordination a/o 15 May 2020 & Army Quick Wins Status Chart a/o 16 Feb 2020

Objective 3.2: *Business Transformation Initiatives*

To optimize cost savings and improve the Army's ability to deliver readiness at the best value, the Army continuously reforms and transforms its business operations through a variety of approaches, including the Army Business Management Plan (ABMP), the Army's Integrated Management System (IMS), continuous process improvement (CPI) and business process re-engineering (BPR). Through the effective deployment of these approaches, the Army optimizes the quality and timeliness of its products and services in support of operational readiness and fulfills its obligation to gain full value from every dollar spent on defense.

The Amy Business Management Plan (ABMP) provides the direction and governance to accomplish this. It contains initiatives that will:

- Improve business processes
- Enable reinvestment of time, money, and manpower savings in higher Army priorities and
- Promote rapid, agile, and effective response to evolving Army business needs

ABMP Goals and Objectives

GOAL 1: People

1.A. Talent Management

1.B. Personnel Management

1.C. Management Training and Education

1.D. Diversity and Inclusion

The Army has the workforce capability and capacity to quickly and effectively address current and emerging business needs; it promotes an organizational culture characterized by high performance, engagement, and valuing of diversity and inclusion.

GOAL 2: Data Enabled Enterprise

2.A. Data Analytics

2.B. Data Infrastructure

2.C. Governance

Army leaders and managers at all levels use data and information effectively to guide process management toward the achievement of key organizational results, anticipate and respond to rapid or unexpected organizational or external changes, and identify best practices to share across the enterprise.

GOAL 3: Business Operations and Processes

3.A. Processes

3.B. Structure

3.C. Acquisition

The Army designs, manages, improves, and innovates business operations and processes to control costs, improve performance, and support readiness and modernization strategic objectives.

The IMS framework facilitates the integration of the Army's people, processes, data, and information. Using this framework, the Army can better manage its business operations to systematically and continuously identify, adjudicate, and implement reforms that respond to both our stewardship mandate and Army priorities as they evolve over time.

Assessment of the progress in the achievement of ABMP goals, objectives, and initiatives is central to the plan's execution. As such this progress is reviewed by the Army Business Council in March and August of each year and annually by the Under Secretary of the Army in September. New initiatives are added and completed initiatives are removed in annual updates to the plan once approved by the Under Secretary.

The Enterprise Data Analytics Strategy (EDAS) and the Army Business Management Plan (ABMP) establish a trajectory for the Army in building Enterprise-wide decision analytics capabilities that capture the full business value of Army information resources. The Enterprise Data Services Catalog (EDSC) is the Army's registry of authoritative data sources and analytics projects, supporting data governance and enabling rapid and effective use and reuse of enterprise data assets for decision-making with confidence.

The HQDA Analytics Laboratory (HAL), Deep Green Challenges, Community of Interest for Data Science and Intelligent Automation (COI), and Business Health Metrics (BHM) are EDAS initiatives. The matrixed analytic organization (HAL) addresses analytical use cases across the business mission area. Deep Green is the Army's premier Data Science Challenge supporting the Army's data workforce with advanced training in data science, artificial intelligence, computer science, and machine learning. The Community of Interest (COI) improves collaboration and knowledge sharing of tools and technologies currently in use, methodologies used in data analytics, data science, and artificial intelligence techniques. The Business Health Metrics initiative changes the culture of reporting from static to real-time/near real-time assessments providing Army senior leaders with data about their organizations at echelon enabling them to make informed, timely decisions with updated, relevant data.

Soldiers participate in training before an Army Combat Fitness Test. (U.S. Army photo by Spc. Juan Carlos Izquierdo)

EDAS Goals and Objectives

Goal 1: Data Analytics and Doctrine Policy

1.1. Establish AAB and Project Pipeline

1.2. Codify Army's Approach to Analytics

Army Data Analytics doctrine and policy adapt new capabilities to the Army's circumstances. The Army is oriented and organized around fast experimentation to understand, learn, and improve its business operations through data analytics and, as a result, continuously improves Army readiness.

Goal 2: Data Analytics Organization and Infrastructure

2.1. Establish CAO and HQDA Analytics Cell

2.2. Conduct Army Collaborative Events

2.3. Strengthen Analytics Community of Practice

2.4. Collaborate with Academia and Industry

2.5. Incentive Analytics Cells

The Army establishes a federated approach to data analytics and data science that provides a mandate, incentives, and opportunity for the growth and maturation of this capability while supporting the further development of establishment of data analytics cells at other echelons and leveraging existing capabilities currently across the Army.

Goal 3: Workforce Capability and Capacity for Data Analytics

3.1. Coordinate the Analytics Community

3.2. Identify Positions, Roles and Skills

3.3. Analytics Expertise Aligned to Capability

Through collaborative teams and a range of competencies the Army expands, matures, and sustains a data analytics capability that captures the full business value of its information resources with a broad range of descriptive, diagnostic predictive, and prescriptive analytics.

Goal 4: Leadership for Data

4.1. Executive Leader Analytics Training

4.2. Enterprise Analytics Capability Measures

4.3. Leader Incentives to Use Analytics

Both uniformed and civilian Army Leaders have a working understanding of data analytics. This understanding, coupled with their knowledge of business problems increases the demand signal for data analytics capability and solutions.

Goal 5: Materiel and Technology Support for Data Analytics

5.1. Evaluation of Tools and Workforce

5.2. Analytics-Informed System Requirements

5.3. Enterprise Data Environments and Tools

The Army's materiel solutions for enterprise data analytics continue to address the needs of the broader Army data analytics community and balance technology solutions with the human resources required to employ them in a cost effective manner.

CPI efforts have improved logistics, program management, buying practices, headquarters restructuring, and other functions to enhance the effectiveness and efficiency of Army operations. The desired end state is an Army that: (1) strives to eliminate all process activity that does not directly lead to enabling operational capability and adaptability, (2) possesses a multi-disciplinary capability and institutionalizes various levels of this capability in Army training and schools, (3) employs technology to streamline the Army force generation processes, and (4) continues to improve the adaptability of generating processes through an organizational redesign, innovation, and integration. The Army sustains its CPI strategy and approach to ensure that it applies the best methods and tools to the complex challenges that face the Army. The Army measures CPI efforts by accounting for direct cost savings or cost avoidance achieved from the FY 2015 baseline, with a target of a 5% increase annually.

In FY 2017, the Army established the BPR Center of Excellence (CoE) to institutionalize and improve the Army's approach to BPR. The CoE delivers four core capabilities: design of BPR curriculum, development of a cadre of trained BPR specialists to support Army's business process owners, support of enterprise BPR efforts across the Army, and serving as the senior review authority providing an evaluation of BPR efforts in support of the Business Capability Acquisition Cycle (BCAC). The BPR CoE currently supports the training of BPR practitioners, continues to develop modernized BPR approaches, and provides direct support to commands and Defense Business System proponents and developers to improve and streamline business processes in support of the Army's Business Mission Area (BMA).

In FY 2019, the Army established the Army School of Business at the Army Logistics University, Fort Lee VA. The School consolidates BMA Training to include Lean Six Sigma (LSS), BPR, Robotic Process Automation, Data Analytics for Non-ORSAs and other business-related courses. The school is expected to reach full operational capability and will provide full-service support in late FY 2022 (Delay due to COVID-19).

In FY 2019, the Army implemented Category Management (CM) to improve Army services contracting and enable the Army to save time, money, and manpower for reinvestment into higher priorities. The goal is to achieve 5% savings year over year from the FY 2019 baseline. CM is the business practice of buying common goods and services as an enterprise to eliminate redundancies, increase efficiency and deliver more value and savings. The Army has implemented governance, established training that drives better contracting processes, increased spending under management, and implemented demand management best practices to manage requirements and reduce redundancies. All categories have established demand management practices including standard levels of services. This year, the Army launched an enterprise CM data analytic capability in Vantage to enable a data-driven analysis of Army contracting decisions. In addition to the $1.6 billion in category management savings achieved in POM 20-24, the Army anticipates achieving additional savings and better value of goods and services through improved contracting and demand management.

Performance Indicators: The measures below are performance indicators in determining progress in meeting this objective.

- Measure 3.2.a: FY 2021 financial benefits conferred from CPI/BPR initiatives
- Measure 3.2.b: Number of students trained in BPR Foundation course
- Measure 3.2.c: Number of students trained in BPR Intermediate course
- Measure 3.2.d: Percentage completion of ABMP initiatives
- Measure 3.2.e: Number of students trained in the IMS Course
- Measure 3.2.f: CM Cost Savings: 5% year over year from FY 2019 baseline
- Measure 3.2.g: CM Data Analytics: Army Contracting Command (ACC) data analytics at full operational capability by EOY FY 2020

Performance Results: The Army developed a four-day intensive IMS Course for senior leaders. The course was piloted in October 2021 with 20 students. It is designed to develop an understanding of the Army's IMS framework as a blueprint for leading and managing high-performing organizations. Students learn how to critically assess operations of their own organizations and provide recommendations for continuous improvement. The course will be taught quarterly in 2022.

The cumulative and FY 2021 data to support the CPI results: The Army CPI program continues to deliver an average annual financial benefit (savings and cost avoidance) of $1 billion. In FY 2021, Army CPI efforts resulted in a financial benefit (cost savings/avoidance) of $1.096 billion and trained 107 practitioners (79 GB and 28 BB), bringing the total number of Army trained process improvement practitioners to 13,942, greatly impacting the Army's ability to routinely see and improve its processes as a matter of routine. Additionally, the Army certified three new Army Master Black Belts, bringing the total of senior process experts, practitioners/trainers in the Army to 172. (Note: The Army transitioned all of its process improvement training to virtual in FY 2021 due to COVID-19).

BPR Center of Excellence, the FY 2021 data: In FY 2021, 161 students completed the Tier One Foundation course and 73 students completed the Tier Two Intermediate course, with 2 students attaining Tier Three certification. To date, the BPR-COE has trained 858 BPR practitioners (648 Foundational, 198 Intermediate & 12 Advanced).

Army Category Management (CM): Army CM Cost achieved a savings of $1.6 billion in POM 20-24. In FY 2021, Army Contracting Command deployed the category management analytic tool in Vantage to enable detailed analysis of CM contracts by commands, categories and contracting officers.

Objective 3.3: *Establish the Army Business Mission Area (BMA) business system information technology model (Figure 4) with major emphasis on the unification quadrant.*

Define and develop incremental ERP capabilities to support specific lines of business while enhancing overall enterprise agility, performance assessment, accountability, decision-making, and overall effectiveness in an increasingly resource constrained environment.

> *"If FY21 has reinforced anything, it's that financial stewardship, resilience and adapting to feedback are even more important amid a pandemic and other evolving threats. It's this heightened level of readiness and accountability that are essential for ensuring taxpayer dollars effectively support the lethality our warfighters need to succeed, one transaction at a time."*

—COL PAIGE M. JENNINGS
Commander, U.S. Army Financial Management Command

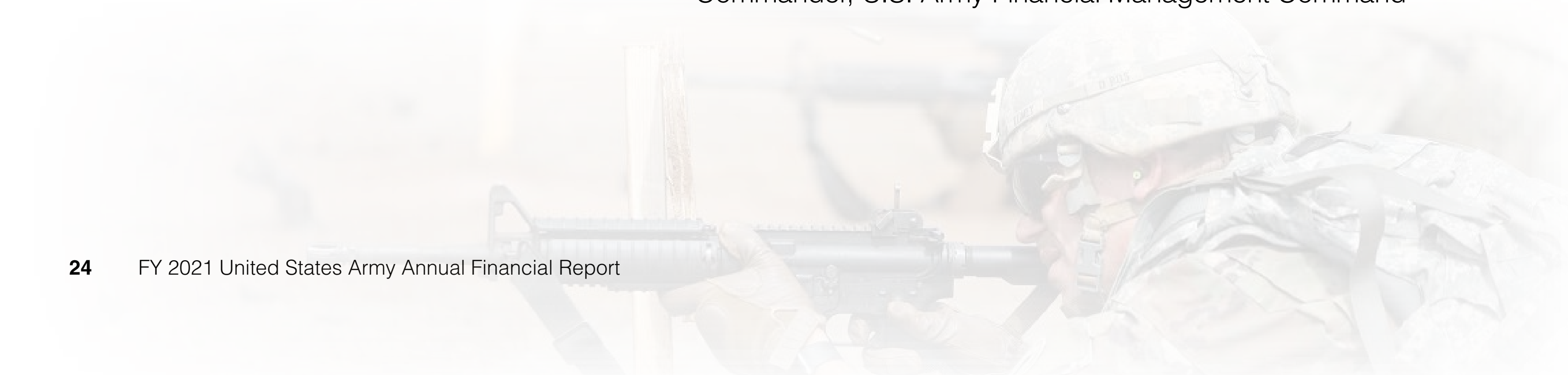
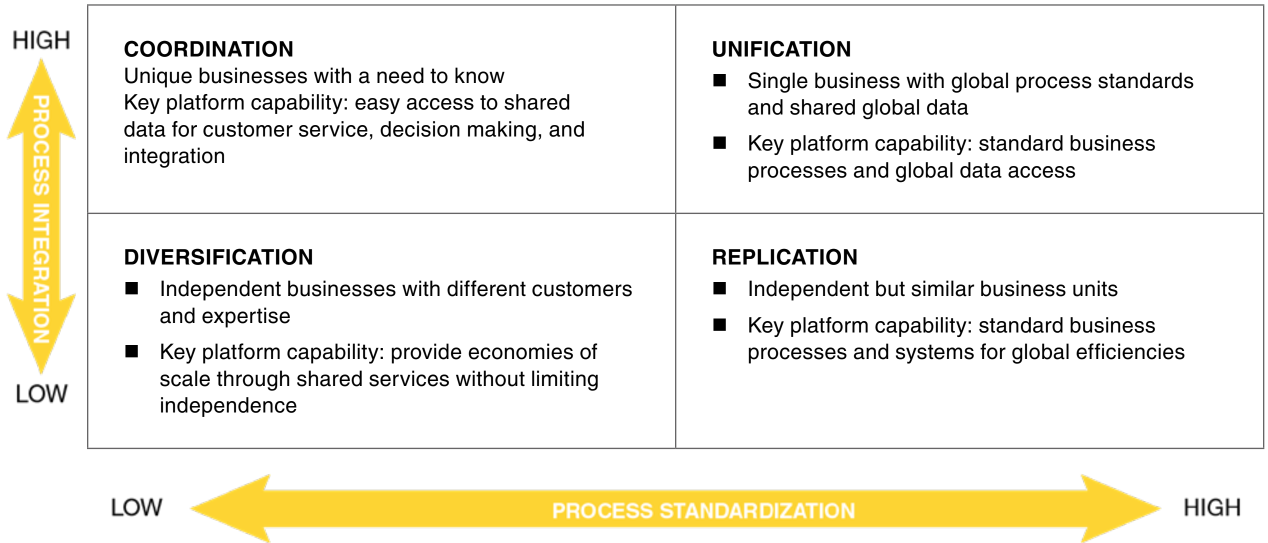


FIGURE 4. BMA Business System Information



Performance Indicators: Planned system retirements and enduring target systems on schedule completion.

- Measure 3.3.a: Planned legacy system retirements accomplished on time. Target: 95%.

Performance Results: The target number of DBS for system retirements during FY 2021 was 23 systems. The Army eliminated its FY 2020 target backlog of 35 systems and was able to sunset 8 additional systems beyond the FY 2021 target. In total, the Army retired 66 legacy DBS investments during FY 2021. This results in an on-time metric of 287%. The Army exceeded expectations due to aggressive Portfolio Management practices and Business Process Reengineering (BPR) activities that identified additional replacement opportunities and obsolete capabilities.

The current suite of Army Enterprise Business Systems (EBS) lack agility and the capacity to seamlessly share information between systems and commands. Additionally, the current EBS are nearing their end-of-service lifecycle and will need to be upgraded to avoid substantial cost and loss of capability to the Army. As the Army increases its efforts process to improve tactical and strategic readiness, the requirements and approaches supporting EBS and core non-EBS systems must be modernized to improve business execution, data and data analytics value, and cloud computing advances while reducing ownership costs.

Currently, EBS-C is maneuvering through the DODI 5000.75 Business Capability Acquisition Cycle (BCAC) process, and is beginning work in Phase 3 (Functional Requirements and Acquisition Planning). The Under Secretary of the Army and Vice Chief of Staff of the Army gave approval of our Capabilities Requirement Document Part 2 and the Functional Requirements Authority to Proceed on 07 October 2021. The EBS-C Product Office is currently developing the acquisition approach to present to the Army Acquisition Executive for approval this quarter. Follow on actions with this phase include RFIs, Industry Days, risk reduction efforts, and refinement of the acquisition approach.

Army Senior Leaders directed strategic outcomes include modernizing defense business system capabilities using industry best practices. EBS-C is the Army's initiative to modernize and streamline sustainment and finance business processes to increase velocity and fidelity of decisions on the battlefield. The EBS-C

Oath of enlistment ceremony (U.S. Army photo by Claudia LaMantia)

modernization effort is essential to Army readiness because many of today's sustainment and financial management processes are fractured between multiple systems, causing delays in processing time, degrading visibility, and auditability. The only way forward is to phase into a common platform that will deliver clear business and readiness improvements. A modernized system enables strategic readiness and provides the warfighter and workforce with the modern capabilities to execute sustainment and fiscal management operations - bridging tactical and strategic capabilities into one converged solution.

Given that EBS-C is still in the planning stages and not yet begun implementation, performance indicators have not yet been defined and there are no performance results to report at this time.

People

Strategic Goal 4: *The Army must maintain the quality and viability of the all-volunteer force, as well as the many capabilities it provides the Nation, to sustain Soldiers, their Families and Army Civilians in an era of persistent conflict. Sustainment ensures that Soldiers and their Families have the quality of life they deserve which leads to improved retention rates.*

People are the Army's most valuable assets and are critical to achieving all aspects of the Army mission. Taking care of Army Service members, their families, and civilian staff is a commitment that the Army continues to honor. The Army will make the most efficient use of the Total Force by targeting areas such as transition and personnel planning to remain agile and responsive, regardless of the current fiscal challenges. The Army will initiate efforts to reinvent the civilian workforce and military service members everywhere:

bringing in and retaining highly skilled people; rewarding people and promoting on the basis of performance and talent; and thinking about ways to broaden experience.

Objective 4.1: *Manning the Force—Recruiting and Retaining Soldiers*

To achieve the Army Vision of 2028, the Regular Army is on a steady growth ramp to achieve 485,000 Soldiers in FY 2027. The Army will have associated growth in the Reserve components (Army National Guard and Army Reserve), by recruiting and retaining high quality, physically fit, mentally tough Soldiers who can deploy, fight, and win decisively on any future battlefield.

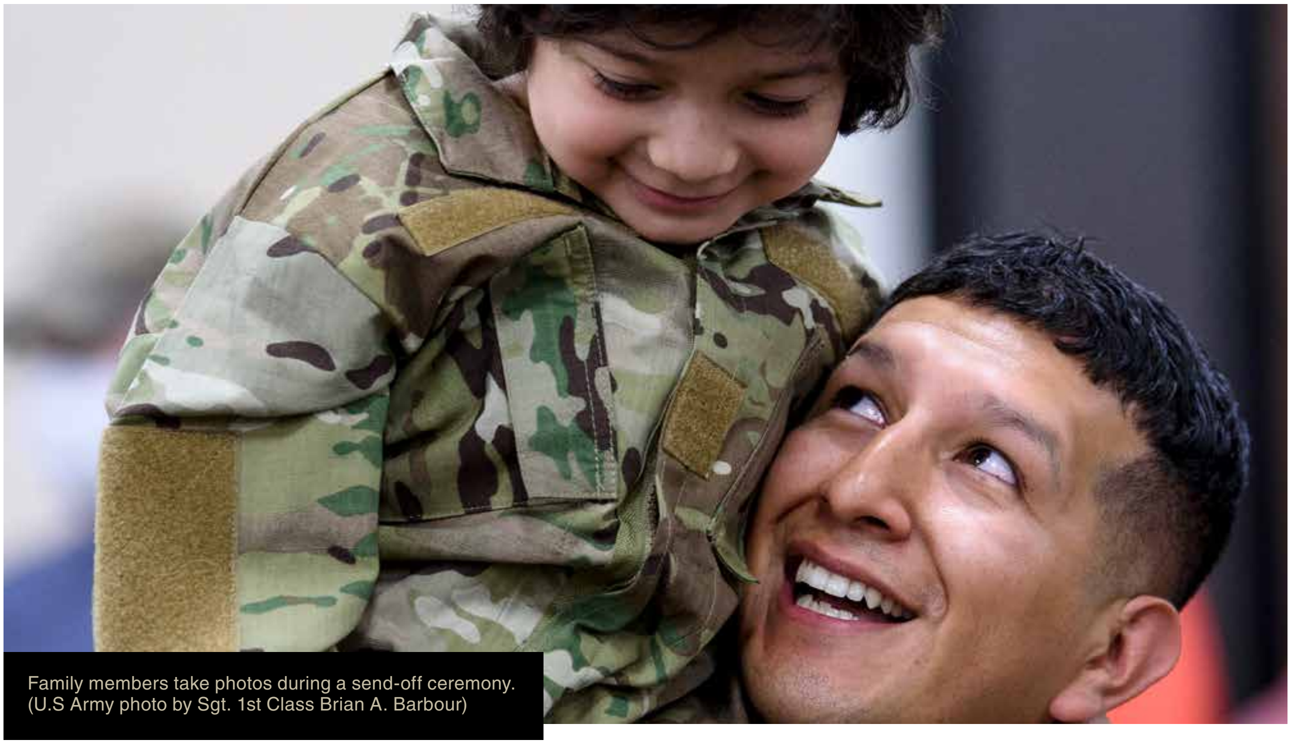
Performance Indicators: Tables 8-12 display measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.1.a: Quality Percent Tier 1 Educational Credential Holders (Active Component).
- Measure 4.1.b: Total Enlisted Recruiting.
- Measure 4.1.c: Active Component (AC) End Strength. The number of Soldiers on active duty at the FY-end; data as of September 30, 2021; does not include Soldiers on Active Duty for Operational Support (over 1,095 days). Under presidential-declared states of national emergency, end-strength limits may be waived. Goals and minimums of FY 2016 – FY 2018 identified within the National Defense Authorization Act (NDAA). Goals and minimums of FY 2019 – FY 2021 established by the Secretary of the Army, approved by the Secretary of Defense, and within 2% of end-strength limits identified within the NDAA.
- Measure 4.1.d: Reserve (ARNG and USAR) End Strength. The number of Soldiers in ARNG and USAR; data as of September 30, 2021.
- Measure 4.1.e: Number of Soldiers reenlisted during a given FY against published goals.

Performance Results: While the recruiting environment is challenging due to COVID 19 restrictions, the Army remains committed to bringing only the very best into its ranks. The Army's goal is to achieve at least a 90% rate of new recruits with Tier 1 educational credentials, at least 60% for CAT I – IIIA on Armed Forces Qualification Test (AFQT) scores, and at most 4% for CAT IV on AFQT scores. The total Army has achieved approximately 93.31% Tier 1s, 62.05% on CAT I – IIIAs, and 3.41% on CAT IVs recruits for FY 2021. The 12, 24 and 30 month unit attrition has all declined while the 18 month attrition had a slight increase. The decreased attrition rate and overall quality of recruits are positive signs that the Army is recruiting, training, and retaining a highly qualified force. In FY 2021, the Army offered a selective recruitment bonus to attract personnel for specific skill areas, including Infantry Recruit, Cryptologic Linguist, and Air Missile Defense crewmember.

The Army achieved the Active Component FY 2021 recruiting mission. The United States Army Reserve (USAR) and Army National Guard (ARNG) did not achieve its FY 2021 recruiting mission.

The retention program continued to support Army readiness by retaining Soldiers serving in high demand special skills areas. In FY 2021, the Army offered a selective retention bonus to attract and retain personnel in specific skill areas, including Cyber Operations Specialist, Special Forces, and Cryptologic Linguist. These bonuses, which are vital tools in retaining Soldiers who possess valuable combat experience, helped the Army exceed its FY 2021 retention goal. The Army will continue to develop and implement programs to address Soldier retention.



Family members take photos during a send-off ceremony. (U.S Army photo by Sgt. 1st Class Brian A. Barbour)

TABLE 8. Quality Percent Tier 1 Educational Credential Holders (Active Component)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Tier 1 Goal	90%	90%	90%	90%	90%	90%
Tier 1 Actual*	96%	96%	95%	94%	96%	93%*

*Actual data as of September 30, 2021

TABLE 9. Enlisted Recruiting

	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Goal	FY 2019 Actual	FY 2020 Goal	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual	FY 2021 Percent Delta
Active Component	62,681	68,862	69,972	68,000	68,185	62,000	62,151	57,500	57,606*	+0.18%
ARNG	33,135	34,298	34,629	39,000	39,063	42,730	42,730	15,875	11,690*	-0.26%
USAR	15,865	13,272	11,327	15,600	15,304	15,850	13,706	42,957	34,658*	-0.19%

*Actual data as of September 30, 2021. The Percent Delta has no adverse impact on Army Operational Readiness.

TABLE 10. Active Component End Strength

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Goal	475,000**	476,000**	483,500**	478,000***	485,000***	485,900***
Actual*	475,400	476,245	476,179	483,941	485,383	486,490*
Percent Delta	+0.1%	+0.05%	-1.5%	+1.2%	+0.1%	+0.12%

* Actual data as of September 30, 2021. The Percent Delta has no adverse impact on Army Operational Readiness.
**Goal and minimum of FY 2016 – FY 2018 identified within the National Defense Authorization Act (NDAA).
***Goal and minimum of FY 2019 – FY 2021 established by SECARMY, approved by SECDEF, and within 2% of end-strength limits identified within the National Defense Authorization Act (NDAA).

TABLE 11. Reserve (ARNG and USAR) End Strength

	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual	FY 2020 Goal	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual	Percent Delta
ARNG	341,590	343,603	335,204	335,973	336,000	334,828	336,500**	337,525*	+0.30%
USAR	198,395	194,318	188,811	190,719	189,500	188,964	189,800**	184,358*	-2.87%

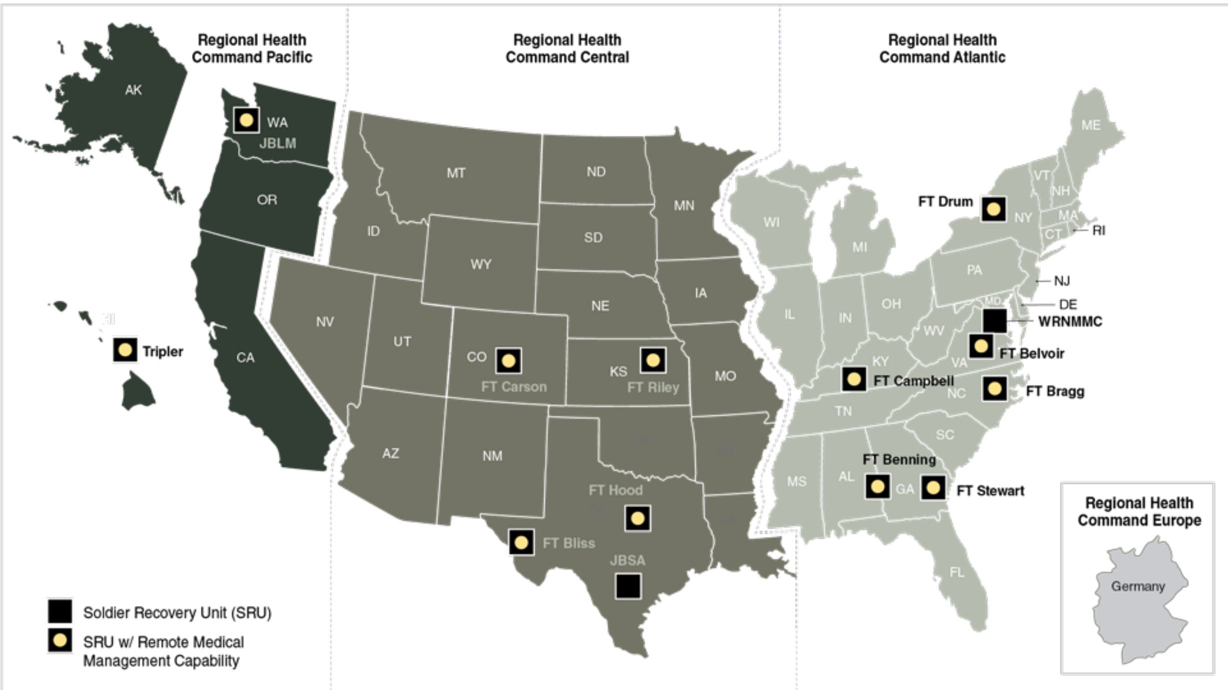
* Actual data as of September 30, 2021.
**Goal and minimum of FY 2019 – FY 2021 established by SECARMY, approved by SECDEF, and within 2% of end-strength limits identified within the National Defense Authorization Act (NDAA).

TABLE 12. Active, National Guard and Reserve Component Retention

	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Actual*	FY 2020 Goal	FY 2020 Actual	FY 2021 Goal	FY 2021 Actual	Percent Delta
Active Component	55,181	58,373	55,881	51,331	50,219	53,024	56,275	58,141*	+3.3%
ARNG	31,319	31,530	34,913	36,138	37,272	34,260	33,624	36,628*	+8.9%
USAR	15,886	16,737	19,012	17,089	9,700	13,004	11,000	12,528*	+13.9%

* Actual data as of September 30, 2021

Objective 4.2: *Providing Warrior Care and Transition*



The Army Recovery Care Program (ARCP) has the congressionally mandated mission to provide the Army's wounded, ill, and injured (WII) Soldiers, Veterans, and their families with the medical management, access to care, and transition support they need and earned. As a staff directorate of U.S. Army Medical Command (USAMEDCOM), it is led by its Deputy Chief of Staff Army, Recovery Care Program (DCS-ARCP). The ARCP is the U.S. Army's proponent for overseeing, integrating, and synchronizing policy, advocacy, and implementation of warrior care initiatives that contribute to Army Readiness. Program population was 1,828 as of 8 September 2021. Over the past 12 months, 2,217 Soldiers entered the program and 3,543 Soldiers spent at least one day in the program.

The cornerstone of the program is the Comprehensive Recovery Plan (CRP). The CRP employs six interdisciplinary processes to produce a tangible, achievable plan of action devised by the Soldier in collaboration with Soldier Recovery Unit (SRU) clinicians and SRU leadership. Although standardized, the CRP allows each Soldier to customize their recovery process, enabling them to set and reach their personal goals. Recovery Care Coordinators (RCCs) and the interdisciplinary team of the ARCP support the CRP and ensure access to benefits, resources, and enhanced care throughout the recovery and transition process.

Objective 4.2.1: *Provide centralized oversight, guidance, and advocacy empowering wounded, ill, and injured Soldiers, Veterans, and families to implement their CRPs to return to the force or to transition to the civilian community with dignity, respect, and self-determination.*

Securing a trailer to the back of a Humvee (U.S. Army photo by Sgt. Dustin D. Biven)

Performance Indicators: *Tables 15-19 display measures that are performance indicators in meeting the above objective.*

Readiness:

- Measure 4.2.a: Continued Soldier time-in program reduction.
- Measure 4.2.b: Percent of Soldiers returned to the force as a part of Army readiness and lethality.

Oversight:

- Measure 4.2.c: Percent of Organizational Inspection Program (OIP) compliance rates.

Reintegration and Transition Support:

- Measure 4.2.d: Percent of Soldiers in the "Transition from the Army" career track that are participating in a Career and Education Readiness (CER) worksite.
- Measure 4.2.e: Percent of "warm handoffs" of eligible transitioning Soldiers to the Veterans Administration (VA).

Performance Results: The ARCP's focus on providing enhanced access to care for ARCP Soldiers contributes to the Army's total force readiness. Of the more than 83,000 Soldiers who have been assigned to the ARCP, 42% have returned to duty, a rate of return that the ARCP has maintained for the past three years.

Policy: Army Recovery Care Program Policy Division is currently working on a revision to Army Recover Care Program, AR 40-58, which will clearly address policy gaps related to the program restructure. This revision is tentatively slated for publication in 2022. Furthermore, another AR 40-58 revision, which will align with the new Department of the Army Pamphlet (DA PAM), will highlight the processes and procedures slated for publication in 2024. Additionally, The Policy Division initiated and published in March 2021 a new policy memo on Delegation of Authority for the Army Recovery Care Program. The policy delegated approval authority to specific staff elements and commanders based on the specific type of actions.

Training: ARCP provides a mixture of distance learning and residence to train and educate SRU cadre as well as ARCP directorate staff. Among the resident courses ARCP conducts are several that are designed to meet the needs of SRU personnel, ranging from the SRU command team down to squad leader; nurse case managers, clinicians, and transition coordinators. Trainings include ARCP and SRU organization and operation, ARCP procedures, leadership, clinical operations, patient movement, transition, and resilience.

Principal among these courses is the Senior Leaders and Clinicians Course (SLCC), which is held quarterly. The course provides initial entry training for senior personnel and clinicians to prepare them to assume positions at either an SRU or Regional Health Command (RHC) Recovery Care Office (RCO). ARCP hosts an annual Training Summit which provides training and updates to program policy to SRU personnel. For FY 2020, collectively, training teams moved 100% of courses and summits onto the MS Teams platform. Participants received additional training prior to each training event on the use of MS Teams. The additional training was to encourage maximum use and increased student engagement to mitigate the obstacles of a non-resident training environment.

Soldier Transition: ARCP's Career and Education Readiness Division (CERD) is responsible for policies and programs to prepare ARCP Soldiers for transition to Veteran Status and civilian life. CERD implements programs, drafts policy, and coordinates with stakeholders to maintain or improve measures of performance throughout the FY. The CERD's strategic plan includes objectives in the following functional areas: policy, training, evaluation, strategic communication, and external partnerships to continue validating CER participation and documenting its long-term results. CERD establishes the foundation for success for new Transition Coordinators during the Initial Transition Coordinator Training Course. Then, utilizing monthly Transition Coordinator training sessions and two formal Transition Coordinator Training Conferences, CERD transforms ideas and best practices into policy, thereby continuing the increase of participation rates amongst eligible Soldiers in CERD-sponsored opportunities. Lastly, CERD validates the program via the formal staff assistance visits conducted at the 14 SRUs.

Policy Oversight and Compliance: ARCP sends teams to visit each SRU no less than once each 18 months. These teams evaluate SRU compliance with policies, procedures, and best practices, with an overall compliance rate of nearly 90%. The checklist is regularly updated to ensure an evolving oversight program that captures changing policy. The staff assistance effort includes four quarterly assessments and a root cause analysis to determine required policy changes and to determine where to effect change or provide additional guidance to assist units or adjust policy. This quarterly analysis and a standard operating procedure help spread best practices across the enterprise and lead to the continuing improvement of the program. ARCP also conducts monthly synchronization meetings with RCOs to adjust policy, improve oversight, and integrate training.

TABLE 13. End of Fiscal Year Soldier Average Time in Program[1]

	FY 2018 End of FY Average (days)	FY 2019 End of FY Average (days)	FY 2020 End of FY Average (days)	FY 2021 Goal	FY 2021 Average (days) as of September 2021
Active Component	214	250	275	<280	291
Army National Guard	238	250	297	<336	315
U.S. Army Reserve	282	282	318	<336	332
All Components Average	**233**	**255**	**292**	**<310**	**307**

Source: Medical Operational Data System Warrior in Transition (MODS-WT)

TABLE 14. Return to Force[2]

	FY 2018	FY 2019	FY 2020	FY 2021
Active Component	30.64%	30.46%	30.01%	28.0%
Army National Guard	57.91%	58.17%	58.36%	60.2%
U.S. Army Reserve	54.21%	54.41%	54.55%	62.8%
Total Completed Program to Date	76,717	79,285	81,821	83,444
Total Returned to Force to Date	32,366	32,366	34,397	35,133
Goal	*No historic goal established; objective is to return as many Soldiers to duty as possible.			
All Components Average	**42.19%**	**40.82%**	**42.04%**	**42.10%**

Source: MODS-WT

TABLE 15. Organizational Inspection Program (OIP) Averages[3]

FY 2018 Inspection Compliance Rates	FY 2019 Goal	FY 2019 Inspection Compliance Rates (9 of 14 WTUs)
87.11%	85%	85%

Source: Army DCS-WCT FY19 OIP Results

TABLE 16. Soldiers CER Participation[4]

	FY 2018	FY 2019	FY 2020	FY 2021
Eligible (Average of each end of month total)	826	930	861	664
Participation (Average of each end of month total)	722	854	752	608
Percent Goal	90%	90%	90%	90%
Percent Participation	**87%**	**92%**	**87%**	**92%**

Source: Army Warrior Care and Transition System (AWCTS)

TABLE 17. Veteran's Administration (VA) Warm Handoff[5]

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Soldiers Eligible for Referral	1,883	1,855	1,624	1,808	1,123
Soldiers Referred	1,698	1,707	1,442	1,698	995
Percent Goal	90%	90%	90%	90%	90%
Percent Referred	**90.2%**	**92.0%**	**88.8%**	**93.9%**	**88.6%**

Source: Federal Case Management Tool (FCMT) and MODS-WT

Notes:
[1] "Time in Program" calculated by average days in the program for Soldiers current in the program at the time information was analyzed (last week of each FY). Over 600 Soldiers exited the program from May to August with an average time program of 410 days resulting in a decrease of the overall FY 2021 average by over 20 days.
[2] By returning an SFC to active duty instead of separation, the Army saves $988,000 (Source: Wounded Warrior Transition Analysis, Center for Army Analysis, 15 May 2017). Data does NOT include RM2 Soldiers.
[3] OIP paused in FY 2020 due to program restructure and in FY 2021 due to COVID-19 pandemic.
[4] Analysis includes all Army Components.
[5] A successful "VA Warm Handoff" is defined as a completed VA Form 10-0454 (Military Treatment Facility Referral Form to VA Liaison) being sent electronically by a Soldier's Nurse Case Manager to the nearest VA LNO, and the Soldier subsequently meeting with the VA Veterans Health Administration counselor to complete the form. At this point, the data is entered into the VA's FCMT and the Soldier is considered as having been referred.

Objective 4.3: *Improving Soldier and Family Housing*

The Army has pledged to provide for Soldiers and their Families a quality of life commensurate with their service. Continued Congressional support for housing programs is improving both family housing (FH) and unaccompanied housing (UH), enabling the Army to fulfill its pledge. The Army continues to eliminate inadequate FH and UH at enduring locations through replacement and improvement projects, and divestiture of excess or substandard inventory.

The Army's resource investment over the years was shaped to meet the Office of the Secretary of Defense (OSD) directed targets of 90% of the housing inventory with a facility condition index (FCI) of 80% or higher. While OSD uses the FCI, the Army equivalent are Quality (Q) ratings and the ratings Q1 and Q2 are the Army equivalent of ratings that are 80% FCI or higher.

By providing housing allowances, the Army enables Soldiers with dependents and eligible single Soldiers, to secure adequate and affordable housing in the local community. Approximately 70% of Soldiers are housed in this manner with the assistance of the Housing Services Offices at the Army garrisons worldwide. The Army currently has 10,398 Army-owned FH units and is working toward improving or replacing inadequate FH to achieve an inventory that is 90% Q1/Q2. If needed, the Army programs for FH construction projects at installations with quality and/or quantity deficits.

The Army has also utilized FH and UH privatization options to deliver adequate and affordable housing on Army installations in the United States. The Army's privatized housing Residential Communities Initiative (RCI) exists at 44 installations in the United States, including Alaska and Hawaii for an end-state inventory of 85,182 family homes. The Army RCI program also has five UH privatization projects at Forts Irwin, Drum, Bragg, Stewart, and Meade. The Army plans to eliminate inventory of inadequate lodging at locations in the United States, including Alaska, Hawaii and Puerto Rico through the Privatized Army Lodging (PAL) program. The PAL program operates at 40 installations.

As of the end of FY 2021, the UH (barracks) portfolio is vast. The DCS, G-9 is responsible for over 6,800 UG buildings that encompass over 470,000 spaces. The types of UH include permanent party (PP), institutional training (IT), and collective training (CT).

The Army has primarily focused on improving the quality of PP and IT UH and has established plans to raise the quality ratings to meet the OSD 90% Q1/Q2 goal in FY 2027 for PP and FY 2024 for IT. Goals and funding for improvement of collective training UH have been established to meet the 90% Q1/Q2 goal by FY 2030.

Objective 4.3.1: *Family Housing*

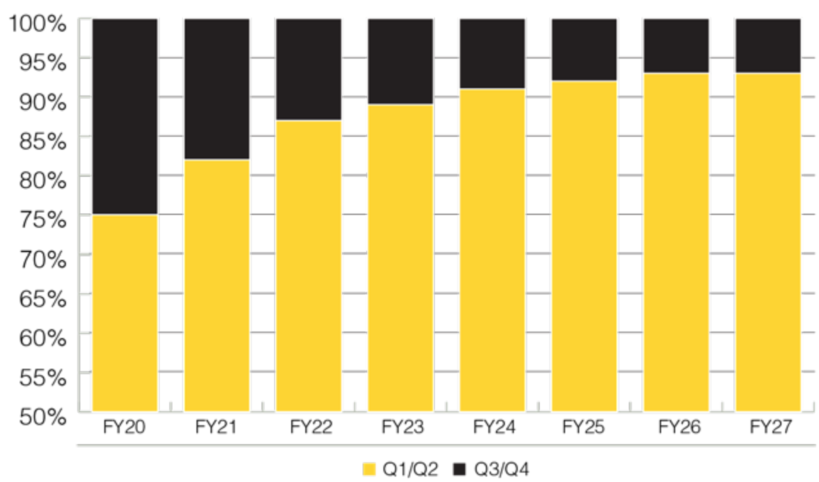
The DCS, G-9 expects the Army-owned FH inventory will reach the OSD 90% Q1/Q2 goal for FH in FY 2023.

Performance Indicators: Figure 5 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.3.1.a: The percent of Army FH rated Q1/Q2 versus Q3/Q4.

Performance Results:

FIGURE 5. Family Housing with Quality Rating 1-4



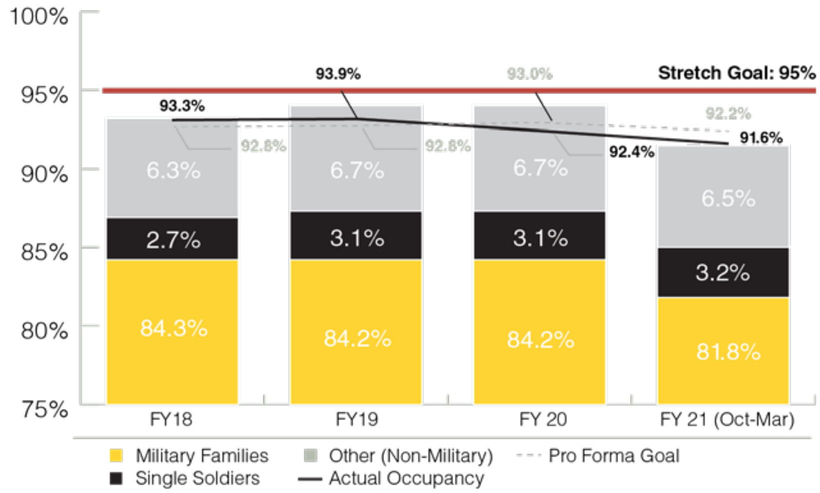
Objective 4.3.2: *Maintain program occupancy rate at or above business plan.*

Performance Indicators: Figure 6 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.3.2.a: Occupancy increase/decrease for Soldier housing.

Performance Results:

FIGURE 6. Occupied Military Housing



Objective 4.3.3: *Army Unaccompanied Housing*

The Deputy Chief of Staff, G-9 anticipates the Army will achieve the OSD 90% Q1-Q2 goal for PP UH in FY 2029, IT UH in FY 2028 and CT UH in FY 2030.

Performance Indicators: Figures 7-9 display measures that are performance indicators in determining progress in meeting this objective.

- Measure 4.3.3.a: Percent of permanent party UH rated Q1/Q2 versus Q3/Q4.
- Measure 4.3.3.b: Percent of institutional training UH rated Q1/Q2 versus Q3/Q4.
- Measure 4.3.3.c: Percent of collective training UH rated Q1/Q2 versus Q3/Q4.

Performance Results: For permanent party UH, the Army had 191,750 bed-spaces at the end of 3rd quarter FY 2021; 77% at Q1/Q2.

For institutional training UH, the Army had 104,643 bed-spaces at the end of 3rd quarter FY 2021; 84% at Q1/Q2.

> *Engagement of business process owners in the daily validation of applicable financial and operational controls provides a proactive approach versus dependency upon auditors to report on control deficiencies after negative impact upon an organization's financial position.*

—ROBERT SILVERSTEIN
Director, FOA-W

For collective training UH, the Army had 177,091 bed-spaces at the end of 3rd quarter FY 2021; 60% at Q1/Q2.

FIGURE 7. Permanent Party UH

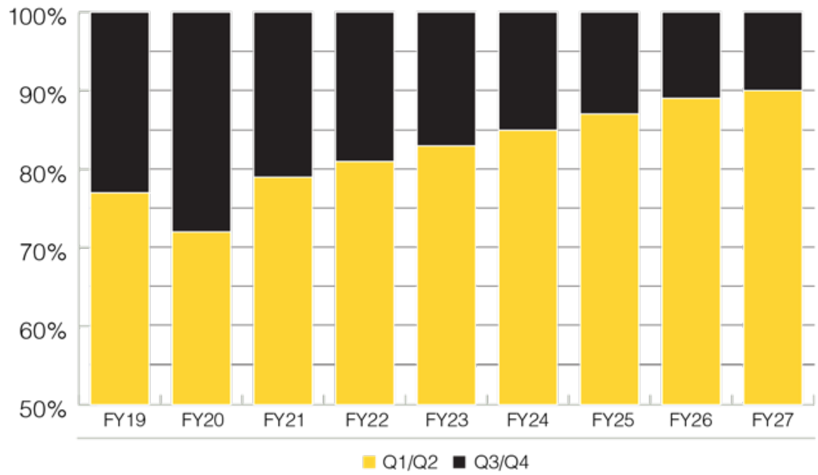


FIGURE 8. Institutional Training UH

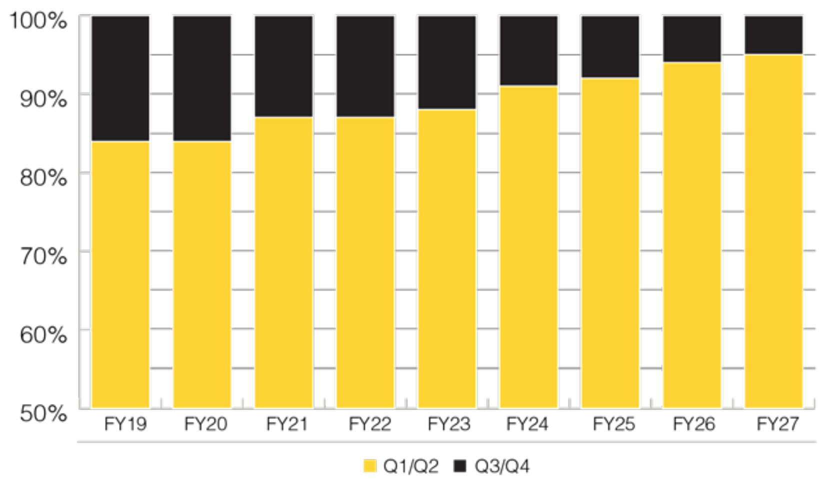
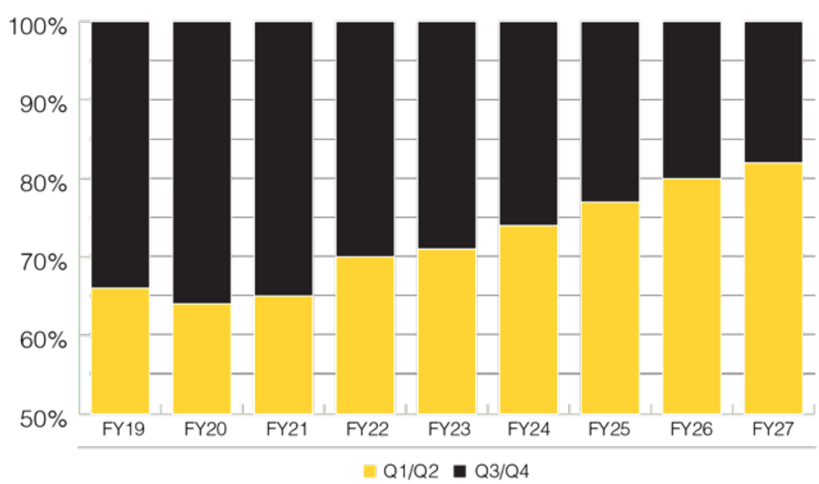


FIGURE 9. Collective Training UH



Objective 4.4: *Enhancing the Civilian Workforce*

Enhancing the Civilian workforce includes filling vacant Civilian positions as timely as possible to meet mission requirements while still executing within budget. The Army Civilian workforce includes over 296,000 employees working in approximately 500 unique job series, comprising about 22% of the Total Army Force. Civilians work as Appropriated Fund (AF) employees, including dual-status military technicians working for the Army National Guard; Non-appropriated Fund (NAF) employees in support of Morale, Welfare, and Recreation (MWR) programs; and Civil Works funded employees. The Army also employs foreign nationals (FNs) in both a direct hire and indirect hire status. As of 30 September 2021, Civilian strength by category was as follows:

Total: 292,830	
Appropriated Fund (Military Function):	**244,130**
US Direct Hire:	224,925 (includes 27,532 Army National Guard Military Technicians)
FN Direct Hire:	6,354
FN Indirect Hire:	12,851
NAF:	**23,368**
Civil Works:	**25,332**

Objective 4.4.1: *Execute Army Civilian positions within 2% (98% - 102%) of authorizations.*

Executing Civilian positions within authorizations ensures that the Civilian workforce is staffed to meet mission requirements. Executing above or below authorizations can put the Army at risk for funding in the future and can impact support to the Soldier and to the mission.

Performance Indicators: Table 18 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 4.4.1.a: Percentage execution of Civilian positions (end of year on-board versus FY 2022 authorizations in the President's Budget (PB22).

Performance Results: The Army has executed slightly above its FY 2022 authorizations throughout the fiscal year. While over-execution may impact Army Civilian readiness and may require fiscal tradeoffs since civilian pay is a "must pay" account, the Army is currently within manageable levels. The Army can affect its execution through natural attrition and/or adjusting hiring practices. The Army achieved its goal by finishing the fiscal year within the range of 98-102% of execution.

TABLE 18. Civilian Execution

Measure	Goal	FY18	FY19	FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Civilian Execution Percentage (On-Board vs. FY21 Auths (PB22)	98%-102%	101.1%	101.5%	101.6%	101.7%	101.2%	100.7%	*

*Q4 FY 2021 data not available at the time of report.

Objective 4.4.2: *Attain less than 20% (fewer than 11) Mission Critical Occupations (MCOs) below 90% fill.*

The Army must ensure that its MCOs are filled adequately. This not only ensures that the Army is executing within budget, but that it is distributing its resources appropriately to support critical missions.

Performance Indicators: Table 20 displays measures that are performance indicators in determining progress toward meeting this objective.

- Measure 4.4.2.a: Number of MCOs below 90% fill [on-board versus Tables of Distribution and Analysis (TDAs) authorizations].

Performance Results: The Army has improved the number of MCOs that are not adequately filled by reaching its goal by the end of FY 2019 and has remained there since. The Army has made these improvements partly as a result of greater understanding and use of Direct Hire Authorities (DHA). These authorities are aimed at bringing in critical, high demand occupations at specific locations or organizations. The Army expects this to further improve as we continue to become more effective in the use of DHA and reinvigorate strategic recruiting capabilities. Additionally, as current career management initiatives mature, Army expects improved workforce succession planning which will positively impact fill rates across career fields that encompass MCOs. Table 19 depicts the DoD and Army MCOs and also indicates whether or not that MCO is covered by a DHA. In some cases, a DHA may only partially cover an occupational series based on the nature of the work performed by the billet.

TABLE 19. DoD and Army MCOs

Occ. Series #	"Occupational Series Description "	Source of MCO	MCO Covered by a DHA?	Occ. Series #	Occupational Series Description	Source of MCO	MCO Covered by a DHA?
80	Security Administration	OSD	May be covered	651	Respiratory Therapist	Army	Covered
81	Fire Protection and Prevention	Army	May be covered	660	Pharmacist	OSD	Covered
83	Police	OSD	May be covered	662	Optometrist	Army	Covered
85	Security Guard	Army	May be covered	680	Dentist	OSD	Covered
130	Foreign Affairs	OSD	May be covered	681	Dental Assistant	Army	Covered
131	International Relations	OSD	May be covered	682	Dental Hygiene	Army	Covered
132	Intelligence	OSD	May be covered	701	Veterinary Medical Science	Army	Covered
180	Psychologist	OSD	Covered	801	General Engineering	Army	May be covered
185	Licensed Clinical Social Worker	OSD	Covered	855	Electronics Engineering	Army	May be covered
201	Human Resource Management	OSD	May be covered	1035	Public Affairs	OSD	May be covered
260	Equal Employment Opportunity	OSD	May be covered	1040	Language Specialist	OSD	May be covered
341	Administrative Officer	OSD	May be covered	1102	Contracting	OSD	May be covered
346	Logistics Management	OSD	May be covered	1152	Production Control	OSD	May be covered
391	Telecommunications	OSD	May be covered	1550	Computer Science	OSD	May be covered
501	Financial Admin & Program Mgmt	OSD	Covered	1670	Equipment Services	OSD	May be covered
510	Accounting	OSD	Covered	1701	General Education & Trng	OSD	May be covered
511	Auditing	OSD	Covered	1702	Education & Training Tech	OSD	May be covered
560	Budget Analysis	OSD	Covered	1710	Education & Vocational Trng	OSD	May be covered
602	Physician	OSD	Covered	1712	Training Instruction	OSD	May be covered
603	Physician Assistant	OSD	Covered	1811	Criminal Investigating	OSD	May be covered
610	Nurse	OSD	Covered	1910	Quality Assurance	OSD	May be covered
620	Licensed Practical Nurse	OSD	Covered	2010	Inventory Management	OSD	May be covered
621	Nursing Assistant	Army	Covered	2101	Transportation Specialist	OSD	May be covered
633	Physical Therapist	OSD	Covered	2130	Traffic Management	OSD	May be covered
642	Nuclear Medicine Technician	Army	Covered	2152	Air Traffic Control	Army	May be covered
644	Medical Technologist	Army	Covered	2210	IT Management	OSD	May be covered
645	Medical Tecnician	Army	Covered	8852	Aircraft Mechanic	Army	May be covered

TABLE 20. Army MCO Fill

Measure	Goal	FY18	FY19	FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Number of Army MCOs below 90% Fill	Fewer than 11	13	10	10	9	9	9	*

*Q4 FY 2021 data not available at the time of report

Objective 4.4.3: *Average Civilian fill time below 80 days.*

The ability of the Army to fill vacant positions quickly is imperative to ensure that we have people in the right jobs performing the right mission.

Performance Indicators: Table 21 displays the measure that serves as the performance indicator in determining progress toward meeting this objective.

- Measure 4.4.3.a: Average Civilian fill time (Civilian Human Resources Agency Production Books).

Performance Results: The Army has shown great improvement to Civilian time to hire since FY 2018, reducing to under 87 days on average in the 3rd quarter FY 2021. These improvements have been in part due to a variety of different policies and programs implemented over the past year, to include the expanded use of DHA.

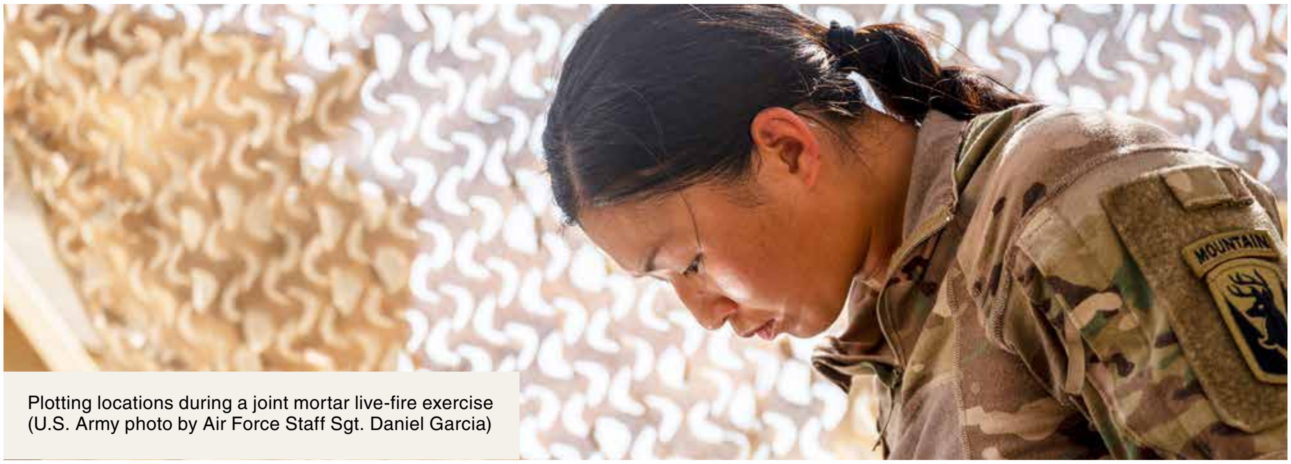
TABLE 21. Average Civilian Fill Time

Measure	Goal	FY18	FY19	FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21
Average Civilian Fill Time	Less than 80 days	92.2	84.4	91.3	78.9	90.4	86.4	*

*Q4 FY 2021 data not available at the time of report

CONCLUSION

Given the threats and challenges ahead, it is imperative the Army has a clear and coherent vision of where we want to be in the coming years. We must retain our overmatch against all potential adversaries and remain capable of accomplishing our mission in the future. The Army must continue to increase readiness, improve modernization, and increase capacity through effective reform. Readiness remains unequivocally our number one priority—it underpins everything the Army does. Recognizing that a 21st century modernization plan and concept of operations would be impossible to achieve under an obsolete 20th century bureaucracy, the Army is implementing a series of reforms that will enable continuous advancements in readiness and will define American land power for another generation. We have an opportunity to improve readiness and prepare for the future. However, building a professional Army takes time. To build readiness, Soldiers require specialized and sufficient training; modern, properly maintained equipment; sufficient quantities of the proper munitions; and stability. These efforts ensure that our Soldiers are ready for the missions of today, as well as for the unforeseen conflicts of tomorrow.



Plotting locations during a joint mortar live-fire exercise (U.S. Army photo by Air Force Staff Sgt. Daniel Garcia)

ANALYSIS OF FINANCIAL STATEMENTS – GENERAL FUND

Army prepares annual financial statements in conformity with generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB). The Army financial statements are subject to an independent audit to provide reasonable assurance they are free from material misstatements. Army management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

The Army Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2020 to FY 2021. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheets

The Army Consolidated Balance Sheets present the amounts of future economic benefits owned or managed by Army (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

Figure 10 shows the Army Assets Comparison as of September 30, 2021 and 2020. Total assets amounted to $308,869 million in FY 2021 and $316,456 million in FY 2020, a 2.4% decrease. This decrease is mainly attributable to the lower FY 2021 end of year outstanding Fund Balance with Treasury (FBWT), itself reflecting the decrease in appropriations received during FY 2021 (see Army GF, Combined Statements of Budgetary Resources), primarily in Operation and Maintenance ($9.5 billion), and the relative impact of the increase in Unfilled customer orders in advance (see Army GF, Note 3 to the Financial Statements). While FY 2021 Spending authority from offsetting collections increased $26.7 billion over FY 2020 (see Combined Statements of Budgetary Resources below) to a large extent this was driven by unfilled customer orders for which no corresponding advance was received. The overall impact of the decrease in FBWT on total assets was partially offset by a $5.4 billion higher outstanding federal Accounts receivable balance, reflecting a $2.0 billion increase in activity with the Health and Human Services' Public Health and Social Services Emergency Fund related to the COVID-19 epidemic and a $0.8 billion increase in activity with the Department of Homeland Security's Federal Emergency Management Agency (FEMA) Disaster Relief Fund.

"Accounting policies are key in ensuring the integrity in our business processes. It is important to have a framework that provides consistency in our principles which in turn leads to greater transparency and trust in the information that appears on our financial statements."

—MYRNA MEDINA
Director, FOP

FIGURE 10. Assets Comparison

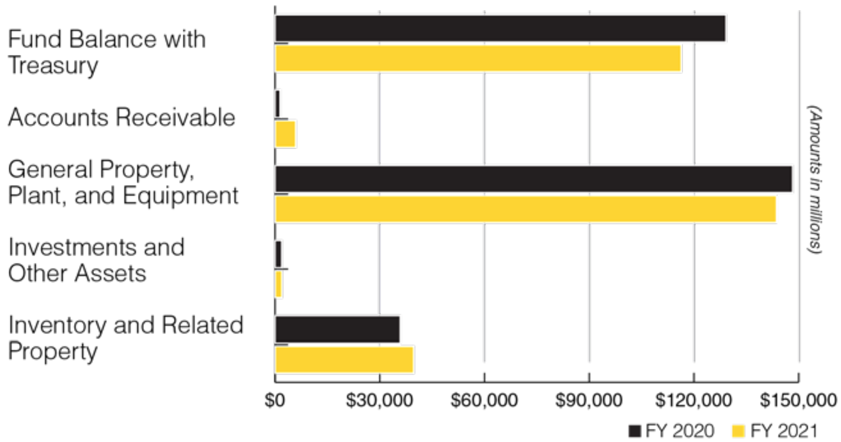
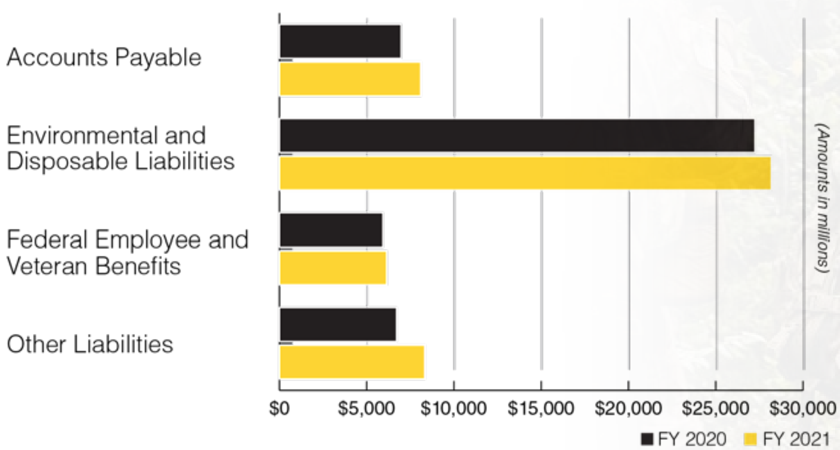


Figure 11 shows the Army Liabilities Comparison as of September 30, 2021 and 2020. Total liabilities amounted to $50,740 million in FY 2021 and $46,541 million in FY 2020, a 9.0% increase. This increase is primarily attributed to : (1) a $1.6 billion increase in other liabilities, in turn largely reflecting the FY 2021 estimated non-environmental liability for future conventional munitions disposal (see Note 15 to the Army GF Financial Statements); (2) a $0.9 billion increase in the estimated environmental and disposal liabilities, chiefly those related to the Military Munitions Response Program (see Note 14 to the Army GF Financial Statements); and (3) a $0.8 billion increase in Other than Intragovernmental Accounts Payable, primarily within the Operation & Maintenance, Land Forces Readiness, Force Readiness Operations Support, under the Office of the Undersecretary of Defense's Drug Interdiction and counter-drug program activities.

FIGURE 11. Liabilities Comparison



Consolidated Statements of Net Cost

The Consolidated Statements of Net Costs present the gross cost incurred by Army to conduct its operations less any exchange revenues earned from its activities.

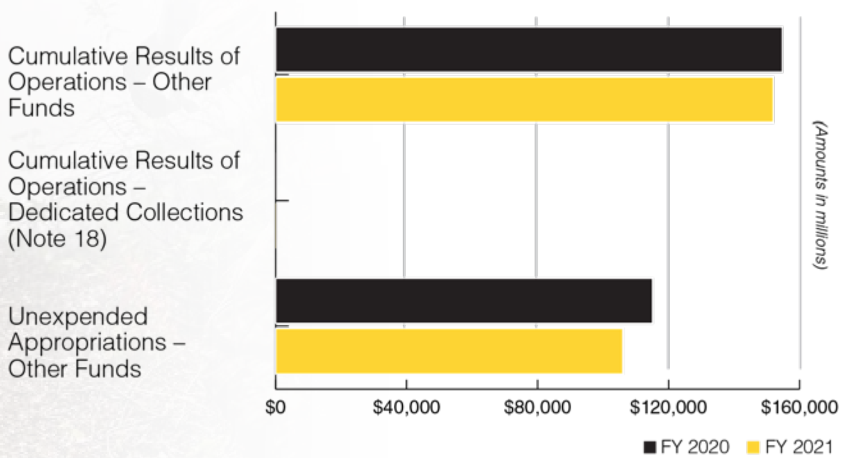
The major elements of the Consolidated Statements of Net Cost include program costs totaling $211,783 million in FY 2021 and $179,855 million in FY 2020 and earned revenues amounting to $32,903 million in FY 2021 and $8,523 million in FY 2020. These amounts are comprised of both intragovernmental and other than intragovernmental costs. Total net costs of operations increased by $7,548 million, or 4.4%. This increase is primarily attributable to increases in net cost of $8,659 million, or 26.6%, associated with Army's Modernization objective and reflected in activity within Army GF's Procurement and Research, Development, Test and Evaluation related appropriations.

Consolidated Statements of Changes in Net Position

The Consolidated Statements of Changes in Net Position present those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and non-exchange revenues such as donations and forfeitures of property and imputed financing from costs absorbed by other federal agencies. Army net cost of operations and appropriations used reduce net position.

Figure 12 shows the three components of the Army net position for FY 2021 and FY 2020. Total net position amounted to $258,128 million in FY 2021 and $269,915 million in FY 2020, a 4.4% decrease. The decrease is attributable to: (1) a total $9,073 million of reductions in Unexpended appropriations, mainly within the Afghanistan Security Forces and ISIL Training and Equipment funds; and (2) a $2,713 million net reduction in Cumulative results of operations, driven to a large extent by net losses recognized by Army GF related to FY 2021 property, plant and equipment related revaluations, disposals and net transfers (see Note 9 to the Army GF financial statements).

FIGURE 12. Net Position

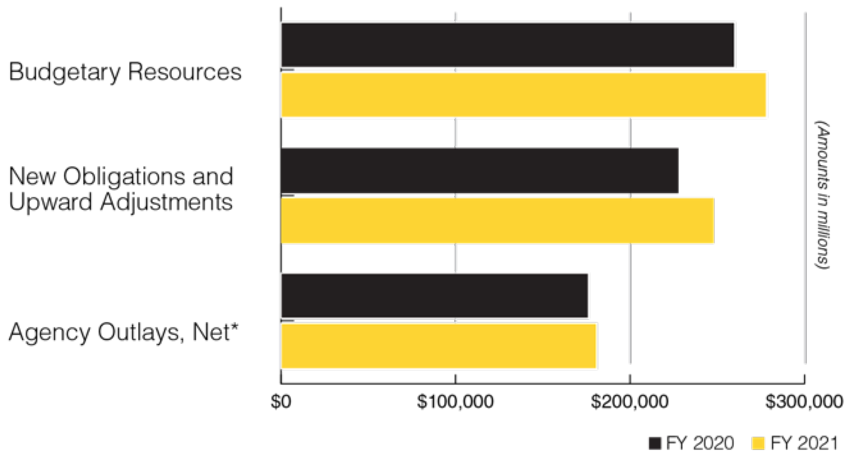


Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources provide information on the budgetary resources that were made available to the Army for the fiscal years ended September 30, 2021 and 2020, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments result from an order placed, contracts awarded, or similar transactions, which will require payments during the same or a future period. Gross outlays reflect the actual cash disbursed by the Department of the Treasury for Army obligations.

Figure 13 shows a comparison of budget authority, new obligations and upward adjustments and gross outlays in FY 2021 and FY 2020. The reported total Army budget authority was $278,158 million and $259,951 million as of September 30, 2021 and 2020, respectively, a 7.0% increase. New obligations and upward adjustments amounted to $247,871 million as of September 30, 2021 and $227,650 million as of September 30, 2020, an 8.9% increase. Net outlays amounted to $180,879 million as of September 30, 2021 and $176,132 million as of September 30, 2020, a 2.7% increase. The increase in budget authority is due primarily to increased Spending authority from offsetting collections of $26,687 million generated in FY 2021, itself reflecting incremental orders received, which offset the overall $10,074 million reduction in direct appropriations realized by Army GF during the year (see Consolidated Balance Sheets above).

FIGURE 13. Budgetary Resources



*Net of Distributed Offsetting Receipts, see Combined Statements of Budgetary Resources (unaudited)

> *IT controls are simply identifying risk and managing that risk; because the only truly secure computer is one buried in concrete, with the power turned off, and the network cable cut.*

—WILLIAM MCMILLIN
Acting Director, FIM

Soldiers move an Army M2 Bradley Fighting Vehicle toward an objective during a multinational situational training exercise. (U.S. Army photo by Spc. Joshua Cowden)

ARMY WORKING CAPITAL FUND OVERVIEW

The National Security Act of 1947 (Public Law 81-216) authorized the creation of working capital funds to more effectively control and account for the cost of programs and work performed in the Department of Defense (DoD). In Fiscal Year (FY) 1992, the Congress established the Defense Business Operating Fund (DBOF), combining all of the DoD working capital fund activities. In FY 1997, the DBOF became the Defense Working Capital Fund (WCF). The Army WCF is one of the five primary WCFs within the Defense WCF. The Army WCF is indicated by fund citation (97X4930.001). The Army WCF operates numerous commercial-like and industrial facilities that provide essential services and support for readiness and sustainability of the warfighting forces.

The Army WCF includes two activity groups: Supply Management Activity (SMA) and Industrial Operations (IO). As with all Defense WCFs it operates under a revolving fund concept, i.e., relying on revenue from sales to finance operations rather than submitting a budget proposal for direct appropriations from Congress. The basic tenet of the revolving fund structure is to create a customer-provider relationship between military operating units and support organizations. This relationship is designed to make managers of the Army WCF and decision makers at all levels more aware of costs for goods and services. Unlike profit oriented commercial businesses, the revolving fund's goal is to break even over the long term by returning any monetary gains to appropriated fund customers through lower rates or collecting any monetary losses from customers through higher rates. Revolving fund prices are generally stable during the year of execution to protect customers from unforeseen fluctuations that would impact their ability to execute the programs approved by Congress.

The Army WCF is primarily used to help the Army maintain readiness by providing supplies, equipment, and ordnance necessary to support the projection and sustainment of its forces in the most efficient and cost-effective manner possible. To carry out this mission, Army WCF activities [part of the U.S. Army Materiel Command (AMC)] must control and reduce costs. In addition, the activities must maintain their capability to quickly ramp up from peacetime workload levels to meet wartime requirements.

Appropriated Funds

The Army WCF operates without significant direct appropriations, therefore, operations generally have no fiscal year limitation on obligating funds. The Army may request direct appropriations to maintain capacity and capability to meet mobilization and wartime surge requirements. This enables stable and competitive rates for its peacetime customers. For FY 2021, the Army WCF received appropriations and balance transfers of more than $1,122.1 million.

(Dollars in Millions)	FY 2021	FY 2020
Appropriated Funds	$1,122.1	$839.8

Revenues, Expenses, Accumulated and Net Operating Results (AOR and NOR)

The Army WCF incurs expenses and generates revenues from the sale of goods and the provision of services for a fee. The Army WCF is a big business, with an FY 2021 gross revenue totaling about $16.1 billion. Most of the revenue comes from sales to Army and Defense Department customers. To compare Army WCF revenue to private sector firms, its revenue approximates the revenues of recognizable brands like Colgate-Palmolive Company and Kohl's Inc. (*Fortune 500 list – 2021 as of 10/2021. Revenues in billions*):

169	General Mills, Inc.	$	17.6
176	Applied Materials	$	17.2
188	Colgate-Palmolive Company	$	16.5
195	Kohl's, Inc.	$	16.0
198	BJ's Wholesale Club	$	15.4
209	Stanley Black & Decker	$	14.5
217	Wayfair	$	14.1

Net Operating Result (NOR)

The NOR measures the activity's net cost of operations within a single fiscal year and is used to monitor how closely the activity performs compared to its budget.

The Army WCF financial statements do not explicitly include the AOR or NOR. Both results are part of the Monthly Accounting Report (AR) 1307 Statement of Operations. This statement discloses the results of the entity's operations for the reporting period, including the changes in its net position from the end of the prior reporting period.

Accumulated Operating Result (AOR)

The AOR measures the activity's accumulated annual net operating results since the fund's inception. Rates are set during budget development with the intent for the fund to break even over the long term. Specifically, rates are set to:

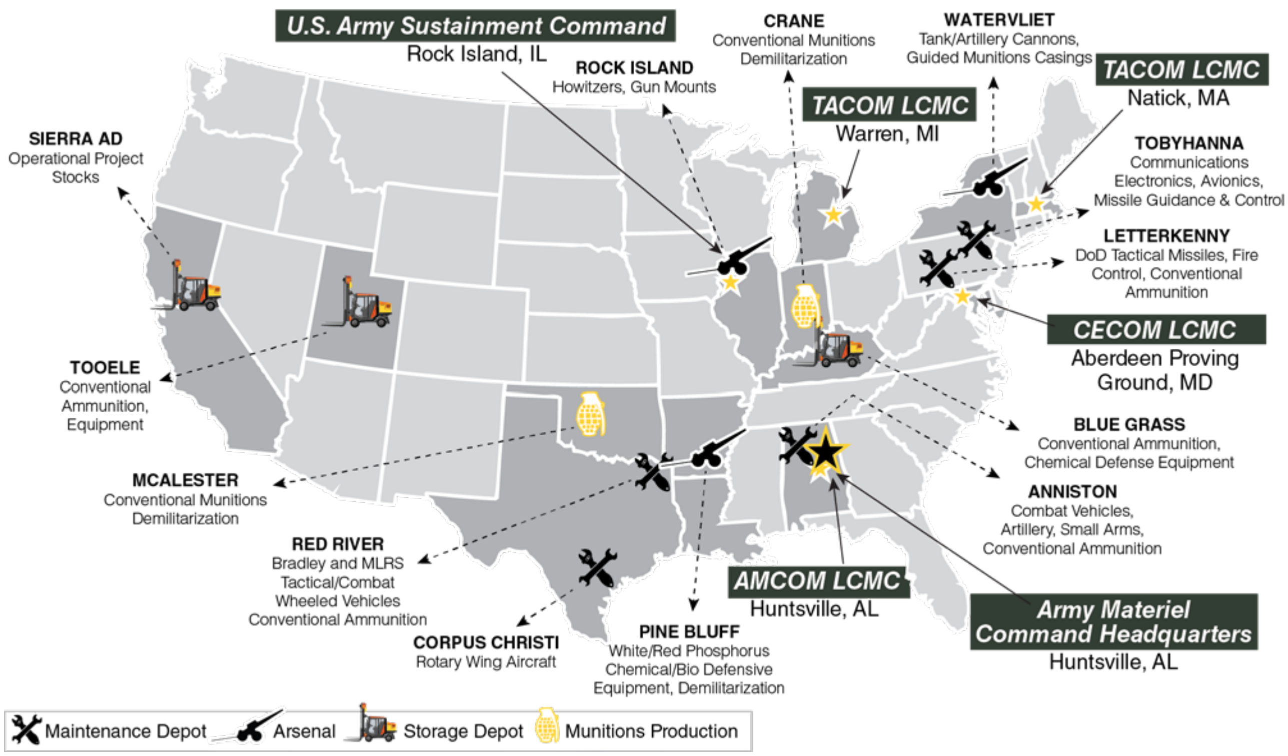
- Recover the activity's costs such as payroll, supplies, contracts, equipment, inventory, depreciation, and maintenance and
- Maintain sufficient cash corpus to cover operating disbursements and six months of capital disbursements.

See the *Performance Goals* section for additional discussion on the AOR and NOR.

ARMY MATERIEL COMMAND

The AMC, headquartered at Redstone Arsenal in Huntsville, AL serves as the major command for Army WCF logistics operations. The AMC is the Army's materiel integrator and the premier provider of materiel readiness – technology, acquisition support, materiel development logistics power projection and sustainment – to the total force, across the spectrum of joint military operations. AMC executes the Army WCF through two activity groups: IO and SMA. The IO activity includes the financial activity of the 13 government-owned, government-operated depots, arsenals and ammunition plants. The SMA includes the financial activity for managing spare parts. Other commands and activities outside of these two business areas are funded by non-Army WCF sources. Figure 1 displays the Army WCF activities within AMC.

FIGURE 1: Army Materiel Command Army Working Capital Fund Activities



Firing a 120 mm mortar during a live-fire exercise (U.S. Army photo by Staff Sgt. Walter Lowell)

BUSINESS APPROACH

The AMC is responsible for following the budgetary guidelines under which the Army WCF operates. The budgetary guidelines require incurring operating costs and collecting customer fees while budgeting to achieve zero accumulated operating results at the end of the budget period, unless otherwise approved by the Office of the Under Secretary of Defense (Comptroller). To achieve this goal, the Army WCF activities set stabilized rates prior to the beginning of each fiscal year. These rates are based on forecasts of potential workload (revenue) and the cost of meeting workload requirements (expenses). Stabilized rates equate to set unit prices for goods and set unit funded costs for services.

The Army financial statements covering Army WCF reflects the operations of two activity groups, SMA and IO which are critical to Army equipment and materiel readiness.

Supply Management Activity

The SMA group buys and manages spare and repair parts for sale to its customers, primarily Army operating units. The activity group is committed to supporting and building readiness for present and future challenges. The Army's equipment and operational readiness, and the strength to win the Nation's wars, are directly linked to the availability of equipment and materiel. The SMA administers spare parts inventory for Army managed items, Non-Army Managed Items (NAMI) and war reserve secondary items (WRSI). It also maintains a protected inventory of spares in Army Prepositioned Stocks (APS), which is released to support deploying combat units. The Life Cycle Management Commands assigned to the AMC manage the SMA, which consists of four major commodity groups:

A motor transport operator uses a forklift to stack pallets of donated food and supplies at a food bank. (U.S. Army photo by Army Sgt. Laura Bauer)

- Aviation and missiles
- Communications-electronics
- Tank-automotive and armaments
- Non-Army managed items

The war reserve stocks contain materiel from all commodity groups. As new equipment is added to the Army's operational and training forces, new spare parts are also scheduled for inclusion in the Supply Management inventory.

The SMA manages stocks of materiel for sale to Army operating units and to other DoD customers. The materiel purchased and maintained depends on the area of materiel support at the various command locations. The Army's equipment and operational readiness, and its combat capability, are directly dependent on the timely availability of this materiel.

SMA group is committed to meeting the readiness needs of soldiers by ensuring supplies and equipment are available when and where needed during peace and war time. The supplies and equipment include spares, repair parts, and major items within any of the four commodity lines. NAMI are those items not managed by the Army, but rather supplied by the Defense Logistics Agency (DLA) and the General Services Administration.

INDUSTRIAL OPERATIONS

The IO activity group provides the Army an organic industrial capability to conduct depot level maintenance, repair and upgrade; manufacture munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of DoD. IO is comprised of thirteen government owned and operated installation activities, each with unique core competencies. These include five hard-iron maintenance depots, three arsenals, two munitions production facilities, and three storage sites. Although comprised of diverse organic industrial capabilities, the preponderance of workload and associated estimates in the IO budget submission relate to depot level maintenance, repair, and upgrade. The complex operational environment continues to place tremendous demands on equipment, resulting in higher usage rates than during routine peacetime operations.

The IO activity group provides the equipment and ordnance necessary to project, sustain, and reconstitute forces as required to satisfy the peace and wartime needs of the DoD. The IO activity provides the Army and DoD with the industrial capability to:

- Perform depot-level maintenance, repair, and modernization of weapon systems and component parts,
- Manufacture, renovate, and demilitarize materiel,
- Produce quality munitions and large caliber weapons,
- Perform a full range of ammunition maintenance services for the DoD and U.S. Allies,
- Perform ammunition receipt, store and issue functions, and
- Provide installation base support to mission elements and tenant activities.

For its activities, IO both competes and partners with the private sector to ensure its goods and services are delivered efficiently and effectively. IO activities are set up by commodity/service function.

PERFORMANCE GOALS, OBJECTIVES, AND RESULTS – WORKING CAPITAL FUND

The AMC strategic plan builds upon the Army's Strategic Readiness priority. While many of the AMC strategic activity results are reported as part of Army-wide metrics, the section below discusses Strategic Plan Measures and results as they relate directly to the Army's Working Capital funded activities' achievements.

OPERATIONAL MEASURES AND RESULTS

Net Operating Results and Accumulated Operating Results

The NOR represents the difference between revenues and costs within a fiscal year. The AOR represents the aggregate of all recoverable and non-recoverable net earnings, including prior-year adjustments, since inception of the Army WCF. The goal of the Army WCF is to establish rates that will bring the AOR to zero in the budget year. An activity group's financial performance is measured by comparing actual results to the budget's NOR and AOR. The AOR and NOR do not agree to the Statements of Net Cost and Changes in Net Position because they exclude certain transactions that are included in the financial statements.

TABLE 1. Net and Accumulated Operating Results by Activity Group

(Amount in Millions)	FY 2019	FY 2020	FY 2021
Industrial Operations NOR	($426.9)	(138.6)	(261.0)
Supply Management NOR	(1,754.1)	1,455.7	878.7
Combined NOR	(2,181.0)	1,317.1	617.7
Industrial Operations AOR	($1,228.4)	(1,465.1)	(1,785.8)
Supply Management AOR	16,316.4	17,772.1	18,650.8
Combined AOR	15,088.0	16,307.0	16,865.0

Sources:
1) NOR pulled from AR(M) 1307 Part II Changes in Net Position (Line B.1.d & B.2.d).
2) AOR pulled from AR(M) 1307 Part II Changes in Net Position (Line B.3.).

STRATEGIC PLAN MEASURES AND RESULTS

Strategic Priority: Strategic Readiness

Preparing tanks for annual two-week training
(U.S. Army photo by Thomas Alvarez)

The Army Working Capital Fund supports the Army's vision to sustain and maintain a scalable, ready, and modern force, recapitalize combat equipment, and reset assets to equip a robust, ready, regionally engaged, and responsive force structure. This effort is in direct support of materiel readiness for operating units.

Strategic Readiness

Performance Goal: *Operational Readiness*

Operational Readiness is the capability and capacity of The U.S. Army to conduct the full range of military operations. The AMC, through the Organic Industrial Base (OIB), provides the materiel necessary for acceptable levels of Operational Readiness.

Objective 1.1: *Performance to Promise (P2P)*

Performance to Promise is AMC's commitment to providing support throughout the entire life cycle of an item and is required to assure that materiel can be maintained in its operational environment with minimum resources for achieving operational readiness and sustainability.

Performance Indicator (metric): The Cumulative Performance to Promise Metric illustrates the Army's ability to meet customer requirements by assessing monthly command schedule performance goals. AMC has set a goal to pursue a P2P goal of 100%, indicating expected performance within established timelines.

Performance Results: The below table displays the IO activity group's ability to meet performance requirements within the required time period throughout the fiscal year. While IO met requirements within the planned timeframe more than 90% of the time throughout the entire fiscal year, IO does not accept the status quo and continues to make improvements through organization culture changes and process improvements. Although the COVID-19 pandemic has presented some external challenges, IO is committed to improving internal processes and providing quality products.

TABLE 2. Cumulative Performance to Promise: All Plants

	Oct20	Nov20	Dec20	Jan21	Feb21	Mar21	Apr21	May21	Jun21	Jul21	Aug21	Sep21	Total
Met	1,219	1,158	1,236	1,292	1,308	1,475	1,531	1,547	1,570	1,566	1,515	1,509	16,926
Not Met	125	109	109	94	88	79	69	65	69	87	85	97	1,076
Sum	1,344	1,267	1,345	1,386	1,396	1,554	1,600	1,612	1,639	1,653	1,600	1,606	18,002
Percent	91%	91%	92%	93%	94%	95%	96%	96%	96%	95%	95%	94%	94%

The Commanding General of AMC pursues a P2P goal of 100%.
Met: Requirement completed within the planned time period
Not Met: Requirement not completed within the planned time period.
Percent: The percentage of instances when the OIB meets customer requirements for the time period indicated.

Objective 1.2: *Supply Availability*

Supply Availability (SA) is the measure of the depth and breadth of inventory required to meet tactical units' demands across the full range of military operations. The goal is to release orders within the month they are required based on the Required Delivery Date (RDD). SA fill rate is the percentage of orders released out of the total due for the month.

AMC, through its SMA team, leverages this key metric as one the primary indicators for supply operations performance to ensure critical supplies necessary in sustaining equipment and soldier readiness are available across the spectrum of military operations.

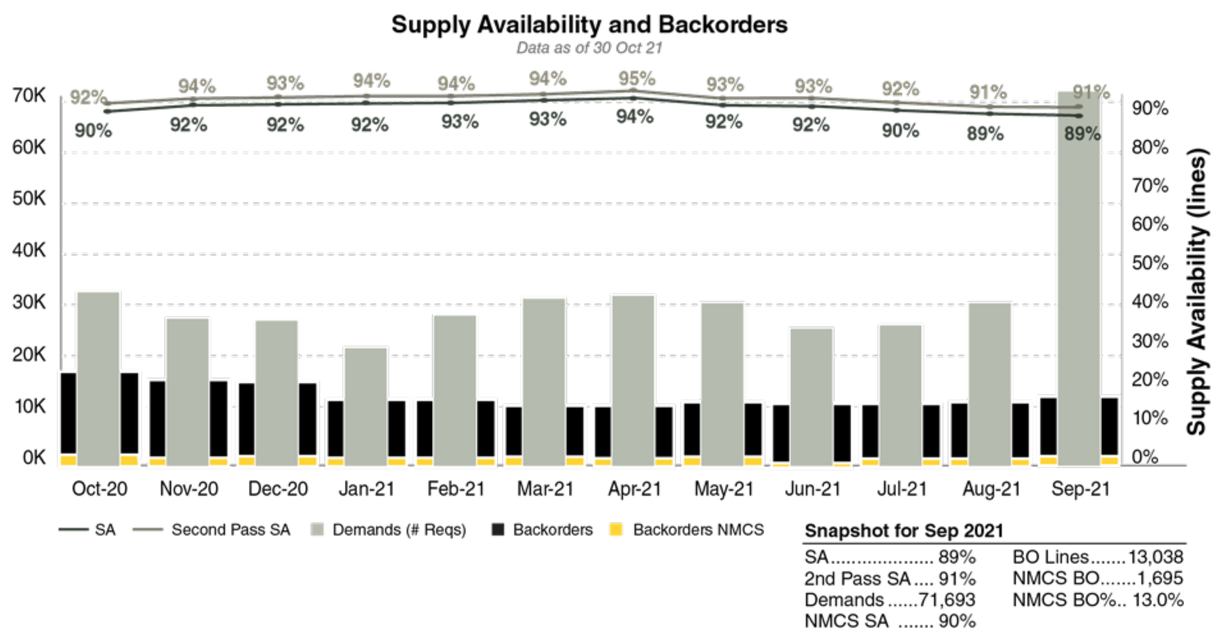
Performance Indicator (metric): Supply availability and equipment readiness are the foundation of materiel readiness, ensuring Soldiers and units have the right equipment, parts and materiel to achieve their mission – anytime, anyplace. Life Cycle Management Commands (LCMC) are responsible for ensuring inventory levels are sustained with sufficient material to meet current and contingency operations. The SA metric is a monthly measure and highlights the Army's ability to meet operational requirements by assessing LCMC's ability to meet material availability performance goals that contribute to readiness. Material backorders are closely monitored as part of supply availability as they have a negative impact to SA (As an example, if a material is required and not available because it is backordered, SA for that material would be reduced for the duration of the Administrative and Production Lead Times (ALT/PLT) for contracting which averages 18-24 months).

AMC leadership has established an SA goal of 100% and challenged LCMCs with a target SA rate of 93%, which the LCMCs have achieved and sustained since July 2020.

Performance Results: The table below shows 1st and 2nd pass SA in relationship with demand during FY 2021. On a first pass the material is released immediately based on RDD. A second pass may be required for materials with management controls.

While demand was fairly stable for the majority of the fiscal year, Army WCF saw significant increases in September 2021 as a result of increased training activity and demand for shop and bench stocks. Based on current changes in training strategy and adjustments to stock levels, it is projected that Supply Availability will decrease to ~85% by the end of FY 2022. The table also provides supply availability and a count of outstanding backorders associated with a “Not Mission Capable Supply” (NMCS) condition. These NMCS backorders, which drive delays in obtaining replacements for failed items, are preventing a weapon system from preforming its mission. Current projections indicate that backorders will increase by $377 million by the end of FY 2022. This has been driven by the changes in the demand base resulting from COVID-19.

FIGURE 2: Supply Availability (SA) (Percentage)



AUDIT IMPROVEMENTS

The Army WCF continues to drive towards an opinion with more extensive testing, improved controls, increased accuracy and completeness of data, and enhanced ability to respond to auditor requests. During FY 2021, Army WCF focused on the Secretary of Defense audit priorities, high impact findings, material weaknesses, and compliance with regulatory standards across priority areas. Remediation of these areas will not only help the Army WCF produce accurate and reliable financial statements but will also improve operations and readiness.

The Army WCF took many great steps in FY 2021 to improve financial management accuracy and procedural compliance, which include the following:

In FY 2021, Army WCF continued to focus efforts on reducing manual journal entries and ensuring all entries are appropriately supported to reduce the risk of material misstatement within financial reporting. Army WCF developed a comprehensive methodology to extract all manual entries from the accounting system, Logistics Modernization Program (LMP), for further internal control analysis. Starting with its service provider, Defense Finance Accounting Service (DFAS), Army WCF has identified four process groups performing manual entries that result in a general ledger impact. Army continues to review Standard Operating Procedures (SOPs) to validate that controls are documented to reflect newly implemented controls, including what is being performed, who is performing the control, and how the control is evidenced. As of FY 2021, two of the four user groups have successfully implemented the recommended controls.

The Army WCF developed the financial reporting requirements to appropriately record the collection of $920 million in reprogrammed funds transferred to Army WCF. Army WCF recorded the balance and appropriation transfers in a manner that was compliant with authoritative OMB and Treasury guidance. In doing so, Army WCF mitigated the risk of a material misstatement within the financial statements for transfers of reprogrammed funds.

Fund Balance with Treasury (FBwT) effectively represents the amount of cash available in Army WCF's account with U.S. Treasury. Similar to a checking account, knowing the accurate balance of this account is key to understanding the availability of funds. This requires timely recording of amounts paid and collections received, as well as the ability to reconcile any differences.

FBwT remediation efforts continued to position Army WCF to achieve its objectives to improve cash reporting accuracy and timeliness of balance reconciliations with Treasury. Throughout FY 2021, Army WCF was able to reduce the undistributed absolute cash variances by approximately $1 billion. Army WCF enhanced controls to monitor and resolve material and aged variances regarding the reconciliation with Treasury. Army WCF enhanced previously established controls to evidence to the auditors that Suspense and Statement of Difference variances are rarely aging and not material.

Despite the complexity introduced by COVID-19, Army WCF was able to hold virtual meetings related to inventory business processes/controls and virtual inventory counts in support of the audit without compromising people's safety or health. The Army WCF held an increased number of walkthroughs (16 virtual in FY 2021 compared to 7 in person in FY 2020) and worked with our service provider Defense Logistics Agency (DLA) to support virtual live-streamed counts of

Monitoring a computer system that shows target locations (U.S. Army photo by Pfc. Elijah Ingram)

Army WCF inventory held by DLA at 4 Distribution Centers. This was the first time Army WCF auditors were able to count Army WCF inventory held by DLA, who typically holds over 50% of Army WCF's inventory. While more complex to coordinate, the virtual walkthroughs and counts resulted in travel cost savings to the Army and will be considered as a tool for future audit support. The increased inventory testing allows Army to gain insights that can be leveraged in developing our corrective actions and operational procedures. These are necessary steps toward the auditability of the Army WCF's largest asset class.

Tracking of government furnished property and materials stored at contractor locations has been a longstanding issue for Army. The Army WCF continues to address the transparency of contractor held materials through system improvements and related training of contractors. Specifically, the Army WCF has executed system changes to bring online the LMP Total Asset Visibility at Contractor locations (TAV-C) module/web portal. TAV-C will improve accuracy and values for contractor held inventory on our financial statements along with improving Army Readiness. TAV-C supports Army Readiness primarily in two ways: it streamlines the repair process by moving parts faster and delivers end items back to the field more quickly. By moving equipment and parts through the manufacturing or remanufacturing process more efficiently, depots and arsenals can charge less for end items, freeing up appropriated dollars for other critical activities. As the Army WCF continues to improve accuracy and synchronization between government records and contractor records, this will improve accountability of materials in contractors' possession for stock, store, or issue.

In FY 2021, Army WCF continued to develop documentation for applying deemed costs to opening balances of general equipment, per accounting standards. Under deemed costs, the Army WCF is allowed to use an alternate valuation method to support the cost of the general equipment beginning balances. As of the end of FY 2021, the Army WCF developed U.S. generally accepted accounting principles (GAAP) compliant alternative valuation packages for 429 general

Army UH-60 Black Hawks conduct sling-load operations. (Photo courtesy of the U.S. Army) equipment assets, leaving only approximately 55 general equipment assets needing valuation packages. Once all documentation packages are completed, the Army WCF will be able to update and support the general equipment opening balance on the Balance Sheet.

The Army WCF remediated non-compliant posting logic within LMP related to the reporting of general equipment which reduces the risk of material misstatement. The updates to posting logic within LMP were successfully implemented prior to year-end, which will assist in the remediation of an auditor finding.

The Army WCF continued to improve system reconciliation procedures for Property, Plant, and Equipment (PP&E) between the accountable property systems of record and financial reporting systems. This effort included not only Army WCF-wide monitoring controls, but also installation level variance analysis, investigation, and resolution efforts. This has resulted in match rates increasing to over 99% for the Army WCF PP&E balances. This ensures all capital assets are reported accurately on the Balance Sheet.

The Army WCF also developed standard operating procedures and reconciliation controls around the construction-in-progress (CIP) balances for PP&E. With the utilization of this CIP reconciliation process, the Army WCF appropriately reduced approximately $58 million of unsupported CIP balances for financial reporting in FY 2021. As a result of this effort, the Army WCF has reconciled the CIP account balances to accurately reflect supported, current CIP balances. By reducing material misstatements within the Army WCF CIP accounts, this effort also improved the auditability of PP&E.

As part of the support for system reconciliation efforts, the Army WCF maintained more than 12 billion transactional data records, in addition to enriching data populations and enhancing the business rules for data categorization. During FY 2021, the Army WCF improved data system reconciliation processes for approximately half of the significant systems used by Army WCF.

In FY 2021, Army WCF continued to conduct remediation workshops to provide real-time guidance to system owners in identifying root causes and recommendations for remediation. As a result, Army WCF has successfully remediated approximately 50% of findings related to access controls. This continuous mitigation of key risks will help Senior Army Leadership effectively enable the warfighter and civilian workforce in accomplishing their assigned missions with quality data and strengthen the security of Army systems.

POSSIBLE FUTURE EFFECTS OF EXISTING CONDITION AND FINANCIAL DEMANDS

Today's political environment is one that almost ensures the likelihood of major contingency efforts in multiple areas at a time. The Army WCF operations are critical to providing supplies, materiel, and services that ensure unit and soldier readiness for current and future deployments and contingencies. As Army WCF investments to promote readiness continue, the Army WCF may expand investment in modernization to achieve greater future lethality and to build the future force and infrastructure through the entire organizational spectrum. This kind of process engineering will look across the entire Army WCF enterprise including its doctrine, organization, training, materiel, leadership and education, personnel, and facilities.

Making a demonstration landing
(U.S. Army photo by Megan Hackett)

> *Accountants tell the financial story of operational and business events. Without systemic connections to those events, the story is tragically flawed.*

—ANITRA MORRISON, DIRECTOR
Financial Reporting, ASA (FM&C)

ANALYSIS OF FINANCIAL STATEMENTS – WORKING CAPITAL FUND

Army WCF prepares annual financial statements in conformity with generally accepted accounting principles prescribed by the Federal Accounting Standards Advisory Board and the formats prescribed by the Office of Management and Budget (OMB). Army management is responsible for the integrity and objectivity of the financial information presented in these financial statements.

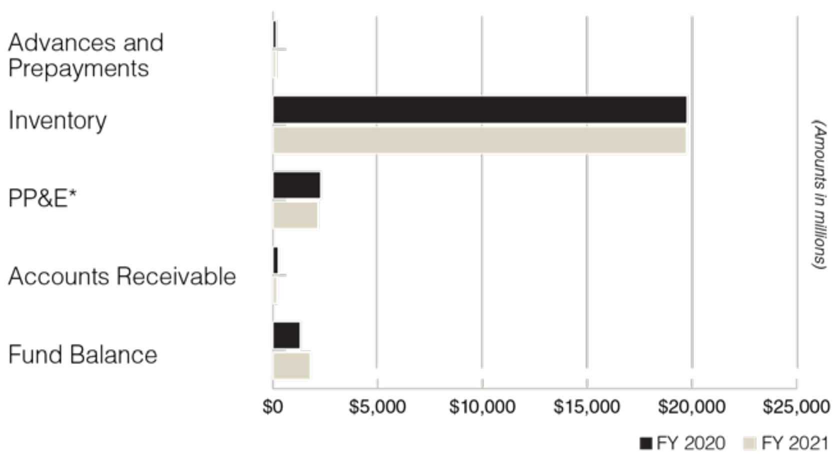
The Army WCF Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the Army WCF, pursuant to the requirements of the Chief Financial Officers (CFO) Act of 1990 and the Government Management Reform Act of 1994. The following sections provide a brief description of the nature of each financial statement and significant fluctuations from FY 2020 to FY 2021. The charts presented in this analysis are "in millions" unless otherwise noted.

Consolidated Balance Sheets

The Army WCF Consolidated Balance Sheets present probable future economic benefits obtained or controlled by the Army WCF (Assets), claims against those Assets (Liabilities), and the difference between them (Net Position).

Figure 3 shows the Army WCF Assets comparison as of FYs 2021 and 2020. Total assets amounted to $24,016.2 million at the end of FY 2021, while $23,703.4 million in total assets were reported by the end of FY 2020, a $312.8 million increase (1%). This increase is mainly attributable to a more than $471.6 million increase in Fund Balance with Treasury (FBwT) since the prior year. The FBwT increase was affected by the $920.3 million appropriation and balance transfers received to address the impact of the COVID-19 pandemic. This increase was offset by combined $88.9 million reduction in the Net Inventory and Related Property and Property, Plant and Equipment balance during the same period. Shifts in customer demands and reductions in inventory acquisitions as a consequence of the COVID-19 pandemic were contributory to these fluctuations.

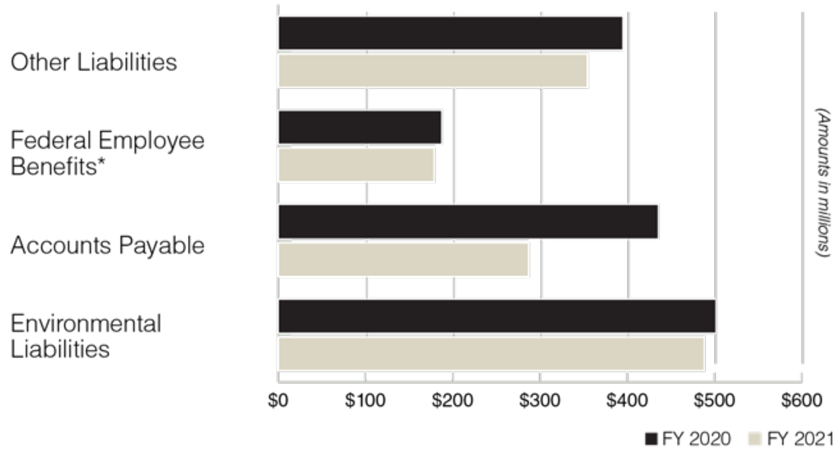
FIGURE 3. Assets Comparison



*The FY 2020 PP&E balances has been restated to reflect the impact of a prior period adjustment.

Liabilities totaled $1,309.2 million as of the end of FY 2021, a $201.7 million decrease (13.4%) since FY 2020 when $1,510.9 million in liabilities were reported. The Other Than Intragovernmental Accounts Payable (A/P) balance decreased $155.8 million (54.3%) when compared to FY 2020. In addition, Other Liabilities decreased by almost $31.2 million due to a reduction in advances from Other Than Intragovernmental customers. These balances were impacted by an overall reduction in expenditures which resulted from shifts in customer demands. Figure 4 shows the breakout of the Army WCF's liabilities as of the end of FYs 2021 and 2020.

FIGURE 4. Liabilities Comparison



*The FY 2020 Federal Employee Benefits balance has been updated to include employer contributions and payroll taxes payable, other than health, life and retirement benefits which were previously included in the Other Liabilities balance. See Note 13, *Federal Employee and Veteran Benefits Payable* and Note 15, *Other Liabilities* for additional information.

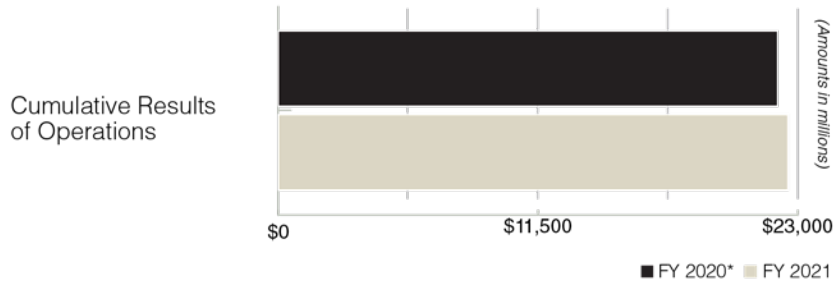
Consolidated Statements of Net Cost

The Consolidated Statements of Net Cost present the gross cost incurred by the Army WCF to conduct its operations less any exchange revenues earned from its activities. The major elements of the Consolidated Statements of Net Cost include program costs totaling $16,848.6 million in FY 2021. These costs were offset by earned revenues of $16,073.9 million, resulting in $774.7 million net cost from operations. During FY 2020, program costs were less than earned revenue by more than $332.4 million. The $1,107.1 million increase in net cost is directly related to shifts in customer demands that resulted from the COVID-19 pandemic. During FY 2020, the Army WCF realized reductions in client requirements and related costs. During FY 2021, the Army WCF begin to meet current customer demands with existing inventory resulting in increases in costs incurred due to COVID-19.

Consolidated Statements of Changes in Net Position

The Consolidated Statements of Changes in Net Position present the change in net position during the reporting period. The Army WCF's net position is impacted by both the results of operations and other financing sources which include appropriations. The Army WCF's net position increased $514.5 million during FY 2021 and increased $2,218.9 million during FY 2020. Total net position amounted to $22,707.0 million in FY 2021 and was restated to $22,192.5 million in FY 2020, a 2.3% increase. Figure 5 shows the Army WCF's Cumulative Results of Operations, a primary component of its Net Position, for FY 2021 and FY 2020. The $522.5 million increase is attributed to a $1.1 billion increase in the Net Cost of Operations from ($332.4) million in net earnings during FY 2020 to $774.7 million net cost during FY 2021. This increase is offset by a reduction in appropriations and transfers.

FIGURE 5. Cumulative Results of Operations



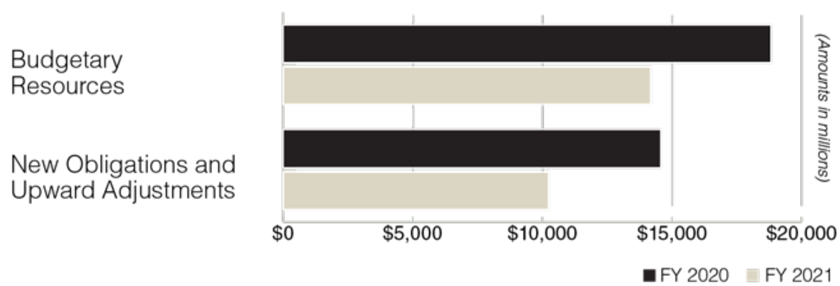
*The FY 2020 Cumulative Results of Operations balances has been restated to reflect the impact of a prior period adjustment.

Combined Statements of Budgetary Resources

The Combined Statements of Budgetary Resources provide information related to the budgetary resources that were made available to the Army WCF as of FY 2021 and FY 2020, and the status of those budgetary resources. Budget authority is the authority provided to the Army by law to enter into obligations that will result in outlays of federal funds. New obligations and upward adjustments result from orders placed, contracts awarded, or similar transactions. Gross outlays reflect the actual cash disbursed for Army obligations.

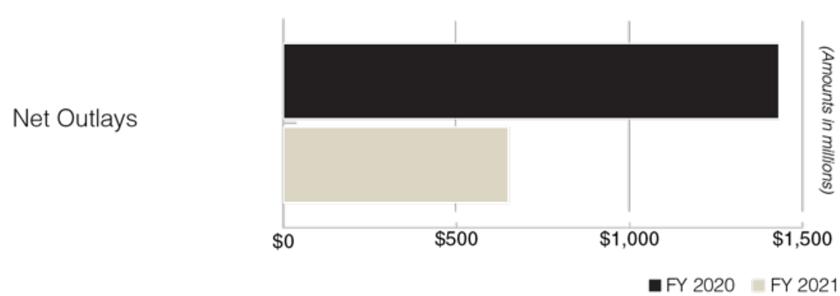
Figure 6 shows a comparison of budget authority and new obligations and upward adjustments in FY 2020 and FY 2021. The reported total Army WCF budget authority was $14,174.0 million and $18,818.1 million for FYs 2021 and 2020, respectively. The $4,644.1 million decrease in budget authority is primarily due to a decrease in inventory acquisitions and required contract authority during FY 2021.

FIGURE 6. Budgetary Resources



The Statement of Budgetary Resources reflects the Army WCF's Net Outlays, which are gross outlays net of offsetting collections. Figure 7 presents a year to year comparison of net outlays which totaled $650.5 million and $1,432.4 million during FY 2021 and FY 2020, respectively. The $781.9 million decrease in net outlays is largely influenced by the reduction in cash expenditures required to meet customer requirements.

FIGURE 7. Net Outlays



Army paratroopers fire M119 105mm Howitzers during gunnery training. (U.S. Army photo by Maj. Jason Welch)

GENERAL FUND AND WORKING CAPITAL FUND MANAGEMENT ASSURANCES

Analysis of Systems, Controls and Legal Compliance

United States Department of the Army (Army) management 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 of 1982* (FMFIA). The Army's Commanders and managers conducted their assessment of risk and internal control in accordance with Appendix A of Office of Management and Budget (OMB) Circular Number (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* to ensure the integrity of their reporting systems, programs, and operations annually. These requirements promote the production of reliable, timely, and accurate financial information through efficient and effective internal controls. Through effective internal controls, the Army improves its efficiency and operating effectiveness and enhances public confidence in its stewardship of public resources.

The Army operates a robust Risk Management and Internal Control Program (formerly the Managers Internal Control Program) in compliance with OMB Circular A-123 to employ a comprehensive system of continuous evaluation of internal controls. The Army's program is fully integrated with functional program control assessments. The objectives of the Army's system of internal control are to provide reasonable assurance regarding:

- Effectiveness and efficiency of Army internal control operations
- Reliability of Army's financial and nonfinancial reporting
- Army's overall compliance with applicable laws and regulations; and
- Army's overall financial information systems' compliance with the FMFIA

Internal Controls Governance

The Deputy Assistant Secretary of the Army (DASA) for Financial Operations (FO), the DASA for Financial Information Management (FIM), and the Commanding General of the U.S. Army Financial Management Command (USAFMCOM) worked jointly to execute the Business Process Management (BPM) program to successfully capture seven end-to-end financial processes across the Army General and Working Capital Funds that trigger a financial event impacting the general ledger and financial statements. The BPM mission is to improve and optimize Army standardized processes, both classified and unclassified, that pertain to finance policies, systems, and reporting requirements; provide end-to-end field implementation support for processes and deliver campaigns that improve readiness and establish a culture of audit success. The Army will leverage the documentation in the coming years to streamline testing efforts across the organization.

Internal Control Evaluation

In adherence to the Office of the Under Secretary of Defense (Comptroller) guidance, the Army reports levels of assurance over its internal controls in three distinct areas: Reporting, Operations, and Compliance.

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

During Fiscal Year (FY) 2021 each reporting organization was required to review their ICEP (internal control evaluation plan) to align with their Risk Assessment. Specifically, higher risk areas were monitored on a more frequent basis than lower risk areas. Testing is facilitated by the Department of the Army (DA) Form 11-2 and an internal control checklist with supporting documentation. Army Reporting Organizations conduct testing of the key processes listed on their ICEP facilitated by the DA Form 11-2. These forms are retained with evidence of the completed testing. Testing included identifying material key processes that were included in the risk assessments, developing test plans (with the consideration of nature, timing, and extent), selecting the testing method, executing testing of automated versus manual controls, and summarizing/analyzing the results.

FMFIA and OMB Circular No. A-123 Appendix A Compliance – Reporting

The Army conducted its assessment of the effectiveness of internal controls over reporting (including external financial reporting) in accordance with OMB Circular No. A-123. Appendix B, "Description of the Concept of Reasonable Assurance and How the Evaluation was Conducted" section, provides specific information on how the Army conducted this assessment. Based on the results of the assessment, the Army can provide a modified statement of assurance that internal controls over reporting were operating effectively, with the exception of the 19 material weaknesses reported in "Significant Deficiencies and Material Weaknesses" appendix of the Annual Statement of Assurance.

In addition to the 13 ICOFR material weaknesses for the Army General Fund (GF) and Working Capital Fund (WCF), there are three compliance material weaknesses and three operational material weaknesses for a total of 19 material weaknesses.

The Army GF currently has 13 IPA-identified financial statement material weakness categories: 1) Beginning Year Balances; 2) Operating Materials and Supplies; 3) General Property, Plant, and Equipment; 4) Environmental and Disposal Liabilities; 5) Evidential Matter; 6) Information Technology Controls; 7) General Ledger Adjustments; 8) Accounts Payable/Receivable; 9) Financial Reporting; 10) Fund Balance with Treasury; 11) Completeness, 12) Entity Level Controls; and 13) Intra governmental transactions and Intra-entity transactions.

The Army WCF currently has 14 IPA-identified financial statement material weakness categories: 1) Beginning Year Balances; 2) Inventory; 3) General Property, Plant, and Equipment; 4) Environmental and Disposal Liabilities; 5) Revenue; 6) Evidential Matter; 7) Information Technology Controls; 8) General Ledger Adjustments; 9) Accruals; 10) Financial Reporting; 11) Fund Balance with Treasury; 12) Completeness, 13) Entity Level Controls; and 14) Intra governmental transactions and Intra-entity transactions.

It is important to note that many of the areas between Army GF and Army WCF overlap and the Army is working to remediate these weaknesses, devising corrective action plans (CAPs) to tighten service provider oversight and internal controls over financial reporting and creating a governance board through the Business Mission Area Champion (BMAC) framework to aid in the implementation and sustainment of changes to business processes, systems, and internal controls. The Army continues to develop, implement, and validate CAPs in response to these changes.

FMFIA and OMB Circular No. A-123 Compliance – Operations

Also, in accordance with OMB Circular No. A-123 the Army 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. Based on the results of the assessment, the Army can provide a modified statement of assurance, except for the three material weaknesses, that internal controls over operations were operating effectively.

During FY 2021, US Army DCS, G4, in conjunction with Army Materiel Command (AMC) and Assistant Secretary of the Army (Acquisitions, Logistics, and Technology) ASA (ALT), continued the implementation of a

> *Army and DFAS partnered to create a new process for supporting intragovernmental trading partner transactions. The new process reduced audit risk as the Army realized a reduction of $33B (86%) in unsupported adjustments when comparing 4QFY21 to 4QFY20. This is a significant step for the Army resolving a long-standing issue impacting financial statement auditability.*
>
> —RICHARD D DAVIS
> Director, Defense Finance and Accounting Service – Indianapolis (DFAS-IN)

multi-year corrective action plan to resolve the Expeditionary Contracting material weakness. The Expeditionary Contracting material weakness stems from Army's expeditionary acquisition workforce experiencing issues with adequate staffing, training, structure, and empowerment to meet the Army's requirements for the 21st century deployed warfighter. The lack of capable staff, including trained and experienced military officers and non-commissioned officers, results in the inability to conduct effective, synchronized, and sustained operations in a multi-domain, large-scale ground combat environment. To mitigate this deficiency, G-4, AMC and Army Contracting Command (ACC) worked to restructure the current contingency contracting force to enhance external support capability, and reorganize ACC's workforce to meet the Army's requirements to win large-scale combat operations in a multi-domain operation environment. Additionally, progress has been made by: (1) reorganizing teams to enhance mission command and operation flexibility, and (2) reorganizing CSB/CBN for more effective mission command and enhanced integration of contracting effects. Expected completion for both areas is NLT 16 September 2021. During FY 2021, ASA(FM&C) conducted a Senior Leader Steering Group (SLSG) to walk through the corrective actions taken and the supporting documentation to validate downgrading the material weakness to a significant deficiency.

Federal Financial Management Improvement Act of 1996 (FFMIA) Compliance – Compliance

The FFMIA as well as OMB Circular No. A-123, Appendix D, requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management system requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. Based on the results of this assessment, the Army can provide a modified statement of assurance, with the exception of the three material weaknesses reported, that the internal controls over compliance were operating effectively.

> *Accountants never die, they just depreciate away.*

—DOMENICO (DOC) ROSSI
Director, FOM

(U.S. Army photo by Sgt. Calab Franklin)

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code (U.S.C.), Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

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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
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Department of the Army General Fund Financial Statements and Related Notes for FY 2021 and FY 2020 (Project No. D2021-D000FI-0033.000, Report No. DODIG-2022-020)

We contracted with the independent public accounting firm of KPMG LLP (KPMG) to audit the U.S. Department of the Army (Army) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2021, and 2020. The contract required KPMG 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 Army's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required KPMG 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). KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army General Fund Financial Statements. As a result, KPMG could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army General Fund FY 2021 and FY 2020 Financial Statements and related notes.

KPMG's report discusses 13 material weaknesses related to the Army's internal controls over financial reporting.[*] Specifically, KPMG's report concluded that the Army did not implement adequate controls to:

- prepare complete and accurate populations for beginning balances;
- identify all key financial statement risks associated with accounting for and reporting of Operating Materials and Supplies;
- provide a complete and accurate population and value of the General Property, Plant, and Equipment account;
- accurately estimate and verify its environmental and disposal liabilities;
- ensure that sufficient supporting documentation was readily available to demonstrate that balances and transactions were properly reported on the financial statements;
- ensure the effective design and operation of financial information systems;
- ensure that manual journal entries to the general ledger were complete, accurate, valid, and approved;
- identify and accurately record accounts payable and accounts receivable balances;
- present information fairly and in accordance with Generally Accepted Accounting Principles;
- ensure intragovernmental transactions and intra-entity eliminations were reconciled and recorded;
- reconcile Fund Balance With Treasury using reliable financial data;
- validate that financial transactions were completely and accurately reported in the financial statements; and
- provide an entity-level control system to produce reliable financial reporting.

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

KPMG's report also discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, KPMG's report describes instances in which the Army's financial management systems did not substantially 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 KPMG's report and related documentation and discussed them with KPMG'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 Army General Fund FY 2021 and FY 2020 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the Army's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached November 8, 2021 report, and the conclusions expressed within the report.

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

Lorin T. Venable

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

Attachment:
As stated

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Secretary of the Army
Inspector General of the Department of the Defense

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the United States (U.S.) Department of the Army (Army) General Fund (GF), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin Number (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.

Basis for Disclaimer of Opinion

Management did not provide sufficient appropriate evidential matter to support the amounts in the consolidated financial statements due to inadequate processes, controls, and records to support transactions and account balances. As a result, we were unable to determine whether any adjustments were necessary related to the consolidated financial statements. Additionally, as of September 30, 2020, management revalued a significant portion of general equipment at standard purchase prices prior to the application of depreciation which is not in accordance with U.S. generally accepted accounting principles.

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 consolidated financial statements.

Other Matters

Interactive Data

Management has elected to reference information on websites or other forms of interactive data outside the *United States Army Annual Financial Report* to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis (MD&A) related to the Army GF and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 basic consolidated financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to such information in accordance with auditing standards generally accepted in the United States of America because of the lack of evidential matter. We do not express an opinion or provide any assurance on the information.

Other Information

We were engaged to audit the basic consolidated financial statements as a whole. The following information is presented in the *United States Army Annual Financial Report* for purposes of additional analysis and is not a required part of the Army GF's basic consolidated financial statements: Message from the Secretary of the Army; Message from the Assistant Secretary of the Army (Financial Management and Comptroller); the Army Working Capital Fund Financial Section; and the Army Working Capital Fund information in the MD&A. Such information has not been subjected to the procedures applied in our engagement to audit the Army GF's basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In connection with our engagement to audit the consolidated financial statements as of and for the year ended September 30, 2021, we considered the Army GF's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army GF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army GF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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

KPMG

Compliance and Other Matters

In connection with our engagement to audit the Army GF's consolidated financial statements as of and for the year ended September 30, 2021, 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. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04, and which is described in Exhibit II.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Exhibit II, in which the Army GF's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Management's Responses to Findings

Management's responses to the findings identified in our engagement are described in a separate letter. Management's responses were not subjected to the procedures applied in the engagement to audit the consolidated financial statements, and accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Army GF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 8, 2021

A. Beginning Year Balances

The United States (U.S.) Department of the Army (Army) General Fund (GF) management (management) and its service provider did not fully develop and implement processes and internal controls to prepare complete and accurate populations of transactions and adjustments for the beginning balances on the consolidated financial statements.

The above condition primarily resulted because management and its service provider did not maintain sufficient and appropriate detailed transactions and historical supporting documentation and fully implement corrective actions to remediate the deficiencies. Army management and its service provider relied on systems to produce reliable transactional data but did not research and coordinate with system owners to resolve configuration issues and ensure reliability and availability of populations.

The criteria is Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government*.

As a result of the deficiencies noted above, the potential exists that beginning year balances may be incomplete, inaccurate, or invalid and such misstatement would fail to be prevented or detected and corrected in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service provider to perform, the following:

- Develop and implement processes and controls to prepare complete and accurate populations at the transaction-level for beginning balances and reconcile such populations to the trial balance.
- Maintain sufficient and appropriate detailed transactions and supporting documentation for the consolidated financial statements.
- Focus resources on implementing corrective actions.
- Coordinate with system owners as needed to appropriately research and resolve configuration issues in the general ledger systems to obtain complete and accurate population reports and transactional data.

B. Operating Materials and Supplies

Management did not consistently design, document, and implement internal controls over Operating Materials and Supplies (OM&S) to:

- Demonstrate the value of OM&S was properly reported at historical cost on the balance sheet. Further, management applied the most recent standard purchase price to value OM&S at period end and did not use an appropriate cost flow assumption to arrive at historical cost.
- Accurately record OM&S transactions in the appropriate U.S. Standard General Ledger (USSGL) account in the correct accounting period.
- Expense OM&S under the consumption method, which expenses OM&S when issued to the end user rather than in the period goods are purchased.
- Implement reconciliation/review controls over the completeness and accuracy of the OM&S balance to include:
  - Performance of a reconciliation to demonstrate the completeness and accuracy of the balance recorded as of the balance sheet date. Reconciliations should include and report balances of OM&S assets produced or held at Government Owned Contractor Operated (GOCO) locations, in-transit assets, and munitions being remanufactured.
  - Quantification of adjustments resulting from the review of shelf life relevant munitions and GOCO assets, such that any material adjustments are considered for financial reporting.
- Validate and support that certain assets reported within the financial records met the classification requirements to be reported and were owned by the Army. Management also did not determine appropriate accounting treatment for munitions produced for other services prior to transfer, Work-In-Process inventory, other classes of supplies that could meet the definition of OM&S and differentiating between items held for repair or remanufacture.
- Support controls performed over physical observation, record retention and completion, or validation that quantities and key data elements were accurately and timely recorded into the accountable property systems and reported in the financial reporting system.
- Provide certain populations to include inventory adjustments resulting in an accounting gain or loss.

The above conditions resulted because management did not identify all key financial statement risks associated with accounting for and reporting OM&S. As such, they do not have policies and procedures designed and implemented to address the risks. Control operators for controls that were in place were not consistently aware of, or did not understand and comply, with existing policies. Additionally, management did not fully implement corrective action plans to address deficiencies due to competing priorities.

The criteria are as follows:

- Federal Accounting Standards Advisory Board (FASAB), *Statement of Federal Financial Accounting Standards (SFFAS) 3: Accounting for Inventory and Related Property*; and Interpretation of Federal Financial Accounting Standards 7: *Items Held for Remanufacture*
- *GAO Standards for Internal Control in the Federal Environment*
- OMB Circular Number (No.) A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular No. A-123)
- Treasury Financial Manual (TFM)

- U.S. Department of Defense (DoD) and Army standard operating procedures, regulations, policies, and guidance

As a result of deficiencies noted above, the potential exists that misstatements in the OM&S balance on the balance sheet and related notes would fail to be prevented or detected and corrected.

Recommendations:

We recommend that management design, document and implement controls to perform the following:

- Properly report the value of OM&S on the balance sheet. Specifically, Army should complete valuing OM&S in accordance with SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* and design and implement controls to calculate and capture historical costs in accordance with SFFAS 3: *Accounting for Inventory and Related Property*.
- Properly record cost of goods used transactions as operating expenses in the period when the OM&S assets are issued to the end user.
- Validate and support that asset quantities and key data elements are properly recorded in the accountable property systems, transactions are reconciled and recorded properly in the financial system, transactions are recorded in the correct period and USSGL accounts, and documentation is maintained and readily available.

Further, we recommend that management:

- Perform and document an assessment of the risks of misstatement in the OM&S financial reporting process and design and implement controls responsive to the risk assessment to completely and accurately reconcile, classify, and report all assets that meet the definition of Army owned OM&S as of the balance sheet date in the financial statements, and exclude assets not meeting the definition of OM&S from the financial records.
- Distribute updated policies and guidance as developed and provide training to control operators and key personnel to consistently execute processes and controls and enforce and monitor that control operators are performing the controls effectively as designed.

C. General Property, Plant and Equipment

Management did not consistently design, document, and implement internal controls over general property, plant, and equipment (PP&E) to:

- Provide sufficient appropriate documentation to demonstrate the valuation of PP&E was properly reported at historical cost on the balance sheet and related note disclosures. Further, management applied an alternative valuation methodology by recording certain general equipment at current standard catalogue purchase price.

- Provide sufficient documentation to consistently demonstrate controls were effectively designed and implemented over depreciation and impairment. Specifically, management did not support the useful lives for general equipment and did not consistently design and implement controls over record retention and validation of useful lives of real property. Management did not consistently identify and report potential impairment related to construction in process (CIP), real property, and general equipment assets. Additionally, controls were designed and implemented over remanufactured equipment, but the controls were not designed to consider obsolete/damaged assets, physical inventory counts, or the appropriate useful life of remanufactured assets.

- Determine that the populations of capitalized real property assets were completely and accurately reported, that key data elements were accurately recorded in the system, or to properly report ownership of real property in the context of financial reporting and accurately adjust real property assets' carrying value for ownership changes.

- Properly account for costs related to capitalizing PP&E and for completeness of balances. Specifically, management does not have a process for accumulating and monitoring costs incurred for general equipment CIP, general equipment capital improvements, costs incurred related to capital improvements in the property system, non-military construction (Non-MILCON) CIP, and internal use software (IUS), and costs associated with transferring assets in or out. Additionally, management does not have controls and processes in place to differentiate between transactions that should be recorded as expenses versus those that should be recorded as assets.

- Determine that Military Construction (MILCON) CIP costs are completely and accurately recorded.

- Determine the accuracy of PP&E adjustments including corrections of prior year errors in accordance with SFFAS 21. Management also did not design and implement controls to consistently allocate costs between facilities when Army is the constructing agent.

- Assess and record the completeness and accuracy of acquisitions and disposals in a timely manner.

- Validate the existence and completeness of general PP&E, validate key data elements, identify, and properly classify multi-use heritage assets, and maintain records relating to general PP&E during their physical observation and inventory of PP&E.

- Produce complete and accurate populations for financial reporting. Further, the general equipment accountable property systems of record (APSRs) do not interface with and record transactions and balances directly with Army's general ledger.

- Completely and accurately disclose deferred maintenance and repair (DM&R) Required Supplemental Information (RSI).

The above conditions primarily resulted because management did not identify all key risks associated with PP&E, including all the relevant financial statement risks. As such, they do not have policies and procedures designed and implemented to address the risks and account for activities, which led to personnel not properly recording PP&E transactions, and not providing documentation to support the consistent operation of controls and transactions recorded. System limitations contribute to management's inability to identify and properly report expenses that meet capitalization criteria. Additionally, management did not fully implement planned corrective actions for deficiencies identified in prior years and monitor the implementation of review controls.

The criteria are as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- FASAB SFFAS 4 *Managerial Cost Accounting Standards and Concepts*, SFFAS 6 *Accounting for Property, Plant, and Equipment*, SFFAS 10 *Accounting for Internal Use Software*, SFFAS 21 *Reporting Corrections of Errors and Changes in Accounting Principles*, SFFAS 44 *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, SFFAS 29 *Heritage Assets and Stewardship Land, and Technical Release* 14: *Implementation of Guidance on the Accounting for the Disposal of General Property, Plant & Equipment*
- OMB Circular No. A-123 Appendix D
- DoD *Financial Management Regulation* (FMR)
- Army, U.S. Army Corps of Engineers (USACE), and DoD policies, regulations, and instructions
- Federal Register, Executive Order 14010

As a result of deficiencies noted above, the risk exists that misstatements in the general PP&E balances in the balance sheet and related notes would fail to be prevented or detected and corrected.

Recommendations:

We recommend that management:

- Complete the process of valuing the opening balances of real property in accordance with SFFAS 50, including updating policies to define what constitutes key supporting documentation for the consistent and accurate reporting of the valuation of PP&E, communicate the policies throughout the Army, and establish and implement controls to maintain sufficient appropriate supporting documentation to demonstrate that the valuation of PP&E is properly reported on the balance sheet.
- Communicate, monitor, research timely, and update the property system based on differences identified between the property system and inspection documents and implement controls over the monthly change report and proper record retention.
- Design, implement, and document controls to determine that the key data elements were properly recorded in the property systems, generate a complete and accurate capital asset report, reconcile the capital asset listing to the financial reporting system; address adjustments related to data cleanup with consideration of SFFAS 21, valuation of PP&E, and completeness of PP&E; report ownership of real property assets in the context of financial reporting and properly record ownership changes, and retain all relevant supporting documentation to be readily accessible.
- Identify risks relevant to financial statement assertions for general equipment and Non-MILCON CIP transactions, IUS transactions, transfers in and out transactions, and general equipment valuation, and design and implement policies and procedures to address these risks.
- Design and implement policies and procedures to review all newly created work items after the end of each month, address completeness and accuracy of MILCON CIP amounts, and manual controls over the completeness and accuracy of system-generated reports.

- Evaluate current system configurations related to how expense transactions are identified to be capitalized as an asset and modify the configuration settings as appropriate for proper recording of capitalized assets.
- Identify risks relevant to the financial statement assertions for real property capital improvement transactions and design and implement policies and procedures over accumulating and monitoring capital improvements to address these risks.
- Design and implement controls to effectively support the consistent allocation of costs between facilities, identify and financially report potential impairment, accurately identify asset ownership, track government furnished equipment, accurately identify and classify multi-use heritage assets, and address the completeness and accuracy of DM&R.
- Fully implement policies and procedures to address the risks related to the timely approval and completion of records for museum collection items.

D. Environmental and Disposal Liabilities

Management did not consistently design, document, and implement controls and processes over environmental and disposal liabilities (E&DL) to:

- Determine completeness, accuracy, and existence of real property asset and event-driven populations, identify, and estimate future environmental disposal costs for general equipment, and support the populations.
- Determine that all obligated contracted costs are excluded from the cost to complete estimates used to determine the asset and event-driven liabilities.
- Determine the assumptions and inputs are reasonable, in accordance with regulatory and industry standards and consistently documented within internal guidance. Validate that the correct remediation approach is used, the estimation model is appropriate to perform the estimate, and estimate calculations are accurate. Determine that data elements for cost and schedule estimates are reasonable and accurate and changes in the estimate are recorded in the correct period. Include a contingency to address uncertainty and validate the sites and obligations are sufficiently supported.
- Review the asset and event-driven estimates at a sufficient level of precision to identify misstatements in the estimate, confirm consistency with management's guidance, document the reasonableness of all assumptions and data elements, and maintain documentation evidencing the review to support conclusions on the accuracy and valuation of the estimates.
- Prepare and sufficiently evidence the review of the real property category code analysis to validate the completeness of the population of asset-driven environmental liabilities.
- Implement reproducible processes to evidence the supervisory control over the quarterly environmental liability financial reporting package.
- Perform retrospective reviews to assess the accuracy of the estimation methodologies and the assumptions and data elements used in the asset and event-driven estimates.
- Review and approve newly identified event-driven sites, projects, and properties for appropriate recording and recognition of the liability in the proper period.
- Implement processes for recording asset and event-driven estimates calculated using Remedial Action Cost Engineering and Requirements (RACER) in current year dollars in accordance with the accounting standards and determine if the intended use of RACER is applicable for asset-driven cost estimates.
- Identify and compile Program Management (PM) costs for inclusion in the event-driven liability estimates.

The above conditions primarily resulted because management did not perform a complete risk assessment to identify financial statement risks, fully establish policies and controls to address such risks, provide sufficient guidance and training to personnel, monitor and enforce performance of controls, and timely implement planned corrective actions. Additionally, the E&DL organizational structure lacks a sufficient number of knowledgeable resources with the financial acumen to understand and convey to the responsible parties the purpose and requirement to support and maintain evidential matter related to controls, estimates and documentation impacting the liability and the financial statements.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government and Cost Estimating and Assessment Guide*

- FASAB, SFFAS 5*: Accounting for Liabilities of The Federal Government, SFFAS 6: Accounting for Property, Plant, and Equipment*, SFFAS 34: *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board,* Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, and Federal Financial Accounting Technical Release 18: *Implementation Guidance for Establishing Opening Balances*

- DoD policies

- Army Policies and Guidance

As a result of the deficiencies noted above, the potential exists that controls and existing processes would fail to prevent or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Complete risk assessments to identify environmental and disposal liability risks and fully establish policies and controls to address such risks, assign knowledgeable resources, provide sufficient guidance and training to personnel performing environmental and disposal liability responsibilities, monitor and enforce performance of controls, and prioritize implementation of planned corrective actions.

- Design and implement controls and processes to:

  – Perform reconciliations over the asset and event-driven populations. Document the reviews of the reconciliation and retain evidence of reviews and supporting documentation.

  – Identify and determine the valuation methodology for estimating future environmental disposal costs for general equipment.

- Document and review the rationale for the real property category codes, which identify the assets that have an environmental and disposal cost at the end of the assets' useful life.

- Implement reproducible processes to evidence supervisory controls over the quarterly environmental liability financial reporting package.

- Design and implement controls and processes to perform reviews, that include a defined level of precision, of the asset and event-driven estimates. Determine that the assumptions and inputs are reasonable and in accordance with industry standards, the correct remediation approach is used and the estimation model is appropriate to perform the estimate, the calculations are accurate, the key data elements for the cost and schedule estimates are reasonable and accurate, a contingency is included to address uncertainty, and the estimate is supported.

- Perform a risk assessment and design processes to account for newly identified event-driven sites, properties, and projects. Design and implement a process to record a liability for a project when it is probable and measurable.

- Develop and document the event-driven completeness methodology and implement policies and procedures to compile and retain the complete listing of event-driven sites.

- Design and implement controls and processes to determine that all obligated contracted environmental costs excluded from the cost to complete estimates.

- Perform retrospective review to compare the actual environmental disposal cost estimates to prior year cost estimates and determine the accuracy and reasonableness of the estimation methodologies and the assumptions and data used in the asset and event-driven estimates. Analyze the results to determine if future costs estimates require adjustments.

- Perform procedures to annually review asset and event driven estimates prepared using RACER to determine the appropriateness of using RACER for asset-driven estimates and if the estimates are expressed in current year dollars and apply escalation appropriately.
- Perform a risk assessment and implement controls to identify and compile PM costs and assess whether those costs should be included in the event-driven estimates.

E. Evidential Matter

Management and its service provider did not consistently have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that beginning balances, activity, and ending balances for revenue, costs, fund balance with treasury, general property, plant, and equipment, OM&S, environmental and disposal liabilities, other liabilities, and other transactions were properly reported on the consolidated financial statements. Management did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, the evidential matter that we requested (a) was not readily available and thus not provided, (b) did not sufficiently support the request or transactions recorded in the general ledger used to prepare the consolidated financial statements, and/or (c) was inappropriately reviewed and approved or the review and approval was not documented by management.

Management and its service providers relied on information produced by the financial and feeder systems to support certain transactions and balances on the consolidated financial statements; however, management did not have effective general information technology controls (GITCs) over such systems and therefore, did not provide reliable evidential matter.

The above conditions primarily resulted because of the following:

- Management did not perform a proper risk assessment and/or did not demonstrate a full understanding and enforcement of its processes, policies, and procedures over record retention.
- Management and/or its service providers did not assign resources to timely locate and provide supporting documentation.
- Management and/or its service providers did not design and implement business processes and controls to maintain evidential matter and evidence of supervisory review.
- Management did not implement corrective actions timely.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- DoD FMR
- Army policies and other guidance
- Office of Personnel Management (OPM) schedules and guidance

As a result, transactions not supported by appropriate documentation increase the risk that unauthorized transactions may occur or records in the general ledger may not represent complete, accurate, and/or valid transactions, potentially leading to a misstatement in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service provider to perform, the following:

- Perform and document a thorough risk-assessment and work with its service provider, as necessary, to design, document, and implement procedures and controls to maintain evidential matter.
- Assign and train the necessary resources to locate and provide supporting documentation in a timely manner.

- Update policies and procedures to define the key evidential matter that is required to support financial statement amounts and performance of controls, require evidential matter to agree with the general ledger detail, and have evidential matter readily available for inspection.
- Focus resources on implementing corrective actions, including actions to establish or strengthen access, segregation of duties, configuration management, security management, and contingency planning controls.
- Communicate the evidential matter policies, procedures, and controls to the Army and its service providers.

F. Information Technology Controls

Management and its service providers continued to make progress in addressing prior year Information Technology (IT) control deficiencies within their systems. However, management and its service providers did not consistently implement IT controls to protect the Enterprise Resource Planning (ERP) and related feeder systems' financial data. In addition, management did not implement compensating controls to address service providers IT controls that were not effectively designed, implemented, or operated. The conditions could affect management's ability to provide timely financial data that is complete, valid, and accurate. Our specific findings are summarized as follows:

- **Access Controls**. Management and its service providers did not consistently implement operating system, database, and application access controls around the authorization, provisioning, monitoring, and deactivation of end users, privileged users, temporary elevated access, and system administrative default powerful user profiles. Management and its service providers did not consistently conduct and document periodic reviews of user accounts on at least an annual basis, to include the removal of access for terminated or transferred employees and contractors and to determine the need for continued and appropriate access based on least privilege principles, and user inactivity. In addition, management and its service providers did not consistently design and implement operating system, database, and application audit logging and review controls, including security event identification, tracking, evaluation, and response procedures as well as restricting access to the log report from the subject being monitored. Further, management and its service providers did not consistently implement periodic reviews of application, database, and operating system user account and password security parameters.

- **Segregation of Duties**. Management and its service providers did not consistently implement controls preventing and/or detecting the inappropriate use of incompatible operating system, database, and/or application privileges. Further, management did not consistently design and implement controls over the restriction of access to the ERP and feeder system segregation of duties risk rule sets based on least privilege considerations. In cases where incompatible access privilege were required based on business need, management and its service providers did not consistently implement controls to monitor the activities of users granted access to such privileges to ensure unauthorized activities were detected and addressed in a timely manner. Additionally, management and its service providers did not consistently segregate/monitor the use of incompatible access privileges related to system support functions that preclude system developers from updating production environments.

- **Configuration Management**. Management and its service providers did not consistently implement a comprehensive operating system, database, and application configuration change management process, to include timely installation of critical patch updates and proper configuration of production settings to prevent unauthorized changes from being made in the production environment. For implemented processes, management and its service providers did not consistently design and maintain evidence to support the identification and tracking, testing and/or approval of operating system, database, and application changes/patches before migration into the production environment.

- **Security Management**. Management and its service providers did not consistently implement formal vulnerability management and assessment programs for the operating systems, databases, and/or applications. For implemented programs, management did not consistently track all known vulnerabilities and associated remediation activities.

- **Job Processing**. Management did not consistently implement a process to maintain evidence to support review and authorization of job schedule changes between certain feeder systems.

- **Contingency Planning.** Management was unable to provide evidence of successful/unsuccessful backups of full weekly and daily incremental database backup reports.

The above conditions primarily resulted because management and its service providers did not fully identify and address risks, develop and implement policies and controls, assign sufficient resources to certain responsibilities, provide sufficient oversight and monitoring of the control environment, system limitations, and timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB policies and guidance
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4*, dated April 2013 and *Revision 5*, dated September 2020
- Army policies, memorandums, and other guidance
- Defense Information Systems Agency (DISA) policies and guidance
- DoD policies, memorandums, and other guidance

As a result, the weaknesses posed increased risks to the completeness, accuracy, validity, confidentiality, and availability of the systems and their financial data.

Recommendations

We recommend that management work with their service provider, as appropriate, to strengthen its systems environments for the operating system, database, and application layers, as follows:

- Identify risks, develop, update, and implement policies and controls to address the risks to protect the accuracy, integrity, validity, confidentiality, and availability of the systems and financial data.
- Prioritize corrective actions to design, document, implement and effectively operate policies and controls for access controls, segregation of duties, configuration management, and security management at the operating, database, and application layers.
- Assign sufficient resources to implement the corrective actions and perform and document the GITCs.
- Continue to work with its service providers to strengthen controls of service provider environments and monitor that service providers' controls are properly designed and effectively operate.
- Provide trainings to reinforce its designed process and policies for access control at the application, database, and operating system layers.
- Apply the recommendations when designing, documenting, and implementing access controls for succeeding systems.
- Utilize alternative methods to retain supporting documentation.

G. General Ledger Adjustments

Management did not properly design and implement internal controls over manual journal entries and other adjustments to the general ledger as follows:

- Management has not fully implemented controls to identify manual journal entries that are subject to increased risk due to management override of controls from transactions entered through normal business processes in its main accounting system of record and other general ledger systems.
- Legacy accounting systems are unable to differentiate between manual journal entries and transactions entered through normal business processes.
- Accounting and general ledger systems were unable to demonstrate that manual journal entry listings are complete and accurate and that all necessary adjustments were completely and accurately recorded.
- Management recorded manual journal entries in the financial reporting system to correct account relationships, edit checks, and abnormal balances. Additionally, management recorded manual journal entries to agree to the U.S. Department of the Treasury's (Treasury's) records or to resolve variances with federal trading partners. Management did not research the underlying causes of the need for these manual journal entries to determine that the journal entries were appropriate. Further, although management and its service provider self-identified and corrected erroneous or inaccurate manual journal entries, the journal entry review control did not prevent the recording of the entries.

The above conditions primarily resulted because of the following:

- Management did not identify a process risk point for out of balance account relationships and identifying manual journal entries.
- Management did not implement a definition of standard postings and manual journal entries in the accounting systems and did not implement consistent review and documentation requirements for transactions entered outside established standard business processes.
- System configuration and posting logic issues create a need for a significant volume of manual journal entries that need to be processed and reviewed within a compressed financial reporting timeline. Legacy accounting systems used to process financial transactions have limitations in identifying manual adjustments and contribute to the need for adjustments through incorrect crosswalk configurations and improper data attributes.
- Management and its service provider have not completed but are in the process of implementing corrective action plans.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- TFM
- DoD FMR

As a result of the deficiencies over journal entries and other adjustments, the risk exists that process level internal controls may be overridden, and a misstatement may occur in the financial statements and related note disclosures.

Recommendations:

We recommend that management work with their service provider, as appropriate, to perform the folllowing:

- Develop, document, and implement policies and procedures to track and minimize the manual journal entries processed in legacy accounting systems to reduce the impact of system limitations in identifying manual journal entries.
- Coordinate with the systems owners to identify and correct the root cause of errors in the files submitted to the financial reporting system; develop and implement procedures and controls over the completeness and accuracy of transactional data transmitted to the financial reporting system; and improve the transactional data to contain the appropriate level of detail.
- Define and fully implement standard postings that are part of normal business processes and subject to established controls; and require individuals responsible for data entry to use standard transaction codes to significantly reduce the number of manual journal entries.
- Adhere to monitoring procedures to verify manual journal entries are properly supported, are appropriate, and are consistently reviewed to prevent erroneous or inaccurate entries.
- Develop and implement controls, such as reconciliations, to validate that manual journal entry logs and populations are complete.
- Analyze existing business processes and manual adjustments to define adjustments and provide a clear definition of the adjustment types recorded in general ledger and legacy accounting systems and determine if system updates are necessary.
- Coordinate with system owners to update system functionality to implement changes and correct errors caused by inaccurate system configurations, missing relevant data elements and/or improper system mappings.

H. Accounts Payable and Accounts Receivable

Management did not fully develop, document, and implement controls over accounts payable and accounts receivable accruals to reflect underlying events completely and accurately. Specifically, management did not have adequate controls in place as follows:

- Management did not develop methodologies to record accruals for goods and services received but not yet invoiced at period end, to include travel, grants, reimbursable outbound transactions, government purchase cards, supplies, and miscellaneous payments. Army's methodology for recording accruals for certain activities included recording known amounts but no estimate was made to account for goods and services received but not recorded in the system at period end.
- Management implemented accrual methodologies for certain revenue and expense activities, however, the methodologies were not sufficient to record accounts payable completely and accurately and accounts receivable estimates. Deficiencies included: excluding federal receivables and other relevant data; failure to determine precision thresholds for reviewing data inputs; failure to assess whether accruals are probable, measurable, and meet the criteria to be recorded as a liability; failure to record developed accruals in the general ledger; and lack of overall reasonableness assessment including retrospective reviews of estimates to validate the accuracy of assumptions.
- Management did not design and implement controls or system requirements for all procurement processes to consistently validate the receipt and acceptance of goods and services prior to recording in the general ledger.
- Management could not produce populations of accounts payable and accounts receivable as of balance sheet dates.

The above conditions primarily resulted because management did not have the necessary information and data available to develop and document accrual methodologies due to decentralized receiving points and system limitations. Management did not perform sufficient analysis or risk assessment to determine whether certain accruals are necessary and met the criteria for recognition as a liability. Further, management did not fully implement planned corrective actions or enforce policies and procedures due to resource constraints and system limitations.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1, *Accounting for Selected Assets and Liabilities*, SFFAS 5*, Accounting for Liabilities of the Federal Government*, and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- DoD FMR
- Defense Finance and Accounting Services (DFAS) and Army policies and procedures

By not recording the necessary accruals and adjustments, the risk exists that accounts payable and accounts receivable on the consolidated financial statements and related note disclosures could be misstated.

Recommendations:

We recommend that management perform the following:

- Develop, document, and implement methodologies to completely and accurately account for activities received or due as of period end. Methodologies should include documentation of the key assumptions, validation of the completeness and accuracy of inputs, policies, procedures, and controls to identify and record accruals.

- Continue to develop and implement corrective actions and devote appropriate level of resources to implement accrual methodologies and remediate deficiencies.
- Dedicate resources to periodically review and update existing accrual methodologies to completely and accurately account for activities received or due as of period end. Perform a retrospective review to evaluate that the methodology, data, and assumptions are sound, and that appropriate controls and documentation are in place.
- Document an analysis to determine whether liabilities are probable, measurable, and meet the criteria to be recorded as a liability.
- Resolve configuration issues of the general ledger system to verify the receipt of goods and services.
- Review and reconcile accounts payable and accounts receivable activity to validate that balances are complete and accurate.

I. Financial Reporting

Management and its service provider did not effectively implement internal controls over financial reporting. Specifically:

- Management did not sufficiently design and implement controls over presentation of information in the financial statements and note disclosures to validate that information is presented in accordance with US generally accepted accounting principles (GAAP), to include:
  - Review of policies and procedures that may represent a departure from U.S. GAAP and did not perform and document a qualitative and quantitative assessment of the impact to the financial statements and related note disclosures resulting from any departures from U.S. GAAP.
  - Properly recording the classification of certain transactions as non-exchange expenditure transfers rather than expenses.
  - Properly recognizing earned revenue from services provided for certain transactions in accordance with U.S. GAAP. Management recorded revenue at the onset of the contract instead of recognizing revenue from services provided and administrative fee revenue as services were performed.
  - Supporting specific disclosures for public-private partnerships, the reconciliation of net cost of operations to net outlays, elements of property, plant and equipment, and intra-entity eliminations between dedicated collection funds.
  - Determining the appropriate accounting for potential liabilities and claims related to terminated construction contracts.
- Management did not effectively implement internal controls to account for budgetary funding transactions by comparing the Report on Budget Execution and Budgetary Resources (SF-133) to the amounts on the SBR, and Apportionment and Reapportionment Schedule (SF-132), and reconciling funding documents timely.
- Management and its service provider did not effectively implement controls to prevent or detect and correct abnormal USSGL account balances, relationships, fluctuations, and transactions that are non-compliant with the USSGL.
- Management did not consistently perform management review controls over the legal representation data call spreadsheet, journal entries, and note disclosure.

The above conditions resulted primarily because management did not dedicate sufficient resources to perform risk assessment procedures and did not obtain and formally document an understanding of relevant accounting guidance, processes, risk points, and responses. Further, management did not perform effective enforcement and monitoring over controls.

In addition, system limitations, incorrect configuration in the accounting and financial reporting systems, and unsupported journal entries contributed to out of balance relationships, transactions, and deficient reconciliations. Finally, management did not fully implement planned corrective actions to address all elements of prior year findings.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*, SFFAS 5: *Accounting for Liabilities of the Federal Government*, SFFAS 7: *Accounting for Revenue and Other Financing Sources and*

Concepts for Reconciling Budgetary and Financial Accounting, SFFAS 29: *Heritage Assets and Stewardship Land*, and SFFAS 49: *Public-Private Partnerships: Disclosure Requirements*

- OMB Circular No. A-11, *Preparation, Submission* (OMB No. A-11), *and Execution of the Budget*, OMB Circular No. A-123, OMB Circular No. A-136
- TFM, *USSGL Supplement*
- The Federal Acquisition Regulation (FAR)

As a result of the deficiencies noted above, the potential exists that misstatements or misclassifications would fail to be prevented or detected and corrected in the financial statements and note disclosures.

Recommendations:

We recommend that management perform, and work with its service providers to perform the following:

- Dedicate sufficient resources to perform risk assessment procedures over relevant processes to obtain and formally document the understanding of the processes, including identifying the flow of information, material risk points, and key controls. The assessment should include a thorough and comprehensive analysis of non-GAAP policies on financial reporting and consider results of audit findings. Management should design and implement appropriate controls to respond to identified risks and ensure complete and accurate accounting and presentation of required information in the financial statements and related note disclosures.
- Implement policies and procedures to prevent or detect and correct transactions, account mapping, and other erroneous data elements that result in abnormal balances and align them with the TFM.
- Design or implement policies and procedures to address and correct USSGL non-compliant transactions and train personnel to recognize and accurately record transactions.
- Where feasible, implement system updates to ensure data elements are completely and accurately transmitted, transaction detail or other relevant information is readily available, and transactions post to the correct USSGL accounts.
- Monitor and enforce consistent performance of controls.
- Complete implementation of planned corrective actions.

J. Intra-governmental Transactions and Intra-entity Eliminations

Management and its service providers did not effectively design and implement controls over transactions with other Federal entities and within the Army GF as follows:

- Record the trading partner information at the transaction level needed to facilitate reconciling and eliminating intragovernmental transactions. In addition, management did not effectively reconcile balances with their trading partners, and support adjustments made to reconcile with trading partners.
- Properly differentiate between intra-entity and intragovernmental transactions, and did not accurately identify, support, or reconcile intra-entity activity in all source accounting systems prior to elimination.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment process to understand and document all financial reporting risks and fully establish policies and controls to respond to such risks.
- The financial systems and processes were not designed to capture all relevant data elements at the detailed transaction level and systems are not configured to properly record intragovernmental transactions.
- Intragovernmental and intra-entity transactions are recorded in multiple systems and reconciling balances is a resource intensive process. Management has not dedicated sufficient resources to reconcile and support each balance.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-136: *Financial Reporting Requirements* (OMB Circular No. A-136)
- TFM
- DoD policies and regulations

As a result of the deficiencies noted above, controls could fail to prevent or detect and correct misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers, to complete a risk assessment process and develop, document, and implement policies and controls over the intra-entity transactions and trading partner reconciliations and adjustments. Such policies should include requirements to reconcile, research, and resolve errors and abnormal balances.

K. Fund Balance with Treasury

Management did not fully develop, document, and implement internal controls over Fund Balance with Treasury (FBwT). Specifically, management and its service provider did not effectively design and implement controls to:

- Address the reconciliation of FBwT to balances reported by the Treasury. Specifically, processes were not consistently documented to research and resolve variances at all levels of the reconciliation and maintain documentation to evidence research and resolution of variances. Further, control operators did not consistently resolve identified variances in a timely manner or research all items meeting criteria for resolution.
- Detect and correct aged or non-Army suspense account transactions in a timely manner. In addition, management used suspense accounts for transactions that are not in accordance with OMB Circular No. A-11 and did not design and implement controls to address the completeness and accuracy of financial reporting of suspense accounts.
- Detect and correct differences identified on the statement of differences (SOD) reconciliation in a timely manner, to include demonstrating the completeness and accuracy of Army transactions on the SOD.
- Research, resolve, and maintain evidence of review of failed legacy transaction files within the Transactions by Others (TBO) Uncleared report in a timely manner.
- Record the uncollected/undistributed adjustment to FBwT to agree to Treasury with fully supported voucher level detail and to analyze and record the adjustment to the correct federal or non-federal attribute. Additionally, management and its service provider did not research, resolve, and maintain evidence of review of undistributed and unmatched transactions within the accounting system in a timely manner.
- Demonstrate individual outlay (disbursement or collection) transactions were accurately recorded to the correct Treasury Account Fund Symbol and USSGL account.
- Accurately record and properly maintain supporting documentation for unmatched disbursements, collections, and spending authority from offsetting collections transactions.
- Demonstrate that beginning balance and current year adjustments made in the main general ledger system of record to FBwT were appropriately recorded and supporting documentation was properly maintained.
- Consider the aggregate effect of unreconciled and unresolved differences identified through the FBwT reconciliation, SOD transactions, suspense accounts, unmatched transactions, accounting system undistributed reports, and TBO uncleared reports on the financial statements.

The above conditions exist primarily because management and its service provider did not identify all the relevant risk points within the FBwT process. Further, processes were designed to identify errors and notify appropriate individuals, but not to review or resolve differences and generate evidence of such. Management and its service provider are developing corrective actions and new policies and have not finalized all new standard operating procedures and related desk side guidance.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1, *Accounting for Selected Assets and Liabilities*

- OMB Circular No. A-11
- TFM
- DoD FMR
- DFAS Standard Operating Procedures

As a result of deficiencies noted above, the potential exists that misstatements could exist in the consolidated financial statements and would fail to be prevented or detected and corrected.

Recommendations:

We recommend that management perform, or work with its service provider to perform the following:

- Design and implement controls to expand and enhance the FBwT, suspense, SOD reconciliations, as well as adjustments to FBwT, and undistributed transaction reports, to include: addressing relevant risk points, timely resolution of variances, validation of assumptions, consistent posting to reduce unmatched transactions, evaluation of cumulative effect of unresolved differences, and record retention.
- Continue to update the design of controls to address timely and accurate recording of transactions, and detection and removal of suspense account transactions to comply with guidance described in OMB Circular No. A-11.
- Continue to address the completeness and accuracy of suspense accounts and evaluate the cumulative impact of unresolved suspense account transactions prior to certification.
- Continue to address the completeness and accuracy of the SOD, timely resolution of transactions associated with differences between disbursing systems and Treasury records and the completeness and accuracy of recording transactions after resolution.

L. Completeness

Management did not sufficiently design and implement controls to consistently validate that financial transactions are completely and accurately reported in the financial statements. Specifically, management did not completely design and implement controls to:

- Validate the completeness, existence, and accuracy of year-end balances for procurement and revenue activities. Further, management did not consistently perform control activities timely such that they could record necessary adjustments for year-end reporting.
- Record transactional variances between initiating systems, accounting systems, and financial reporting systems such that all transactions were complete, accurate, and recorded in the correct accounting period.
- Reconcile personnel information and feeder systems to the payroll systems to consistently validate completeness of the information. Management and control operators did not consistently perform, and document required reviews, perform required reviews with sufficient precision to identify control exceptions, identify and resolve exceptions, or document considerations around the adequacy of independent review thresholds.
- Review the Sales Order Error Report and retain documentation to demonstrate completeness and accuracy of reports and timely resolution of errors.

The above conditions existed because management did not consistently perform a risk assessment to identify relevant risks points related to incomplete balances and system limitations**.** Management relied on interface controls for the complete and accurate transfer of data between systems but did not address interface errors between systems. Further, management did not consistently follow or enforce existing policies and procedures that were in place to address identified risks.

Management did not complete all planned remediation of previously identified deficiencies due to a lack of sufficient resources, resources not having access to information necessary to complete remediation, and reliance on implementing new systems to remediate conditions.

The criteria are as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- Army and DFAS policies, regulations, and other guidance

Without adequate controls over the entry of information at the point of initiation, the flow of information between feeder systems to the general ledger systems increases the risk that the financial statements are potentially incomplete, do not exist, or are not recorded accurately.

Recommendations:

We recommend that management perform the following:

- Perform and document risk assessment and evaluate the design of existing control policies and procedures in response to risks identified.
- Implement policies, procedures, and controls to obtain accurate information in a timely manner for all relevant entitlement and feeder systems.
- Continue to design, develop, and implement policies and procedures to completely record transactions in the correct period and amount. Such policies should include requirements to maintain supporting documentation, evidence of the control completion, demonstrating the completeness and accuracy of reports, and require timely completion of control activities at year-end.

- Identify the objective for each reconciliation to include the systems included in the control, criteria and level of precision for investigating variances, requirements to timely research and resolve variances, and documentation required to support the controls. Obtain access to appropriate transactional data for individuals that will perform the reconciliation objectives.
- Enforce existing policies and verify control operators are performing the controls in accordance with requirements. Provide resources to control operators to reinforce the importance of reviews.
- Continue to implement corrective actions, including implementation of integrated systems, and validate that new processes and functionalities address existing deficiencies.

M. Entity Level Controls

Management did not properly design and implement entity level controls, including the control activities described in previous sections of Exhibit I, to establish a control system that will produce reliable financial reporting. Specifically:

Control Environment. Management did not establish an effective control environment. Specifically, management did not:

- Consistently develop policies to establish and implement controls across its control environment and did not develop and maintain sufficient documentation of the control system.
- Consistently recruit, develop, and retain competent personnel to achieve the entity's financial reporting objectives; provide evidence that management evaluated employee performance, evaluated pressures on personnel, and held individuals accountable for their control responsibilities.
- Identify, design, and implement test plans for monitoring control activities related to entity level controls.
- Provide evidence to demonstrate the design, implementation, and monitoring of controls over ethical values and standards of conduct, ethics trainings and briefings, and financial disclosures.
- Effectively design and implement monitoring controls over Financial Management certification requirements.

Risk Assessment. Management did not effectively design and implement its risk assessment controls. Specifically, management did not:

- Define measurable risk tolerance for each objective in the risk profile for reporting organizations or define risk objectives and tolerances for certain financial process areas.
- Complete its risk assessment process, by considering risks associated with prior year findings and analyzing and responding to identified changes and related risks to maintain an effective internal control system.

Information and Communication. Management did not effectively design and implement its information and communication controls. Specifically, management did not:

- Fully design and implement controls over the quality and reliability of financial data and supporting documentation.
- Effectively obtain and communicate quality information down and across internal and external reporting lines.

Monitoring. Management did not effectively design and implement monitoring controls. Specifically, management did not:

- Effectively monitor and evaluate entity level, manual, general information technology, and system application controls for key financial statement line items and risks.
- Evaluate service organizations controls as a part of the OMB Circular No. A-123 Internal Control Assessment. In addition, management did not identify and evaluate all key service provider controls and Army controls to address the complimentary user entity controls noted by the service organizations. Additionally, management did not implement controls to address control deficiencies at service organizations or perform assessments for service organizations that did not have an examination.

- Consistently develop and timely implement actions to remediate control deficiencies from prior financial statement audits.

The above conditions primarily resulted because management did not assign the appropriate level of resources to achieve control objectives, consistently perform risk assessment procedures to identify all relevant risks, properly design the control environment to respond to risks, disseminate quality information on a timely basis across the entity, consistently monitor the control environment, and timely complete its corrective action efforts for previously identified deficiencies.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123
- DoD and Army Policies and Procedures

Without effective entity level controls, the risk exists that the consolidated financial statements are materially misstated. In addition, there is an increased risk that management will continue to have control deficiencies over financial reporting.

Recommendations:

We recommend that management:

- Continue to develop and implement control procedures across its control environment, including maintenance of documentation readily available to support the control system.
- Recruit, develop, and retain competent personnel to achieve financial reporting objectives, complete and document performance evaluations in a readily accessible form, and hold individuals accountable for their control responsibilities.
- Continue corrective action efforts to complete the control catalog to include entity level controls and design and implement a comprehensive enterprise-wide testing program.
- Implement uniform tracking and monitoring processes for ethical values and standards of conduct, ethics training and briefings, financial disclosures, and Financial Management certifications, and maintain documentation of such so that it is readily available for inspection.
- Enhance the risk assessment process to define risk objectives and tolerances for reporting organizations and financial process areas, consider risks associated with prior year findings, and analyze and respond to identified changes and related risks.
- Develop, document, and implement controls over the quality and reliability of financial data and supporting documentation.
- Communicate policies, procedures, and quality information down and across internal and external reporting lines.
- Continue efforts to develop and complete the control evaluation program covering the entity level, manual, general information technology, and system application controls for key financial statement line items and risks.
- Evaluate service organization controls as a part of the OMB Circular No. A-123 Internal Control Assessment, obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports, and implement controls to address control deficiencies at service organizations.

- Continue efforts to develop and implement corrective action plans related to control deficiencies.

A. Federal Financial Management Improvement Act of 1996 (FFMIA)

The United States (U.S.) Department of the Army's (Army) General Fund (GF) financial systems did not substantially comply with the following FFMIA requirements:

- **Federal Financial Management Systems Requirements.** As discussed in Exhibit I – Material Weaknesses, management did not implement sufficient and effective financial and information technology controls to consistently support reliable financial reporting and financial transaction compliance with applicable laws and regulations. As a result, Army GF did not substantially comply with the federal financial management systems requirements.

- **Federal Accounting Standards.** As discussed in Exhibit I – Material Weaknesses, the Army GF's controls were not properly designed, implemented, and operating effectively, which affected management's ability to prepare the consolidated financial statements and support the amounts reported on the consolidated financial statements in accordance with the federal accounting standards. As a result, the Army GF did not substantially comply with the federal accounting standards requirements.

- **U.S. Standard General Ledger.** Management did not configure certain financial systems and processes to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level. In addition, management did not fully analyze all financial processes to determine transactions are recorded consistently with USSGL requirements or document the analysis completed.

The Army GF did not substantially meet FFMIA requirements because of the reasons discussed in Exhibit I – Material Weaknesses and did not fully perform a risk assessment and remediate deficiencies identified in previous years. In addition, management had not completed its analysis to demonstrate that the accounting system posting logic is consistent with the USSGL.

The criteria are as follows:

- FFMIA

- Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular No. A-123)

- Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*

- Army policies and procedures

As a result of the deficiencies noted above, the financial systems did not substantially comply with FFMIA and the risk exists that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statements.

Recommendations:

We recommend that management:

- Perform a complete risk assessment and implement the recommendations discussed in Exhibit I – Material Weaknesses to support compliance with the federal financial system and federal accounting standard requirements.

- Complete and document an analysis of all financial processes to determine transactions are recorded consistent with USSGL guidance.

B. Federal Managers' Financial Integrity Act (FMFIA)

Management performed an internal control assessment as required under the FMFIA; however, management's assessment did not substantially comply with FMFIA and the related OMB Circular No. A-123, requirements as follows:

- Management did not develop and implement effective controls related to the use of quality data and management did not complete development of a data quality plan.
- Management did not effectively design its internal control assessment as management did not base its materiality assessment on the most recent financial statements, document a comprehensive analysis of the key processes supporting material financial statement line items, or address all risk profile components required by OMB Circular No. A-123 in its risk assessment template.
- Management did not effectively execute its internal control assessments as management did not consistently document the internal control evaluation plans, financial statement risks, financial assertions, testing procedures, testing results, and evidence of management review.
- Management did not develop and maintain corrective action plans or perform internal controls testing at all reporting organizations.

The above conditions resulted because management did not assign sufficient resources to its internal control testing program and assign responsibility at the appropriate levels of the organization. Additionally, management did not perform sufficient risk assessment and prioritize implementation of all FMFIA and OMB Circular No. A-123 requirements when designing their evaluation over internal controls.

The criteria are as follows:

- FMFIA
- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123

The Army GF did not substantially comply with FMFIA and the related OMB Circular No. A-123 requirements, which may lead to not identifying the appropriate risks, key controls, and not detecting internal control or compliance deficiencies. The risk of not detecting and correcting deficiencies could cause misstatements to the consolidated financial statements. Additionally, the Army GF internal control environment did not support management's assertion of modified assurance of the operating effectiveness of internal controls over reporting in its Annual Statement of Assurance.

Recommendations:

We recommend that management perform the following:

- Develop and execute a data quality plan to address the requirements of OMB Circular No. A-123.
- Implement an enterprise risk management approach over the evaluation of internal controls as defined by OMB Circular No. A-123.
- Design its internal control assessment to determine materiality using the most recent financial statements and identify and document all key processes and financial statement line items.
- Assign knowledgeable and sufficient resources to the internal control assessment program, assign responsibilities to such resources, monitor the execution of the internal control assessment program, and hold individuals accountable for their assigned responsibilities.

- Update internal control assessment guidance and risk assessment template to include all risk profile components required by OMB Circular No. A-123.
- Expand and communicate policies on documenting internal control evaluation plans, financial statement risks, financial assertions, testing procedures, testing results, corrective action plans, and evidence of management review.
- Perform and document the internal control assessment for all reporting organizations to include the entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls.

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

SAFM-FO

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2021 Army General Fund Financial Statement Audit Report

1. We appreciate the opportunity to respond to the audit report. We concur with the findings described in the report and will continue to implement corrective actions to remediate the material weaknesses and instances of non-compliance identified.

2. The results of continued audit readiness efforts, including corrective actions developed and implemented from findings issued during previous audits, demonstrate Army's commitment toward resolving longstanding financial reporting material weaknesses. We have prioritized and focused our remediation efforts on the following areas: Information Technology controls, Fund Balance with Treasury, Real Property, General Equipment, Operating Materials and Supplies, and Environmental Liabilities. We are committed to resolving our material weaknesses, improving all aspects of operations and financial management.

3. The Army will continue to collaborate internally and externally with all stakeholders to implement the systems, processes, and internal controls necessary to achieve accurate financial statements prepared in accordance with generally accepted accounting principles. This will not only result in an unmodified audit opinion but, more importantly, will improve the quality and timeliness of the data used to efficiently and effectively manage the resources provided to us by the Congress and the American taxpayer.

Wesley C. Miller

Wesley C. Miller
Deputy Assistant Secretary of the Army
(Financial Operations)

Department of Defense – Army General Fund

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2021 and 2020

(Amounts in Thousands)	2021 Consolidated	2020 Consolidated
Assets (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 116,398,121	$ 129,269,183
Investments (Note 5)	2,498	359
Accounts receivable (Note 6)	5,937,439	548,137
Other assets (Note 10)	198,432	232,321
Total intragovernmental	122,536,490	130,050,000
Cash and other monetary assets (Note 4)	520,559	539,712
Accounts receivable, net (Note 6)	1,196,809	886,022
Inventory and related property, net (Note 8)	39,749,351	35,584,669
General property, plant and equipment, net (Note 9)	143,615,684	148,280,032
Other assets (Note 10)	1,249,655	1,115,888
Total other than intragovernmental	186,332,058	186,406,323
Total assets	$ 308,868,548	$ 316,456,323
Stewardship property, plant & equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts payable	$ 2,432,945	$ 2,105,079
Other liabilities (Note 15 and 17)	1,604,224	1,102,647
Total intragovernmental	4,037,169	3,207,726
Accounts payable	5,657,695	4,866,148
Federal employee and veteran benefits payable (Note 13)	6,148,908	5,625,805
Environmental and disposal liabilities (Note 14)	28,178,238	27,235,681
Other liabilities (Note 15, 16 and 17)	6,718,422	5,605,893
Total other than intragovernmental	46,703,263	43,333,527
Total liabilities	$ 50,740,432	$ 46,541,253
Commitments and contingencies (Note 17)		
Net Position		
Unexpended appropriations – other funds	$ 106,033,937	$ 115,108,008
Cumulative results of operations – dedicated collections (Note 18)	97,354	73,969
Cumulative results of operations – other funds	151,996,825	154,733,093
Total net position	258,128,116	269,915,070
Total liabilities and net position	$ 308,868,548	$ 316,456,323

The accompanying notes are an integral part of these financial statements.

Department of Defense – Department of the Army

CONSOLIDATED STATEMENTS OF NET COST (UNAUDITED)

For the Years Ended September 30, 2021 and 2020

(Amounts in Thousands)	2021 Consolidated	2020 Consolidated
Program Costs (Note 19)		
Gross costs	$ 211,782,561	$ 179,854,822
Military personnel	68,068,899	63,826,102
Operations, readiness & support	67,684,419	66,507,052
Procurement	28,511,107	21,274,203
Research, development, test & evaluation	38,934,007	20,254,969
Family housing & military construction	8,584,129	7,992,496
(Less: earned revenue)	$ (32,902,730)	$ (8,522,746)
Net cost before losses/(gains) from actuarial assumption changes for military retirement benefits (Note 19)	178,879,831	171,332,077
Net program costs including assumption changes	178,879,831	171,332,077
Net Cost of Operations	$ 178,879,831	$ 171,332,077

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION (UNAUDITED)

For the Year Ended September 30, 2021

(Amounts in Thousands)	Dedicated Collections (Note 18)	All Other Funds	Consolidated
Unexpended Appropriations:			
Beginning Balance	$ -	$ 115,108,008	$ 115,108,008
Prior Period Adjustments:			
Corrections of errors	-	-	-
Beginning Balance, as adjusted	-	115,108,008	115,108,008
Appropriations received	-	175,682,092	175,682,092
Appropriations transferred-in/out	-	(1,250,125)	(1,250,125)
Other adjustments	-	(6,268,698)	(6,268,698)
Appropriations used	-	(177,237,341)	(177,237,341)
Net Change in Unexpended Appropriations	-	(9,074,072)	(9,074,072)
Total Unexpended Appropriations	-	106,033,937	106,033,937
Cumulative Results of Operations			
Beginning Balance	73,969	154,733,093	154,807,062
Prior Period Adjustments:			
Corrections of errors	-	-	-
Beginning Balances, as adjusted	73,969	154,733,093	154,807,062
Other adjustments	-	(79,882)	(79,882)
Appropriations used	-	177,237,341	177,237,341
Non-exchange revenue (Note 20)	6	2,774	2,780
Donations and forfeitures of cash and cash equivalents	28,253	4,028	32,281
Transfers-in/out without reimbursement	-	2,152,908	2,152,908
Donations and forfeitures of property	-	-	-
Imputed financing	-	1,038,574	1,038,574
Other	(6,641)	(4,210,413)	(4,217,054)
Net Cost of Operations	(1,767)	178,881,598	178,879,831
Net Change	23,385	(2,736,268)	(2,712,883)
Cumulative Results of Operations	97,354	151,996,825	152,094,179
Net Position	$ 97,354	$ 258,030,762	$ 258,128,116

The accompanying notes are an integral part of these financial statements.

Department of Defense – Department of the Army

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION (UNAUDITED)

For the Year Ended September 30, 2020

	Restated		
(Amounts in Thousands)	Dedicated Collections (Note 18)	All Other Funds	Consolidated
Unexpended Appropriations:			
Beginning Balance	$ -	$ 114,303,814	$ 114,303,814
Prior Period Adjustments:			
Corrections of errors	-	(14,676)	(14,676)
Beginning Balance, as adjusted	-	114,289,138	114,289,138
Appropriations received	-	180,000,781	180,000,781
Appropriations transferred-in/out	-	4,143,602	4,143,602
Other adjustments	-	(6,530,201)	(6,530,201)
Appropriations used	-	(176,795,312)	(176,795,312)
Net Change in Unexpended Appropriations	-	818,870	818,870
Total Unexpended Appropriations	-	115,108,008	115,108,008
Cumulative Results of Operations			
Beginning Balance	63,697	145,828,285	145,891,982
Prior Period Adjustments:			
Corrections of errors	-	3,635	3,635
Beginning Balance, as adjusted	63,697	145,831,920	145,895,617
Other adjustments	-	(204,166)	(204,166)
Appropriations used	-	176,795,312	176,795,312
Non-exchange revenue (Note 20)	29	3,088	3,117
Donations and forfeitures of cash and cash equivalents	6,335	6,794	13,129
Transfers-in/out without reimbursement	-	4,300,275	4,300,275
Donations and forfeitures of property	-	8,205	8,205
Imputed financing	-	925,258	925,258
Other	(1,274)	(1,596,334)	(1,597,608)
Net Cost of Operations	(5,182)	171,337,259	171,332,077
Net Change	10,272	8,901,173	8,911,445
Cumulative Results of Operations	73,969	154,733,093	154,807,062
Net Position	$ 73,969	$ 269,841,101	$ 269,915,070

The accompanying notes are an integral part of these financial statements.

COMBINED STATEMENTS OF BUDGETARY RESOURCES (UNAUDITED)

For the Years Ended September 30, 2021 and 2020

(Amounts in Thousands)	2021 Combined	2020 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 43,678,162	$ 42,085,058
Appropriations (discretionary and mandatory)	172,844,699	182,918,255
Spending authority from offsetting collections (discretionary and mandatory)	61,635,161	34,948,045
Total budgetary resources	$ 278,158,022	$ 259,951,358
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 247,871,430	$ 227,649,542
Unobligated balance, end of year:		
Apportioned, unexpired accounts	22,941,832	24,765,033
Exempt from apportionment, unexpired accounts	61,114	36,562
Unapportioned, unexpired accounts	35,831	35,248
Unexpired unobligated balance, end of year	23,038,777	24,836,843
Expired unobligated balance, end of year	7,247,815	7,464,973
Unobligated balance, end of year (total)	30,286,592	32,301,816
Total budgetary resources	$ 278,158,022	$ 259,951,358
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	181,245,393	176,224,931
Distributed offsetting receipts (-)	(366,475)	(92,767)
Agency outlays, net (discretionary and mandatory)	$ 180,878,918	$ 176,132,164

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS – GENERAL FUND

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Description and Mission of Reporting Entity

The United States (U.S.) Department of the Army (Army) mission remains constant: To deploy, fight, and win our Nation's wars by providing ready, prompt, and sustained land dominance by Army forces across the full spectrum of conflict as part of the Joint Force. This mission encompasses the intent of the Congress, as defined in *Title 10* and *Title 32* of the United States Code (U.S.C.), to preserve peace and security and provide for the defense of the U.S., its territories, commonwealths, possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

This mission has been unchanged for the 246-year life of the Army, but the environment and nature of conflict have undergone many changes over that time, especially with overseas contingency operations. These contingency operations have required that the Army simultaneously transform the way that it fights, trains, and equips its Soldiers. This transformation is progressing rapidly, but it must be taken to its full conclusion if the Army is to continue to meet the Nation's domestic and international security obligations today and into the future.

1.B. Basis of Presentation and Accounting

The accompanying financial statements and note disclosures have been prepared to report the financial position and results of operations of the Army GF as required by the *Chief Financial Officers Act of 1990*, *expanded by the Government Management Reform Act of 1994*. The financial statements have been prepared from the books and records of the Army GF sub-entities (Army Active, Army Reserve, and Army National Guard) in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. The accompanying financial statements account for all resources for which the Army GF is responsible.

The Army GF has relationships with Non-Appropriated Funds Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs) that meet certain control elements regarding risk of loss or expectation of benefits. However, the Army GF does not meet enough control elements to consider them consolidated entities. See Note 26, *Disclosure Entities and Related Parties*, for additional information.

The accounting structure of the Army GF is designed to reflect both accrual and budgetary accounting transactions. The budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction, such as in the recording of obligations for undelivered orders. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. 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.

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.

The Army GF has presented comparative financial statements for the Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position and Combined Statements of Budgetary Resources, in accordance with OMB financial statement reporting guidelines.

The Army is not subject to federal, state, or local income taxes. Accordingly, no provision for income taxes is recorded by Army GF.

1.C. Fund Types

General Funds: General funds are used for financial transactions funded by congressional appropriations, which include, but are not limited to military personnel, operations, readiness and support; procurement; research, development, test and evaluation; and family housing and military construction.

Trust Funds and Special Funds: Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as funds from dedicated collections.

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

1.D. Revenues and Other Financing Sources

When authorized by legislation, the Army GF appropriations are supplemented by revenues generated by sales of goods or services. The Army GF recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and to the public.

The Army GF excludes nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statements of Net Cost and in Note 24, *Reconciliation of Net Cost to Net Outlays*. The U.S. has cost-sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, the Army GF records accrued interest from U.S. Department of the Treasury (Treasury) securities and user fees transferred from custodial activities in trust and special funds as non-exchange revenue. Exchange revenues arise when the Army GF provides goods and services to the public or to another Government entity for a price.

1.E. Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates. Significant estimates reported within Army GF financial statements include useful lives of general property, plant and equipment, are for probable and measurable contingent legal and other liabilities, and environmental liabilities.

1.F. Accounting for Intragovernmental Activities

The *Treasury Financial Manual* (TFM), Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent an overstatement for business with itself. However, the Army GF cannot accurately identify intragovernmental transactions by customer because the Army GF's systems do not track buyer and seller data at the transaction level. Seller entities to the Army GF provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with Army GF seller-side balances and are then eliminated.

In certain instances, goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the Army GF. Imputed financing represents the cost paid on behalf of the Army GF by another federal entity. Consistent with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, certain costs of the providing entity that are not fully reimbursed by the Army GF are recognized as imputed cost in the Statements of Net Cost, and are offset by imputed financing in the Statements of Changes in Net Position. The Army GF recognizes imputed costs for: (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers' compensation under the *Federal Employees' Compensation Act*; and (3) losses in litigation proceedings. Consistent with the implementation of SFFAS No. 55, *Amending Inter-entity Cost Provisions*, certain unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

1.G. Transactions with Foreign Governments and International Organizations

The Army is responsible for implementing individual Foreign Military Sales cases and the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations as approved by the U.S. Department of State under the provisions of the *Arms Export Control Act of 1976*. The cost of administering these sales is required to occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

1.H. Entity and Nonentity Assets

Entity assets are assets the Army GF has the authority to use in its operations. The authority to use funds in an entity's operations indicates either that the Army GF management has the authority to decide how funds are used or that management is legally obligated to use funds to meet entity obligations (e.g., salaries and benefits).

Nonentity assets are assets held by the Army GF but not available for use in its normal operations. The Army GF maintains stewardship accountability and reporting responsibility over stewardship assets. Nonentity assets are offset by corresponding liabilities. See Note 2, *Nonentity Assets* for detail regarding nonentity assets.

1.I. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) represents the aggregate amount of Army GF's accounts with the Department of the Treasury (Treasury) available to pay current liabilities and finance authorized purchases, except as restricted by law. The disbursing offices of the Defense Finance and Accounting Service (DFAS), Military Departments, and U.S. Army Corps of Engineers (USACE) and the financial service centers of the U.S. Department of State process the majority of the worldwide cash collections, disbursements, and adjustments of the Army GF. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBWT account. On a monthly basis, the Army GF FBWT reconciled to the U.S. Treasury accounts.

See Note 3, *Fund Balance with Treasury*, for detail regarding Fund Balance with Treasury.

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Army GF including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and non-purchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

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

The Army GF conducts a significant portion of operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five GF appropriations: (1) operation and maintenance;

(2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) family housing construction. The gains and losses are calculated as the variance between the current exchange rate at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Army GF does not separately identify currency fluctuation transactions.

See Note 4, *Cash and Other Monetary Assets*, for detail regarding cash and other monetary assets.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history by aging category during the previous three years. The Army GF regards its intragovernmental accounts receivable balance, which substantially consists of amounts with other U.S. Department of Defense (DoD) component reporting entities, as fully collectible, as there is no history of material uncollectible balances. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the TFM (Chapter 4700, Appendix 10, Section 9.4.4).

See Note 6, *Accounts Receivable, Net* for detail regarding accounts receivable.

1.L. Inventory and Related Property

The Army GF manages only military or government-specific materiel under normal conditions. Related property includes operating materiels and supplies (OM&S). OM&S is categorized as either Held for Use; Held in Reserve for Future Use; Held for Repair; or Excess, Obsolete, and Unserviceable. OM&S includes ammunition not held for sale, spare and repair parts. Items commonly used in and available from the commercial sector are not managed in the Army GF materiel management activities.

The carrying value of OM&S is recognized as a loss when written down to the net realizable value (NRV). The OM&S are valued at standard purchase price, based upon catalog price. Although ammunition not held for sale, spare and repair parts are centrally managed and stored, recorded using the consumption method, and reported on the Balance Sheets as Inventory and Related Property, the Army GF currently recognizes expense of items at purchase using the purchase method.

See Note 8, *Inventory and Related Property, Net* for detail regarding inventory and related property.

1.M. Investments and Related Interest

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

The U.S. Treasury Bureau of Fiscal Service (BFS), on behalf of the Army GF, invests in nonmarketable market-based U.S. Treasury securities, marketable securities issued to federal agencies by the BFS. These securities are not traded on any financial exchange but are priced consistently with publicly traded U.S. Treasury securities.

See Note 5, *Investments and Related Interest*, for detail regarding investments and related interest.

1.N. General Property, Plant and Equipment

The Army GF uses the standard purchase price, based upon catalog price, for valuing equipment. In 2018, the Army GF adopted SFFAS No. 50, *Establishing Opening Balances for General Property, Plant and Equipment*, for land balances, which permitted the disclosure of land acreage information and removal of the land dollar value in opening balances.

The Army GF's stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately.

General equipment is capitalized at standard purchase price, based upon catalog price, when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the Army GF capitalization threshold. All other assets are capitalized at historical acquisition cost. The Army GF capitalizes improvements to existing real property if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Army GF depreciates real property and general equipment, other than Construction-in-Process (CIP), on a straight-line basis.

The Army's General Property, Plant, and Equipment (PP&E) capitalization threshold is $250 thousand. The capitalization threshold applies to all asset acquisitions and modifications/improvements.

When it is in the best interest of the government, the Army GF provides government property to contractors to complete contract work. The Army GF either owns or leases such property.

The Army GF is required to maintain, in its property systems, information on all property furnished to contractors. These actions are structured to capture and report the information necessary for compliance with federal accounting standards.

See Note 9, *General PP&E*, Net for detail regarding PP&E.

1.O. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that are not included in the General PP&E caption presented on the Balance Sheets. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely. These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, heritage assets are not depreciated because matching costs with specific periods would not be meaningful.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is depreciated and included in General PP&E on the Balance Sheets.

See Note 9, *General PP&E*, Net for detail regarding heritage assets.

1.P. Advances and Prepayments

The Army GF reports advances and prepayments that are permitted by law, legislative action, or presidential authorization within other assets on the Balance Sheets. The Army records advances and prepayments to nonfederal entities for various events to include, but not limited to, advances for travel to personnel, advances for military allowances such as living quarter allowances, pay and housing, and for local national payroll down payments.

See Note 10, *Other Assets*, for detail regarding advances and prepayments.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. If a lease does not meet the criteria for a capital lease it is classified as an operating lease. Payments for operating leases are expensed over the lease terms as they become payable.

Office space leases entered into by the Army GF, land and family housing are the largest components of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future minimum lease payment projections include adjustments to payments using the Consumer Price Index. Future year projections use the Consumer Price Index.

See Note 16, *Leases*, for detail regarding leases.

1.R. Other Assets

Other assets include certain contract financing payments not reported elsewhere on the Army GF's Balance Sheet.

The Army GF 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, the Army GF may provide financing payments. Contract financing payments are defined in the *Federal Acquisition Regulations* (FAR), Part 32 - *Contract Financing*, as authorized disbursements to a contractor before acceptance of supplies or services by the government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts. The Army GF records certain contract financing payments as other assets.

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

See Note 10, *Other Assets*, for detail regarding contract financing payments.

1.S. Contingent and Other Liabilities

Other liabilities include advances from others, deposit funds and suspense account liabilities, liabilities associated with disbursing officer cash, judgment fund liabilities, the FECA reimbursement to the Department of Labor (DOL), custodial liabilities, employer contribution and payroll taxes payable, accrued funding payroll and benefits, accrued unfunded annual leave, contract holdbacks, and contingent and other liabilities.

The Army GF recognizes contingent liabilities when past events or exchange transactions occur, such as those arising from legal claims, a future loss is probable, and the loss amount can be reasonably estimated. The Army GF discloses contingent losses when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses.

Other liabilities also arise as a result of anticipated disposal costs for the Army GF assets. In accordance with SFFAS 5, *Accounting for Federal Liabilities of the Federal Government*, non-environmental disposal liabilities are recognized when management decides to dispose of an asset.

See Note 15, *Other Liabilities*, and Note 17, *Commitments and Contingencies*, for detail regarding contingent and other liabilities.

1.T. Environmental and Disposal Liabilities

Environmental and disposal liabilities (E&DL) are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, *Accounting for Property, Plant, and Equipment*, recognition of an anticipated environmental disposal liability begins when the asset is placed into service.

Interpretation of Federal Financial Accounting Standards No. 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6 (Interpretation No. 9)*, requires component entities that report general PP&E should also recognize the associated environmental and disposal liability cleanup costs. For additional information, see Note 14, *Environmental and Disposal Liabilities*.

1.U. Accrued Leave

The Army GF reports liabilities for military leave and accrued compensatory and annual leave for Civilians. Sick leave for Civilians is expensed as taken. The liabilities are based on current pay rates.

See Note 15, *Other Liabilities*, for additional information regarding accrued leave.

1.V. Treaties for Use of Foreign Bases

The Army GF has the use of the land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the U.S. Department of State. The Army GF purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms allow the Army GF continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any non-retrievable capital assets. The settlement due to the U.S. or host nation is negotiated and considers the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Funds from Dedicated Collections

Consistent with SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards No. 27, Identifying and Reporting Earmarked Funds*, funds from dedicated collections are financed by specifically identified revenues; required by statute to be used for designated activities, benefits or purposes; and remain available over time. The Army GF is required to account separately for and report on the receipt, use, and retention of revenues and other financing sources for funds from dedicated collections. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the Statements of Changes in Net Position (SCNP) and the Balance Sheet.

See Note 18, *Funds from Dedicated Collections*, for detail regarding funds from dedicated collections.

1.X. Fiduciary Activities

The Army GF fiduciary activities are, as indicated in SFFAS No. 31, A*ccounting for Fiduciary Activities*, related to the collection or receipt and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which nonfederal individuals or entities have an ownership. The Army GF distinguishes the information relating to its fiduciary activities from all other activities. Fiduciary activities are not recognized within the accompanying financial statements.

See Note 23, *Fiduciary Activities*, for detail regarding fiduciary activities.

1.Y. Federal Employee and Veteran Benefits

The Army GF's actuarial liability for employee compensation benefits is developed by the DOL and provided to the Army GF at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The Army GF reported no gains and losses in retirement benefits during this fiscal year. Actuarial assumptions related to Federal Employment Benefits are detailed in Note 13, *Federal Employee and Veteran Benefits Payable*. The Army GF's policy is to recognize its estimated total share of the Army liability reported by the DOL.

See Note 13, *Federal Employee and Veteran Benefits Payable*, for detail regarding federal employee and veteran benefits

1.Z. Allocation Transfers

The Army GF is a party to allocation transfers with other federal agencies, representing legal delegations of authority to obligate budget authority on its behalf, as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. All financial activity related to allocation transfers (e.g., budget authority, obligations, and outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

As a child, the Army GF has received allocation transfers from the Department of Health and Human Services, Federal Highway Administration and the U.S. Forest Service that meet the OMB exception and that are reported within these financial statements. In addition, the Army GF receives allocation transfers for the Security Assistance programs that meet the OMB exception for EOP funds. However, the activities for these programs are reported separately from the Army's financial statements based on an agreement with OMB. As a parent, the Army GF reports in these financial statements funds allocated to the U.S. Department of Transportation for the active Army and Army National Guard.

1.AA. Restatements

During FY 2020 the Army GF recorded prior period adjustments totaling $14.7 million to its FY 2020 Net Position, beginning balance, representing the net value of OM&S reported in error as Excess, Obsolete and Unserviceable which should have been classified within other reporting categories, most notably as Held in Reserve for Future Use, with no revaluation allowance. The effect of his reclassification is reflected in the line item, "Inventory and Related Property, net (Note 8)" on the Balance Sheet. See Note 8 for additional information.

1.BB. Standardized Notes to the Financial Statements

In FY 2021, the DoD Agency-wide Notes to the Financial Statements and its stand-alone Components' Footnotes have the same Footnote structure in the notes to the financial statements included in their respective annual financial statements. For Footnotes not applicable to a Component because it does not have such transactions, or has such transactions that are immaterial to the financial statements, the Footnote number and name is included but is marked as "Not Applicable." The shared Footnote structure provides efficiency in the preparation of the DoD Agency-wide financial statements and consistency among the DoD Agency-wide and stand-alone Component annual financial statements. The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the FY 2020 Balance Sheet was modified to be consistent with the FY 2021 presentation. The footnotes affected by the modified presentation are Note 11, *Liabilities Not Covered by Budgetary Resources*, Note 13, *Federal Employee and Veteran Benefits Payable*, and Note 15, *Other Liabilities*.

NOTE 2. NONENTITY ASSETS

As of September 30	2021	2020
(Amounts in thousands)		
Nonentity Assets		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 882,372	$ 876,715
B. Total Intragovernmental Assets	$ 882,372	$ 876,715
2. Other than Intragovernmental Assets		
A. Cash and Other Monetary Assets	$ 520,559	$ 539,712
B. Accounts Receivable	6,916	4,143
C. Total Nonfederal Assets	$ 527,475	$ 543,855
3. Total Nonentity Assets	$ 1,409,847	$ 1,420,570
4. Total Entity Assets	$ 307,458,701	$ 315,035,753
5. Total Assets	$ 308,868,548	$ 316,456,323

Nonentity Assets

Nonentity Fund Balance with Treasury consists of deposit funds for payroll tax withholding, other payroll withholding and cancelled year collections. Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity.

Nonentity Cash and Other Monetary Assets consists of foreign currency, burden-sharing for the Republic of Korea, in addition to cash held by disbursing officers to carry out their paying and collecting missions. The burden-sharing for the Republic of Korea is valued using the U.S. Treasury prevailing rate of exchange as of the financial statement date. Due to system limitations that preclude revaluation at period-end, the rate of latest purchase is used as an approximation.

Nonentity Other than Intragovernmental Accounts Receivable are from cancelled year appropriations and interest receivables. Collections related to these receivables will be returned to the U.S. Treasury as miscellaneous receipts.

See 1.H for additional information.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2021	2020
(Amounts in thousands)		
Status of Fund Balance with Treasury		
1. Unobligated Balance		
A. Available	$ 23,002,946	$ 24,801,595
B. Unavailable	7,284,929	7,501,167
C. Total Unobligated Balance	$ 30,287,875	$ 32,302,762
2. Obligated Balance Not Yet Disbursed	$ 143,277,676	$ 134,171,727
3. Non-budgetary FBWT		
A. Deposit Funds	$ 871,429	$ 865,386
B. Non-entity and Other	205,185	62,661
C. Total Non-budgetary FBWT	$ 1,076,614	$ 928,047
4. Non-FBWT Budgetary Accounts		
A. Investments – Treasury Securities	$ (2,497)	$ (358)
B. Unfilled Customer Orders without Advance	(52,196,290)	(33,334,968)
C. Reimbursements and Other Income Earned – Receivable	(6,045,257)	(4,798,027)
D. Total Non-FBWT Budgetary Accounts	$ (58,244,044)	$ (38,133,353)
5. Total	$ 116,398,121	$ 129,269,183

Status of Fund Balance with Treasury

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

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists of funds temporarily precluded from obligation by law which are held by U.S. Treasury. Unobligated balances include balances in expired appropriations that are available only for approved adjustments to prior obligations. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public law that established the funds.

Obligated Balance Not Yet Disbursed represents funds against which budgetary obligations have been incurred for goods and services, but disbursements have not been made.

Non-budgetary FBWT includes accounts with no corresponding budgetary authority and therefore not included within unobligated balances above, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT.

Non-FBWT Budgetary Accounts reduce the Status of FBWT but have no impact on FBWT and must therefore be deducted from the Status of FBWT. Examples include unfilled customer orders without advance, reimbursements and other income earned-receivable, and investment accounts.

The FBWT reported in the Army GF financial statements has been reconciled to the Army GF's balance as reported by Treasury. The differences between FBWT in the Army GF's general ledgers and FBWT reflected in the Treasury accounts were attributable to transactions that have not been posted to the individual detailed accounts in the Army GF's general ledger as a result of timing differences or the inability to obtain complete accounting information prior to the issuance of the financial statements.

Total adjustments to FBWT for undistributed disbursements and collections comprised approximately $653 million and $179 million, respectively, as of September 30, 2021.

Allocation Transfers to FBWT

The Army GF received allocation transfers from other federal agencies for execution on their behalf in the amount of $499.1 million in FY 2021 and $4.9 million in FY 2020. In addition, the Army GF held cash and cash equivalents for fiduciary activities in the amount of $8.6 million in FY 2021 and $4.3 million in FY 2020; these amounts are not reported in FBWT in accordance with SFFAS 31, *Accounting for Fiduciary Activities*.

NOTE 4. CASH AND OTHER MONETARY ASSETS

As of September 30	2021	2020
(Amounts in thousands)		
1. Cash	$ 203,455	$ 245,095
2. Foreign Currency	317,104	294,617
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 520,559	$ 539,712

Cash and Other Monetary Assets are nonentity assets and by nature the Army GF may not obligate against these assets. Nonentity assets are assets held by the Army GF but not available for use in its normal operations. Nonentity assets are offset by corresponding liabilities. See Note 2, *Nonentity Assets*, for additional information regarding Cash and Other Monetary Assets.

Foreign currency is required to be valued using the U.S. Treasury prevailing rate of exchange as of the financial statement date. Due to current system limitations that preclude revaluation at period-end, the rate of latest purchase is used as an approximation.

NOTE 5. INVESTMENTS AND RELATED INTEREST

As of September 30	2021			
(Amounts in thousands)	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
i. Gift Funds	$ 2,496	$ 2	$ 2,498	$ 2,498
B. Accrued Interest	-	-		
C. Total Intragovernmental Securities	$ 2,496	$ 2	$ 2,498	$ 2,498

As of September 30	2020			
(Amounts in thousands)	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
i. Gift Funds	$ 358	$ 1	$ 359	$ 359
B. Accrued Interest	-	-	-	-
C. Total Intragovernmental Securities	$ 358	$ 1	$ 359	$ 359

Information Related to Investments and Related Interest

Investments and Related Interest are comprised of the Army Gift Fund. The amortization method used is the effective interest rate. The Army Gift Fund was established to control and account for the disbursement and use of monies donated to the Army GF, along with interest received from the investment of such donations. The related earnings are allocated to the appropriate Army GF activities to be used in accordance with the directions of the donor. These funds are recorded as Nonmarketable Market-Based U.S. Treasury Securities, which are not traded on any securities exchange, but mirror the prices of marketable securities with similar terms.

NOTE 6. ACCOUNTS RECEIVABLE, NET

As of September 30	2021		
(Amounts in thousands)	Gross Amount Due	Allowance For Uncollectible Accounts	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 5,938,991	$ (1,552)	$ 5,937,439
2. Other than Intragovernmental	$ 1,278,373	$ (81,564)	$ 1,196,809
3. Total Accounts Receivable	$ 7,217,364	$ (83,116)	$ 7,134,248

As of September 30	2020		
(Amounts in thousands)	Gross Amount Due	Allowance For Uncollectible Accounts	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 548,137	$ N/A	$ 548,137
2. Other than Intragovernmental	$ 1,037,812	$ (151,790)	$ 886,022
3. Total Accounts Receivable	$ 1,585,949	$ (151,790)	$ 1,434,159

Accounts Receivable represent the Army GF's claim for payment from other entities. Intragovernmental receivables report amounts outstanding to be received from other federal agencies; other than intragovernmental amounts report corresponding amounts owed from all other, nonfederal parties. Amounts reported reflect their net realizable values. The increase in intragovernmental receivables over FY 2020 relates to COVID-19 activity with the Department of Health and Human Services and other, disaster relief activity.

Accounts Receivable, Net include amounts reported within other than intragovernmental accounts receivable related to criminal restitution owed to the Army GF. In Q4 FY 2021 Accounts Receivable, Net included $48.2 million of gross amounts due related to criminal restitution orders monitored by the Defense Finance and Accounting Service, of which $0.2 million is determined to be collectible.

As of FY 2021 the Army GF recognizes an allowance for uncollectible amounts for accounts receivable for both intragovernmental and other than intragovernmental. In FY 2020 an allowance for intragovernmental receivables was deemed unnecessary. The allowance for uncollectible amounts for accounts receivable for both intragovernmental and other than intragovernmental accounts receivable are derived by applying specific percentages by aging category, based on uncollectible balances over the preceding 36 months, and adjusted accordingly each quarter based on the remaining outstanding balance for each time period at fiscal year-end.

NOTE 7. LOANS RECEIVABLE, NET AND LOAN GUARANTEE LIABILITIES

Not Applicable

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

As of September 30	2021	Restated 2020
(Amounts in thousands)		
1. Operating Materiel & Supplies, Net	$ 39,749,351	$ 35,584,669
2. Total	$ 39,749,351	$ 35,584,669

Operating Materiel and Supplies, Net

As of September 30	2021	
(Amounts in thousands)	OM&S, Net	Valuation Method
1. OM&S Categories		
A. Held for Use	$ 33,723,508	Standard Price
B. Held in Reserve for Future Use	3,044,995	Standard Price
C. Held for Repair	2,980,848	Standard Price
D. Excess, Obsolete, and Unserviceable	-	Standard Price
E. Total OM&S	$ 39,749,351	

*NRV = Net Realizable Value

As of September 30	2020	
(Amounts in thousands)	OM&S, Net	Valuation Method
1. OM&S Categories		
A. Held for Use	$ 30,005,554	Standard Price
B. Held in Reserve for Future Use	2,810,435	Standard Price
C. Held for Repair	2,768,680	Standard Price
D. Excess, Obsolete, and Unserviceable	-	Standard Price
E. Total OM&S	$ 35,584,669	

*NRV = Net Realizable Value

OM&S is categorized as either Held for Use; Held in Reserve for Future Use; Held for Repair; or Excess, Obsolete, and Unserviceable. OM&S include ammunition not held for sale, spare, and repair parts.

There are no restrictions on OM&S.

Army GF reports OM&S in accordance with SFFAS 3.

Managers determine which items are costlier to repair than to replace. The value of these items, which include ammunition, are reported as excess, obsolete, and unserviceable and are valued at their estimated net realizable value, along with other items identified as excess, obsolete, or unserviceable and denoted as such within current OM&S excess, obsolete, and unserviceable business rules.

For OM&S EOU items Army has determined their estimated NRV to be $0. This assessment is confirmed by Army on an annual basis. Below is a table that depicts comparative period Army OM&S EOU balances at their original carrying value, before any NRV considerations used by Army for reporting EOU within its financial statements (shown in above table).

Original Carrying Value of OM&S EOU items before NRV considerations	
As of September 30, 2020	$16.7B
As of September 30, 2021	$18.2B

The items classified as OM&S EOU are the result of accumulation over many fiscal year periods.

In FY 2020 the Army GF recorded prior period adjustments totaling $14.7 million to its FY 2020 Net position, representing the net value of OM&S reported in error as excess, obsolete and unserviceable, at a net realizable value of zero, which should have been classified as Held in Reserve for Future Use, with no revaluation allowance. The effect of this correction of an error is reflected in the line item, “Inventory and Related Property, net (Note 8)” on the Balance Sheets and as a beginning balance adjustment in the Statements of Changes in Net Position. Additional adjustments were also recorded to address other realignments and corrections pertaining to reporting of excess, obsolete, and unserviceable assets. Among these additional adjustments included the removal of the Allowance account as a revaluation offset to the reported Excess, Obsolete, and Unserviceable assets. See Note 1.AA and Note 27 for additional information.

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30	2021			
(Amounts in thousands)	Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes				
A. Land (see narrative)				
B. Buildings, Structures, and Facilities	35, 40 or 45	$ 109,040,303	$ (51,224,573)	$ 57,815,730
C. Leasehold Improvements	Lease term			
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	Note**	187,347,547	(111,151,074)	76,196,473
F. Construction-in-Progress	N/A	9,308,000	N/A	9,308,000
G. Other	N/A	-	-	-
H. Total General PP&E		$ 306,197,568	$ (162,581,884)	$ 143,615,684

As of September 30	2020			
(Amounts in thousands)	Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes				
A. Land (see narrative)				
B. Buildings, Structures, and Facilities	35, 40 or 45	$ 108,054,138	$ (49,751,536)	$ 58,302,602
C. Leasehold Improvements	Lease term	-	-	
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	Note**	178,287,996	(101,049,042)	77,238,954
F. Construction-in-Progress	N/A	12,442,995	N/A	12,442,995
G. Other	N/A	-	-	-
H. Total General PP&E		$ 299,286,847	$ (151,006,815)	$ 148,280,032

*Depreciation method (where applicable) = Straight Line
**Note: Useful lives range from 2 to 50 years

As of September 30	2021
(Amounts in thousands)	
General PP&E, net, beginning of year	$ 148,280,032
Acquisitions	16,017,422
Depreciation	(18,374,131)
Disposals/Transfers/Revaluations	(2,307,639)
General PP&E, net, end of year	$ 143,615,684

As of September 30	2020
(Amounts in thousands)	
General PP&E, net, beginning of year	$ 144,167,355
Prior period adjustment – restatements	(2,338,323)
General PP&E, net, beginning of year, restated	141,829,032
Acquisitions	26,533,176
Depreciation	(16,855,704)
Disposals/Transfers/Revaluations	(3,226,472)
General PP&E, net, end of year	$ 148,280,032

General PP&E

The Army GF has no restrictions on the use or convertibility of General PP&E.

Included in the FY 2021 CIP balance for Army is $5.8 billion related to Border Wall construction. This balance will remain within the CIP balance pending final decision by the Office of the Secretary of Defense and the Department of Homeland Security regarding the classification of these structures.

As of September 30, 2021, the Army GF owned 11,548,032 acres of land and leased 8,402,411 acres for a total of 19,950,443 acres in land rights. As of September 30, 2020, the Army GF reported 11,559,336 acres of land and leased 8,245,323 acres for a total of 19,804,659 acres in land rights. The Army GF's stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately.

General PP&E deferred maintenance and repair totals are reported as Required Supplementary Information within the FY 2021 Army GF Annual Financial Report.

Heritage Assets and Stewardship Land Information

The Army GF is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2021 due to limitations of the Army GF's financial and nonfinancial management processes and systems.

The Army GF has stewardship responsibilities for heritage assets that date not only from the military history of the land, but also from prior historic occupations. The Army GF relies upon heritage assets, such as historic buildings and stewardship land, for daily use in administering, housing, and training Soldiers. Heritage assets not currently employed as multi-use, such as archeological collections or museum collections, are items that embody the multi-faceted history of the land, the military, the local communities, and the Nation. In that mission, the Army GF, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheets as multi-use heritage assets (capitalized and depreciated).

SFFAS No. 29, *Heritage Assets and Stewardship Land*, issued by the Federal Accounting Standards Advisory Board (FASAB), requires note disclosures for these types of assets. The Army GF's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

Buildings and Structures

Buildings and structures, including multi-use heritage assets which are listed on, or eligible for listing on, the National Register of Historic Places in accordance with Section 110, *National Historical Preservation Act*.

Archaeological Sites

Sites that have been identified, evaluated, and determined to be eligible for, or are listed on, the National Register of Historical Places in accordance with Section 110, *National Historical Preservation Act*.

Museum Collection Items

Items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics.

	As of Oct 1, 2020	Increase	Decrease	As of Sept 30, 2021
Buildings and Structures	19,097	9,646	0	28,743
Archaeological Sites	10,815	0	(15)	10,800
Museum Collection Items	584,469	0	(5,048)	579,421

	As of Oct 1, 2019	Increase	Decrease	As of Sept 30, 2020
Buildings and Structures	34,545	-	15,488	19,097
Archaeological Sites	6,307	4,508	-	10,815
Museum Collection Items	607,689	-	23,220	584,469

NOTE 10. OTHER ASSETS

As of September 30	2021		2020	
(Amounts in thousands)				
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	198,432	$	232,321
B. Total Intragovernmental	$	198,432	$	232,321
2. Other than Intragovernmental – Other Assets				
A. Outstanding Contract Financing Payments	$	92,758	$	138,088
B. Advances and Prepayments		1,156,897		977,800
C. Total Other than Intragovernmental Other Assets	$	1,249,655	$	1,115,888
3. Total Other Assets	$	1,448,087	$	1,348,209

Advances and Prepayments

Advances and prepayments to both federal entities and with public entities are made by the Army GF to cover certain periodic expenditures before those expenses are incurred, or for goods and services to provide for future benefits over a specified time period. They apply when it is generally accepted industry practice to pay for items in advance of the service being provided and the prepayment is authorized by Army GF.

Outstanding Contract Financing Payments

As defined within the *Federal Acquisition Regulation*, Part 32, *Contract Financing*, paragraph 32.001, a contract financing payment is an authorized Government disbursement of monies to a contractor prior to acceptance of supplies or services by the Government, and may include:

- (i) Advance payments;
- (ii) Performance-based payments;
- (iii) Commercial advance and interim payments;
- (iv) Progress payments based on cost;
- (v) Progress payments based on a percentage or stage of completion; and
- (vi) Interim payments under a cost reimbursement contract.

Contract financing payments include specific types of payments that convey certain rights to the Army GF that protect the contract work from state or local taxation; liens or attachment by the contractors' creditors; transfer of property; or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to the Army GF. The Army GF does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Army GF is not obligated to make payment to the contractor until delivery and acceptance.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2021	2020
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ -	$ -
B. Other	236,226	287,593
C. Total Intragovernmental Liabilities	$ 236,226	$ 287,593
2. Other than Intragovernmental Liabilities		
A. Accounts Payable	$ 2,077,656	$ 1,056,681
B. Federal Employee and Veteran Benefits	5,731,603	5,242,401
C. Environmental and Disposal Liabilities	27,034,062	25,868,869
D. Other Liabilities	2,709,859	1,283,370
E. Total Other than Intragovernmental Liabilities	$ 37,553,180	$ 33,451,321
3. Total Liabilities Not Covered by Budgetary Resources	$ 37,789,406	$ 33,738,914
4. Total Liabilities Covered by Budgetary Resources	$ 12,951,026	$ 12,802,339
5. Total Army GF Liabilities	$ 50,740,432	$ 46,541,253

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit). Army GF has no reported liabilities not requiring budgetary resources.

Intragovernmental Liabilities, Other, primarily consists of the unfunded Federal Employees' Compensation Act (FECA) liability of $168.4 million and $35.3 million of other unfunded employment-related liabilities, as of September 30, 2021 and of the unfunded FECA liability of $200.8 million and $74.9 million of other unfunded employment-related liabilities, as of September 30, 2020.

Accounts Payable represent amounts that are related to canceled appropriations. These amounts will require resources funded from future-year appropriations, which will be paid from funds available for obligation and outlay in the respective years.

Federal employee and veteran benefits payable consist of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities consist of unfunded annual leave of $4.6 billion as of September 30, 2021 and $4.0 billion as of September 30, 2020, and the actuarial FECA benefits liability of $1.2 billion as of September 30, 2021 and 2020. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, and Note 15, *Other Liabilities*, for additional details and disclosures.

Environmental Liabilities represent the Army GF's liability for existing and anticipated environmental cleanup and disposal (see Note 14, *Environmental and Disposal Liabilities*).

Other than Intragovernmental Other Liabilities consists primarily of $1.6 billion in conventional munitions disposal, $1.0 billion in contracted Army cadet scholarship liabilities, and $0.1 billion in contingent legal liabilities as of September 30, 2021 and $1.2 billion in contracted Army cadet scholarship liabilities and $0.1 billion of contingent legal liabilities as of September 30, 2020 (see Note 15, *Other Liabilities*).

Certain Environmental Liabilities, as well as Federal employee and veteran benefits payable, contingent liabilities and Accounts Payable from Canceled Appropriations are not covered by budgetary resources because there are no current or immediate appropriations available for liquidation. These liabilities will require resources funded from future-year appropriations.

NOTE 12. FEDERAL DEBT AND INTEREST PAYABLE

Not Applicable

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

As of September 30	2021		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 1,180,207	-	$ 1,180,207
B. Other	4,968,701	(417,305)	4,551,396
C. Total Other Benefits	$ 6,148,908	$ (417,305)	$ 5,731,603
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 6,148,908	$ (417,305)	$ 5,731,603
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 633,577	$ (429,846)	$ 203,731
4. Total Federal Employee and Veteran Benefits Payable	$ 6,782,485	$ (847,151)	$ 5,935,334

As of September 30	2020		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 1,197,718	$ -	$ 1,197,718
B. Other	4,428,087	(383,404)	4,044,683
C. Total Other Benefits	$ 5,625,805	$ (383,404)	$ 5,242,401
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 5,625,805	$ (383,404)	$ 5,242,401
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 525,606	$ (249,910)	$ 275,696
4. Total Federal Employee and Veteran Benefits Payable	$ 6,151,411	$ (633,314)	$ 5,518,097

Other Benefits consist primarily of accrued unfunded leave and employer contributions and payroll taxes payable, of which only payroll taxes have reportable assets to pay benefits. These liabilities previously reported within Other Liabilities in the FY 2020 AFR have subsequently been reclassified within these comparative statements.

Federal Employees' Compensation Act (FECA)

Actuarial Cost Method

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

Assumptions

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPI-M). The actual rates for these factors for charge back year (CBY) 2020 were also used to adjust the methodology's historical payments to current year constant dollars. The projected annual benefit payments are discounted to the present value using the Office of Management and Budget's economic assumptions for 10-year U.S. Treasury notes and bonds. COLA and CPI-M provided by the DOL are also applied to the calculation of projected future benefits. The estimated actuarial liability is updated only at the end of each fiscal year.

Interest rate assumptions utilized for discounting were as follows:

2021 Discount Rates
For wage benefits:
2.231% in Year 1 and years thereafter.
For medical benefits:
2.060% in Year 1 and years thereafter.

To provide more specifically for the effects of the inflation on the liability for future workers' compensation benefits, COLAs and CPI-Ms were applied to the calculation of projected future benefits. The actual rates for these factors for the chargeback year (CBY) 2021 were used to adjust the historical payments associated with the methodology to current year constant dollars.

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2021	N/A	N/A
2022	2.11%	2.74%
2023	2.48%	3.15%
2024	2.55%	3.56%
2025	2.62%	3.49%
2026	2.68%	3.79%

The resulting projections from the model were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model in comparison to economic assumptions; (2) a comparison, by agency, of the percentage change in the liability amount to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2020 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2020 projection to the average pattern for the projections of the most recent three years.

2020 Discount Rates
For wage benefits:
2.414% in Year 1 and years thereafter.
For medical benefits:
2.303% in Year 1 and years thereafter.

To provide more specifically for the effects of the inflation on the liability for future workers' compensation benefits, COLAs and CPI-Ms were applied to the calculation of projected future benefits. The actual rates for these factors for the CBY 2020 were used to adjust the historical payments associated with the methodology to current year constant dollars.

The compensation COLAs and CPI-Ms used in the projections for various CBYs were as follows:

CBY	COLA	CPI-M
2020	N/A	N/A
2021	1.87%	3.21%
2022	2.12%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025	2.30%	3.94%

The resulting projections from the model were analyzed to ensure that the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model in comparison to economic assumptions; (2) a comparison, by agency, of the percentage change in the liability amount to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2020 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2020 projection to the average pattern for the projections of the most recent three years.

Other Disclosures

DFAS Financial Reporting – Audited Financial Statements Division provides updated Army actuarial liabilities during the fourth quarter of each fiscal year. The Army GF portion of the total Army actuarial liability is calculated based on the percentage of its FECA expense in the total Army FECA expense.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2021	2020
(Amounts in thousands)		
1. Environmental Liabilities		
A. Accrued Environmental Restoration Liabilities		
i. Active Installations—Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 3,270,539	$ 2,896,806
ii. Active Installations—Military Munitions Response Program (MMRP)	948,820	931,754
iii. Formerly Used Defense Sites—IRP and BD/DR	3,243,651	3,032,227
iv. Formerly Used Defense Sites—MMRP	8,657,217	7,748,486
B. Other Accrued Environmental Liabilities—Non-Base Realignment and Closure (BRAC)		
i. Environmental Corrective Action	902,626	898,359
ii. Environmental Closure Requirements	5,987,601	6,695,623
iii. Environmental Response at Operational Ranges	-	-
iv. Asbestos	2,674,478	2,972,059
C. Base Realignment and Closure Installations		
i. Installation Restoration Program	1,091,764	917,245
ii Military Munitions Response Program	1,002,863	779,512
iv. Environmental Corrective Action / Closure Requirements	398,679	363,610
2. Total Environmental Liabilities	$ 28,178,238	$ 27,235,681

Types of Environmental and Disposal Liabilities (E&DL) Identified

The Army General Fund's (GF) Environmental & Disposal Liability (E&DL) consists of both event-driven and asset-driven liabilities. Event-driven liabilities address past releases of contamination to the environment that require future cleanup. Asset-driven liabilities include the environmental disposal costs incurred at the end of an asset's useful life. The Army GF addresses cleanup of contamination resulting from previous waste disposal practices, leaks, spills, and other past activities. This cleanup requirement applies to releases of hazardous substances and wastes that create risk to public health and/or environment or risk caused by exposure to unexploded ordnance, discarded military munitions, and munitions constituents at sites other than operational ranges. However, hazardous substances that migrated off operational ranges are included in the liability. The Army GF's E&DL are reported in three general categories:

A. Accrued Environmental Restoration Liabilities [Active Installations and Formerly Used Defense Sites (FUDS)];
B. Other Accrued Environmental Liabilities (Non-BRAC); and
C. Base Realignment and Closure (BRAC) Installations.

The Army GF addresses event-driven liabilities for the Defense Environmental Restoration Program (DERP) requirements at Active Installations, Base Realignment and Closure (BRAC), and Formerly Used Defense Sites (FUDS) as well as environmental restoration, closure-related compliance activities, or corrective action not covered by DERP. The Army GF also addresses asset-driven liabilities for closure and disposal under Environmental Closure Requirements which includes: open burn/open detonation (OB/OD) areas, landfills, Army Nuclear Regulatory Commission (NRC) license holders, the decommissioning of deactivated nuclear reactors, buildings (asbestos, lead-based paint, other environmental issues), underground storage tanks (USTs), aboveground storage tanks (ASTs) and piping associated with storage tanks. Asbestos for buildings is captured under 1.B.iv. For each category, the E&DL reflects the known and estimated future work required to address regulatory environmental requirements.

Applicable Laws and Regulations

This section provides the guidance, policies, laws, and regulations that govern the development and reporting of the environmental and disposal liabilities.

The DERP statute was established by Section 211 of the *Superfund Amendments and Reauthorization Act* (SARA) *of 1986* codified in Title 10 of the United States Code (U.S.C.) 2700 et. seq. For Active Army installations, DERP eligibility requirements will determine whether liabilities are reported under line 1.A or 1.B.i. The Army GF is also required to clean up contamination resulting from waste disposal practices, leaks, spills (not governed by DoD Instruction (DoDI) 4715.05, *Environmental Compliance at Installations Outside the United States*), and other activities at overseas locations in accordance with DoD policy as prescribed in DoDI 4715.08, *Remediation of Environmental Contamination Outside the United States*, under the Army Compliance Cleanup Program. Cleanup sites located overseas that qualify for cleanup cannot be part of an imminent installation/site handover to host nation governments where a residual value determination may occur as part of the turnover.

Applicable laws and regulations addressing environmental restoration and asset closure include:

- *Comprehensive Environmental Response, Compensation, and Liability Act* (CERCLA)
- *Superfund Amendments and Reauthorization Act* (SARA)
- *Safe Drinking Water Act* (SDWA)
- *Resource Conservation and Recovery Act* (RCRA)
- *Toxic Substances Control Act* (TSCA)
- *Low-Level Radioactive Waste Act*
- DoDI 4715.08, *Remediation of Environmental Contamination Outside the United States*
- *Asbestos Hazard Emergency Response Act* (AHERA)
- Army Regulation 50-7, *Army Reactor Program*
- *U.S. Nuclear Regulatory Commission Regulations* (NUREG) – (e.g. NUREG 1757 – *Consolidated Decommissioning Guidance* and NUREG CR6477 – *Revised Analyses of Decommissioning Reference Non-Fuel-Cycle Facilities*)
- Federal Accounting Standards Advisory Board (FASAB) published Technical Bulletin (TB) 2006-1 (FASAB TB 2006-1), *Recognition and Measurement of Asbestos-Related Cleanup Costs* and Technical Release 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities, and Installed Equipment*

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The Army GF uses one or more of the following cost estimating approaches: parametric cost estimates using the Remedial Action Cost Engineering Requirements (RACER) software, site-specific cost estimate in a feasibility study (FS) or corrective measures study (CMS), cost estimate from a similar site (e.g., FS or CMS), engineering estimates, historical cost data, or recently awarded contract information where some contract options are awarded but not exercised. For recurring actions, such as sites in a remedial operation or long-term management (LTM) phase, cost estimates will rely on historical cost data to generate the estimate. In some cases, engineering estimates are used to develop the cost projections and these estimates must be supported by contracts, invoices, or actual costs on similar completed sites.

At Joint Base Cape Cod (JBCC), both the Army GF and Air Force have event-driven liabilities from previous activities that will require future environmental cleanup. Before being specifically identified the contaminants became comingled across multiple responsible parties. As a National Priority List site, CERCLA requires the DoD (Air Force and Army GF) to enter into a Federal Facility Agreement (FFA). The environmental cleanup sites were designated as under Air Force with the Army GF as the Potentially Responsible Party (PRP). As the Air Force conducts environmental site remediation, an apportioned allocation of the total cleanup costs incurred is assigned to Army GF. The Army GF will include all future apportioned costs paid to the Air Force as part of its environmental liability for JBCC.

The Army GF includes unliquidated obligations which represents the total amount of obligated funding associated with environmental liability cleanup not yet expensed as of the end of a given fiscal year.

The GFEBS and Planning Resource for Infrastructure Data and Evaluation (PRIDE) are the sources of asset data used to develop the E&DL estimates for Army assets, except OB/OD, NRC licenses, and nuclear reactors. OB/OD units inventory are developed using the Joint Ordnance Commanders Group report and supplemented by the Army's G-9 Environmental Quality annual data call. The Army NRC license holders, the Director of Army Safety, and the United States Nuclear and Countering Weapons of Mass Destruction Agency (USANCA) track the listing of radioactive materials license holders and nuclear reactors.

Asset-driven liabilities for facility closures/disposal include the environmental costs associated with a building demolition. The environmental liability associated with facility closures are made up of the costs for asbestos and Other Regulated Materials (ORM). For asbestos, the costs include a cost for pre-demolition surveys and a cost for potential abatement. ORM covers all other environmentally regulated materials that would need to be removed and properly disposed as part of the building closure and the cost for the environmental survey. The historical costs to support the estimating model is taken from various sites located within the United States and updated annually. The costs for the historical contracted demolitions are leveraged to establish a Unit Cost Factor (UCF) for asbestos and ORM. UCFs are applied to asset inventory data to develop environmental closure liabilities. Environmental closure liabilities for individual building demolition will vary depending on location, to account for such environmental related building closure liabilities are reported in aggregate and adjusted for area cost variations.

The building E&DL methodology is based on the September 30, 2015 Assistant Secretary of Defense (Energy, Installation and Environment) memo entitled, "Strategy for Environmental & Disposal Liabilities Audit Readiness". On July 12, 1989, EPA issued a final rule banning most asbestos-containing products. In 1991, this regulation was overturned by the Fifth Circuit Court of Appeals in New Orleans. As a result of the Court's decision, the 1989 asbestos regulation only bans new uses of asbestos in products that would be initiated for the first time after 1989 and bans the following specific asbestos-containing products: flooring felt, rollboard, and corrugated, commercial, or specialty paper.

OB/OD areas are environmentally permitted treatment units used to destroy unserviceable, unstable, or unusable munitions and explosives. The Army utilizes RACER modeling software to capture closure requirements and determine the environmental liabilities.

The Army uses RACER modeling software to estimate environmental disposal liabilities for aboveground and underground storage tanks and piping. The model is contained within the RACER. Cost estimates for storage tank closure were developed considering the size of tank. RACER cost estimates are developed for various categories within the tank inventory. The length of the piping is used to calculate the piping estimate. The costs estimates are adjusted using area cost factors when reporting the tank/piping E&DL.

The Army uses RACER modeling software to estimate environmental closure liabilities for landfills. Permitted landfills closure liabilities are estimated within RACER using federal solid waste closure requirements. The future closure costs for operating landfills considers the type of landfill (e.g., hazardous waste or sanitary/municipal), acreage, and location. The reported environmental liability also includes post-closure requirements.

Army NRC license holders are regulated under the Low-Level Radioactive Waste Policy Amendments Act, and disposal is conducted in accordance with U.S. NRC regulations. Engineering estimates, leveraging the NRC regulation, are used to develop the NRC license holder estimates.

The Army also has some highly specialized facilities that require unique closure requirements that do not fit the building E&DL model above. The decommissioning of the Army's deactivated nuclear reactors require extensive closure requirements in accordance with Army Regulation 50-7. Although these facilities are not under the jurisdiction of the NRC, the Army adheres to the substantive requirements of NRC regulations. The estimation process requires a detailed engineering study and financial analysis prepared in advance that will be required to conduct the decommissioning and disposal.

The Army GF does not recognize E&DL for operational ranges because the liability is not measurable due to the munitions rule. The munitions rule provides that munitions used for their intended purpose are not a solid waste; thus, as the munitions on the operational ranges are not solid waste they cannot, by statute, be a hazardous waste. A liability is not recognized as operational ranges do not meet the probable requirement of Federal Financial Accounting and Auditing Technical Release 2 since the Army GF does not intend to close its current inventory of operational ranges. In the event the decision is made to close a current operational range, the Army GF will perform a full environmental assessment and initiate a strategy and plan for cleanup.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General Property, Plant and Equipment (PP&E)

Cleanup costs are allocated to future periods when the PP&E still has useful life and these costs are not included in the current liability reporting. The unrecognized costs amounted to $189 million as of September 30, 2021 compared with $123 million as of September 30, 2020. The recognized amounts are included in the Environmental Closure Requirements over the useful life of certain classes of assets.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

The Army GF estimates are updated annually to reflect changes in previously unknown information, re-estimation based on different assumptions, price growth (inflation), increases in labor rates and materials, and lessons learned.

Environmental liabilities may change in the future due to changes in laws and regulations, agreements with regulatory agencies, and advancements in technology. Environmental liabilities may also change due to updated criteria and new ways of determining current categories on the financial statement.

All environmental liabilities as of September 30, 2021 and 2020 are stated in FY 2021 and 2020 dollars, respectively, as required by generally accepted accounting principles for federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities

The E&DL is an accounting estimate, which require certain professional judgments and assumptions that are believed to be reasonable based upon information available to the Army at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated. E&DL can be further impacted if the investigation of environmental sites discloses contamination levels different than known at the time of the estimates. The Army GF has reported asbestos survey costs but estimating the amount of non-friable asbestos removal/disposal at the time of building renovation or demolition, per FASAB TB 2006-

1, presents too much uncertainty to estimate. Asbestos abatement estimates are based on historical costs of asbestos abatement during facility demolition.

The Army GF is investigating sites where Per- and polyfluoroalkyl substances (PFAS) containing materials may have been used, stored, or disposed. Depending on program eligibility, the future outflows of financial resources are reported on lines 1.A.i, 1.B.i, or 1.C.i. The Army GF is currently reporting requirements through the Decision Document, to include possible interim actions, as required by the probable and reasonably estimable provisions provided in FASAB Technical Release 2.

The E&DL for some of the Army's GF asset-driven liabilities are dependent on the accountable property system of record (APSR) and require certain technical judgments, historical cost information, and assumptions that are believed to be reasonable based upon information available at the time of calculating the estimates. Due to the dependencies on the APSRs, the asset-driven liability methodologies assume that the APSRs are accurate and the data used from these systems are the most up to date. Discrepancies, inaccuracies, and incompleteness of APSR data may cause the environmental liabilities for assets to be reported inaccurately on the Army's GF financial statement. The Army GF is also uncertain regarding the costs for cleanup associated with general and military equipment. At this juncture, the Army GF is still defining valuation methods to estimate general equipment disposal liabilities.

NOTE 15. OTHER LIABILITIES

As of September 30	2021		
(Amounts in thousands)	Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Advances from Others	$ 442,321	$ -	$ 442,321
B. Disbursing Officer Cash	520,560	-	520,560
C. Custodial Liabilities	-	7,766	7,766
D. Other Liabilities Reported on Note 13	555,132	78,445	633,577
E. Total Intragovernmental Other Liabilities	$ 1,518,013	$ 86,211	$ 1,604,224
2. Other than Intragovernmental			
A. Accrued Funded Payroll and Benefits	$ 2,849,113	$ -	$ 2,849,113
B. Advances from Others and Deferred Revenue	88,348	-	88,348
C. Deposit Funds and Suspense Accounts	931,942	-	931,942
D. Non-environmental Disposal Liabilities			
i. Conventional Munitions Disposal	256,591	1,375,159	1,631,750
E. Contract Holdbacks	139,160	-	139,160
F. Contingent Liabilities	26,425	101,732	128,157
G. Other Liabilities	38,424	911,528	949,952
H. Total Other than Intragovernmental Other Liabilities	$ 4,330,003	$ 2,388,419	$ 6,718,422
3. Total Other Liabilities	$ 5,848,016	$ 2,474,630	$ 8,322,646

As of September 30	2020		
(Amounts in thousands)	Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Advances from Others	$ 31,950	$ -	$ 31,950
B. Disbursing Officer Cash	539,713	-	539,713
C. Custodial Liabilities	-	5,378	5,378
D. Other Liabilities Reported on Note 13	416,606	109,000	525,606
E. Total Intragovernmental Other Liabilities	$ 988,269	$ 114,378	$ 1,102,647
2. Other than Intragovernmental			
A. Accrued Funded Payroll and Benefits	$ 2,825,871	$ -	$ 2,825,871
B. Advances from Others	374,484	-	374,484
C. Deposit Funds and Suspense Accounts	916,337	-	916,337
D. Non-environmental Disposal Liabilities			
i. Conventional Munitions Disposal	-	5,974	5,974
E. Contract Holdbacks	205,943	-	205,943
F. Contingent Liabilities	35,992	79,566	115,558
G. Other Liabilities	506,133	655,592	1,161,726
H. Total Other than Intragovernmental Other Liabilities	$ 4,864,761	$ 741,132	$ 5,605,893
3. Total Other Liabilities	$ 5,853,030	$ 855,510	$ 6,708,540

Intragovernmental Other Liabilities and Other than Intragovernmental Liabilities
The FY 2020 reported totals have been restated for the above comparative statements. This is because of the FY 2020 AFR previously including Accrued Unfunded Annual Leave and Employer Contribution and Payroll Taxes Payable, now in FY 2021 reported within Note 13, and Judgment Fund Liabilities now in FY 2021 reported within Intragovernmental Accounts Payable.

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

Intragovernmental Other Liabilities

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

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

Federal Employees' Compensation Act (FECA) Reimbursement to the Department of Labor represents liabilities for billed amounts payable in the subsequent two fiscal years and unbilled amounts, including both incurred and an estimated accrual. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for the estimated FECA actuarial liability.

Other Benefit-Related Payables included in Intragovernmental Other Liabilities on the Balance Sheet includes employer contributions and payroll taxes payable for health, life, and retirement benefits and required FECA Reimbursements to the DOL. The liabilities for the FECA reimbursement to the DOL represents balances due under the Federal Employee Compensation Act. This amount includes balances due in both FY 2023 and FY 2024 for both incurred and estimated costs.

Custodial Liabilities represents liabilities for non-entity collections reported as custodial revenues in which the Army GF is acting on behalf of another Federal entity.

Other Liabilities primarily consist of unemployment compensation liabilities.

Other than Intragovernmental Other Liabilities
Other than Intragovernmental accrued funded payroll and benefits with the Public represent the estimated amount of liability for salaries, wages, and funded annual and sick leave that has been earned but are as of yet unpaid.

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

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

Contingent Liabilities include the accrual for various legal actions for which the Army Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss measurable.

Other Liabilities consist primarily of the accrued liability for contract Reserve Officers' Training Corps (ROTC) cadet scholarships, as well as other miscellaneous accruals.

The amount of other current liabilities (i.e., liabilities required to be paid within a year) that are not covered by budgetary resources is $6.7 billion as of September 30, 2021 and $6.7 billion as of September 30, 2020.

NOTE 16. LEASES

Entity as Lessee	2021 Asset Category		
As of September 30	Land and Buildings	Other	Total
(Amounts in thousands)			
1. Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2022	$ 29,674	$ -	$ 29,674
2023	29,765	-	29,765
2024	29,858	-	29,858
2025	29,952	-	29,952
2026	30,047	-	30,047
After 5 Years	136,677	-	136,677
Total Intragovernmental Future Lease Payments Due	$ 285,973	$ -	$ 285,973
2. Other than Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2022	$ 227,645	$ 998	$ 228,643
2023	182,059	971	183,030
2024	139,887	794	140,681
2025	96,589	592	97,181
2026	59,785	46	59,831
After 5 Years	104,187	0	104,187
Total Future Lease Payments Due	$ 810,152	$ 3,401	$ 813,553
3. Total Future Lease Payments Due	$ 1,096,125	$ 3,401	$ 1,099,526

As of September 30, 2021, the Army GF has 4,605 non-cancelable operating leases of varying maturities from 1 to over 100 years. Many of these leases contain clauses to reflect inflation and renewal options. The Army GF has no assets under capital lease. Army GF operating leases consist mainly of offices, family housing, and buildings.

Entity as Lessor	
Other than Intragovernmental Operating Leases	
(Amounts in thousands)	
Fiscal Year	
2022	$ 15,153
2023	11,429
2024	8,703
2025	7,671
2026	6,059
After 5 Years	28,118
Total Future Projected Receipts	$ 77,133

Army GF has a small volume of operating leases, the majority of which expire prior to FY 2023, as the lessor for easements. Private companies and individuals lease easements are managed by US Army Corps of Engineers to operate restaurants, cell towers and other business on Army GF Installations.

NOTE 17. COMMITMENTS AND CONTINGENCIES

The Army GF is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests.

Summary of Legal Contingent Liabilities			
As of September 30, 2021			
		Estimated Range of Loss	
(Amounts in thousands)	Accrued Liabilities	Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 128,157	$ 128,157	$ 284,657
Reasonably Possible	$ N/A	$ 330,665	$ 1,101,587

Summary of Legal Contingent Liabilities			
As of September 30, 2020			
		Estimated Range of Loss	
(Amounts in thousands)	Accrued Liabilities	Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 115,558	$ 31,200	$ 115,558
Reasonably Possible	N/A	$ 380,580	$ 539,400

The Army GF has accrued contingent liabilities for legal actions when the OGC considers an adverse decision is probable and the amount of loss is measurable. In the event of an adverse judgment against the Federal Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Army GF reports contingent liabilities in Note 15, *Other Liabilities*.

The Army GF has other contingent liabilities for which the possibility of loss is considered reasonably possible. These liabilities are not accrued in the Army GF's financial statements. As of September 30, 2021, the Army GF had $5.8 billion in claims considered reasonably possible. As of September 30, 2020, the Army GF had $1.6 billion in claims considered reasonably possible.

As of September 30, 2021, the Army has cases with claim amounts totaling approximately $3.1 million for which the loss is undetermined, however there is a reasonably possible outcome for a loss. As of September 30, 2020, the Army has cases with claim amounts totaling approximately $178 million for which the loss is undetermined. Army determined that the historical payout percentage for similar cases is less than 2%.

As of September 30, 2021 and September 30, 2020, legal claims existed for which the estimated loss amount or the range of loss could not be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect the Army GF's financial position or results of operation.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

As of September 30	2021	2020
(Amounts in thousands)	Total Funds From Dedicated Collections	Total Funds From Dedicated Collections
Balance Sheets		
1. Assets		
A. Fund balance with Treasury	$ 107,772	$ 110,411
B. Investments	2,498	359
C. Accounts and interest receivable	(430)	(155)
D. Other assets	-	-
E. Total assets	$ 109,840	$ 110,615
2. Liabilities and Net Position		
A. Accounts payable and other liabilities	12,486	36,646
B. Total liabilities	$ 12,486	$ 36,646
C. Cumulative results of operations	97,354	73,969
D. Total Liabilities and Net Position	$ 109,840	$ 110,615

For the years ended September 30	2021	2020
(Amounts in thousands)	Total Funds From Dedicated Collections	Total Funds From Dedicated Collections
Statements of Net Cost		
1. Program costs	$ 12,916	$ 13,100
2. Less earned revenue	(14,683)	(18,282)
3. Net program costs	$ (1,767)	$ (5,182)
4. Less earned revenues not attributable to programs	-	-
5. Net Cost of Operations	$ (1,767)	$ (5,182)
Statements of Changes In Net Position		
1. Net position beginning of the period	$ 73,969	$ 63,697
2. Donations and other non-exchange revenue	28,259	6,364
3. Other financing sources	(6,641)	(1,274)
4. Less: net cost of operations	(1,767)	(5,182)
5. Change in net position	$ 23,385	$ 10,272
6. Net position end of period	$ 97,354	$ 73,969

In accordance with SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, the Army GF's policy is to display a combined presentation of the non-exchange revenue and other financing sources, including appropriations, and net cost of operations for funds from dedicated collections with all other funds.

The Army GF has identified the following such funds and their related statutory citations:

021X5095 – Wildlife Conservation, Military Reservations, Army. Funds are received from the sales of forest products harvested from forests on military installations and distributed to the respective states involved in the sales. Each state is entitled to 40% of the sales of products from its forest after reimbursement of Army GF appropriations for the costs of production. Title 16 U.S.C. 670b provides authority for this fund.

021X5098 – Restoration, Rocky Mountain Arsenal, Army. Funds are received from private industry for the cleanup of contaminated areas of Rocky Mountain Arsenal. Public Law (PL) 99-661, Section 1367, provides the authority for this explicit use.

021X5285 – Department of Defense, Forest Products Program, Army. Funds are received from the sale of forestry products produced on land owned or leased by the Army. Title 10 U.S.C. 2665 provides authority for this fund.

021X5286 – National Science Center, Army. Funds received from the collection of fees are used for the operation and maintenance of the National Science Center as authorized under PL 99-145, Defense Authorization Act, 1986, Section 1459.

021X5752 – Department of Defense Korean War Commemoration Fund, Army. Funds are used to support the commemorative program related to the 60th anniversary of the Korean War as authorized under PL 111-383, Section 574.

021X8063 – Bequest of Major General Fred C. Ainsworth to Walter Reed Army Medical Center. Funds received from interest on investments are used for purchasing supplies and equipment for the library at the Walter Reed Army Medical Center. A Joint Resolution of the 74th Congress dated May 23, 1935 is the statutory citation that provides authority for the use of this fund (49 Stat. 287).

021X8927 – Department of the Army General Gift Fund. Funds received from private parties and estates that are used for various purposes. Title 10 U.S.C. 2601 establishes the authority governing the use of this fund.

The U.S. Treasury securities are issued to the Army Gift Fund as evidence of its receipts and are an asset to the Army GF and a liability to the U.S. Treasury. The federal government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. The cash generated from the Army Gift Fund is deposited in the U.S. Treasury, which uses the cash for general government purposes. Since the Army GF and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the

Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. government wide financial statements.

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

NOTE 19. GENERAL DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENTS OF NET COST

Other Information Regarding Costs

The Statements of Net Cost (SNC) represent the net cost of programs and organizations of the Army GF supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity.

Schedule of Cost and Revenue by Strategic Goal

For the year ended September 30	2021	2020
(Amounts in thousands)	Consolidated	Consolidated
Strategic Goals		
1. Readiness		
A. Gross costs	$ 144,674,797	$ 145,964,164
B. Less: earned revenue	(14,728,747)	(13,988,018)
C. Total net readiness costs	$ 129,946,050	$ 131,976,146
2. Modernization		
A. Gross costs	$ 68,290,960	$ 42,507,971
B. Less: earned revenue	(27,062,792)	(9,938,353)
C. Total net modernization costs	$ 41,228,168	$ 32,569,618
3. Alliance and partnership		
A. Gross costs	$ 3,776,023	$ 2,771,584
B. Less: earned revenue	(123,887)	(143,898)
C. Total net alliance and partnership costs	$ 3,652,135	$ 2,627,686
4. People and families		
A. Gross costs	$ 4,894,744	$ 3,874,887
B. Less: earned revenue	(841,267)	(843,282)
C. Total net people and families costs	$ 4,053,477	$ 3,031,605
Other Goals		
A. Gross costs	$ -	$ 727,367
B. Less: earned revenue	-	399,655
C. Total net costs	$ -	$ 1,127,022
Intra-entity elimination costs	(9,853,963)	15,991,150
Less: intra-entity elimination earned revenue	9,853,963	(15,991,150)
Consolidated Goals		
A. Gross costs	$ 211,782,561	$ 179,854,823
B. Less: earned revenue	(32,902,730)	(8,522,746)
C. Total net costs	$ 178,879,831	$ 171,332,077
(Gain)/loss on pension, ORB, or OPEB assumption changes (Note 15)	-	-
Net strategic goals, including assumption changes	178,879,831	171,332,077
Net cost of operations	$ 178,879,831	$ 171,332,077

Note: Intra-entity elimination totals reflect revenue/expense activity between Army GF's sub-entities (Army Active, Army Reserve, and Army National Guard) and reported within the above goals. The abnormal Intra-entity revenu in FY 2020 reflect the net adjustment not specifically attributable to any of the above strategic goals.

NOTE 20. DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

Information Related to the Consolidated Statement of Changes in Net Position

Cumulative Results of Operations, Other

Cumulative Results of Operations, Other primarily consist of gains and losses that resulted from revaluations, disposals and other adjustments recognized to address differences between the Army GF's nonintegrated feeder systems with DoD's financial reporting system.

Appropriations Received

The FY 2021 Appropriations Received line item on the SCNP should not and will not agree with the Appropriations line item on the Statement of Budgetary Resources (SBR) due to differences between proprietary and budgetary accounting concepts and reporting requirements. The $2,837 million difference in FY 2021 and $2,917 million difference in FY 2020 Appropriations (Appropriations, SBR of $182,918 less Appropriations, SCNP of $180,001), is due to additional resources included in the Appropriations line item on the SBR.

For the Year Ended September 30, 2021 *(Amounts in millions)*		
Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position		**Total**
1. Appropriations, Statement of Budgetary Resources	$	172,845
2. Appropriations received, Statement of Changes in Net Position	$	175,682
3. Total reconciling amount	$	2,837
4. Items reported as reductions to appropriations, Statement of Budgetary Resources		
A. Permanent reductions	$	(2,206)
5. Items reported as reductions, Statement of Budgetary Resources		
A. Transfers		(667)
6. Items not reported as appropriations received on the Statement of Changes in Net Position		
A. Dedicated appropriations and earmarked receipts	$	36
7. Total reconciling items	$	2,837

NOTE 21. DISCLOSURES RELATED TO THE STATEMENTS OF BUDGETARY RESOURCES

Net Adjustments to Unobligated Balances, Brought Forward

Net adjustments to FY 2021 unobligated balance brought forward increased by $11,376 million over the FY 2020 end of year total primarily due to recoveries of prior year unpaid obligations.

Undelivered Orders at the End of the Period

Undelivered Orders presented in the SBR include Undelivered Orders-Unpaid for both direct and reimbursable funds.

For the years ended September 30		2021		2020
(Amounts in thousands)				
1. Intragovernmental:				
A. Unpaid	$	45,565,553	$	42,674,849
B. Prepaid/advanced		1,571,311		614,988
C. Total intragovernmental	$	47,136,864	$	43,289,837
2. Other than Intragovernmental:				
A. Unpaid	$	84,904,258	$	78,744,608
B. Prepaid/advanced		221,424		1,115,887
C. Total Other than Intragovernmental	$	85,125,682	$	79,860,495
3. Total budgetary resources obligated for undelivered orders at the end of the period	$	132,262,546	$	123,150,332

Permanent Indefinite Appropriations

The following permanent indefinite appropriations cover a wide variety of purposes to help the Army GF complete their mission:

- Department of the Army General Gift Fund (10 U.S.C. §2601(c)(1))
- Department of Defense General Gift Fund (10 U.S.C. §2601)
- Forest Program (10 U.S.C. §2665)
- Wildlife Conservation (16 U.S.C. §§670-670f)
- Ainsworth Bequest (31 U.S.C. §1321)
- Rocky Mountain Arsenal, Restoration (United States Statutes at Large, Volume 100, page 4003, section 1367 (100 Stat. 4003 §1367))
- Medicare-Eligible Retiree Health Fund Contribution, Army (10 U.S.C. §1116)
- Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army (10 U.S.C. §1116)
- Department of Defense Vietnam War Commemoration Fund, Defense (Public Law 110-181, 122 Stat. 141 §598)

Legal Arrangements Affecting the Use of Unobligated Balances

The Army GF has no legal arrangements that affect the use of unobligated balances of budget authority.

Explanation of Differences between the FY 2020 SBR and the Budget of the U.S. Government

(Amounts in millions)	Total Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offering Receipts	Net Agency Outlays	Explanation for reconciling differences
Combined Statements of Budgetary Resources	$ 259,951	$ 227,650	$ (93)	$ 176,132	
Reconciling difference	$ 8,006	$ -	$ -	$ -	Less: schedule P, obligations “upward adjustments,” expired accounts (included within SBR line 2190, New obligations and upward adjustments (Note 1)
Reconciling difference	$ 7,465	$ -	$ -	$ -	Less: SF 133 line 2413 - Expired unobligated balance, end of year (Note 2)
Reconciling difference	$ -	$ -	$ (93)	$ -	Less: distributed offsetting receipts (Note 3)
Reconciling difference (unidentified)	$ (36)	$ (53)	$ -	$ (53)	
Total	$ 244,516	$ 227,703	$ -	$ 176,185	
Budget of the U.S. Government	$ 244,516	$ 227,703	$ -	$ 176,185	
Difference	$ -	$ -	$ -	$ -	

The corresponding *Budget of the U.S. Government* with the actual amounts for FY 2021 will be available at a later date on the OMB website.

Note 1: Per OMB Circular No. A-11, paragraph 130 11, upward adjustments of obligations to expired appropriation accounts are subtracted from expired unobligated balances as reported on line 2403, Unobligated Balance, Unapportioned: Other, a component of total budgetary resources as reported on SBR line 2500 (under Status of Budgetary Resources); and consequently, must also be excluded from line 1910 (also total budgetary resources).

Note 2: Per OMB Circular No. A-136, section II 4 9 34, paragraph 3 “…expired unobligated balances are reported in the SBR and SF-133, but not in the Budget (of the U.S. Government)”.

Note 3: The *FY 2022 Appendix to the Budget of the U.S. Government, Detailed Budget Estimates*, does not report distributed offsetting receipts for FY 2020 at the Army GF level.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

Not Applicable

NOTE 23. FIDUCIARY ACTIVITIES

For the years ended September 30	2021	2020
(Amounts in thousands)		
Schedule of fiduciary activity		
1. Fiduciary net assets, beginning of year	$ 4,271	$ 9,008
2. Contributions	35,412	51,050
3. Distributions to and on behalf of beneficiaries	(49,118)	(55,787)
4. Increase/(decrease) in fiduciary net assets	$ (13,706)	$ (4,737)
5. Fiduciary net assets, end of period	$ (9,435)	$ 4,271
Schedule of Fiduciary Net Assets		
Fiduciary assets		
1. Fund balance with Treasury	$ (9,435)	$ 4,271
2. Total fiduciary Net Assets	$ (9,435)	$ 4,271

Fiduciary activities are those activities that relate to the collection or receipt of cash or other assets in which nonfederal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary activities also include managing, protecting, accounting for, investing, and disposing of such cash or other assets. The Army GF has a fiduciary duty to the Savings Deposit Program in which the Army GF participates. PL 89-538 authorizes DoD, which includes Army GF, through the Savings Deposit Program, to collect a voluntary allotment from the current pay of members of the armed forces deployed outside the United States or its possessions in designated areas.

The Army GF collects the savings and allotments of Soldiers, and the collections and accrued earned interest are transferred to the U.S. Department of the Navy, the program's executive agent. These fiduciary assets are not assets of the Army GF and are not recognized on its Balance Sheets. Detail on contributions and distributions on behalf of beneficiaries are provided by the U.S. Treasury.

The fiduciary activity amount noted above is provided by the U.S. Treasury.

NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

As of September 30	2021		
(Amounts in thousands)	Federal	Other than Intragovernmental	Total
1. Net Cost of Operations (SNC)	$ 16,177,829	$ 162,702,002	$ 178,879,831
Components of net cost that are not part of net outlays:			
2. Property, plant, and equipment depreciation	$ -	$ (18,374,131)	$ (18,374,131)
3. Property, plant, and equipment disposal & revaluation	-	(488)	(488)
4. Other	(96,284)	14,970	(81,314)
5. Increase/(decrease) in assets:			
A. Accounts Receivable	5,356,385	343,703	5,700,088
B. Investments	2,139	-	2,139
C. Other assets	(33,890)	114,614	80,724
6. (Increase)/decrease in liabilities:			
A. Accounts payable	(327,758)	(791,655)	(1,119,413)
B. Salaries and benefits	(37,027)	(33,901)	(70,928)
C. Environmental and disposal liabilities	-	(942,557)	(942,557)
D. Other Liabilities (unfunded leave, unfunded FECA, actuarial FECA)	(792,307)	(1,635,043)	(2,427,350)
7. Other financing sources:			
A. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(920,098)	-	(920,098)
B. Other imputed financing (Judgment Fund)	(118,476)	-	(118,476)
8. Total components of net cost that are not part of net outlays	$ 3,032,684	$ (21,304,488)	$ (18,271,804)
Components of net outlays that are not part of Net Cost:			
9. Acquisition of capital assets	-	16,017,422	16,017,422
10. Acquisition of inventory	-	4,155,845	4,155,845
11. Other	189,982	(35,056)	154,926
12. Total components of net outlays that are not part of net cost	$ 189,982	$ 20,138,211	$ 20,328,193
13. Other temporary timing differences	-	(57,302)	(57,302)
14. Net outlays	$ 19,400,495	$ 161,478,423	$ 180,878,918
15. Agency outlays, net, Statement of Budgetary Resources			$ 180,878,918

For the year ended September 30	2020		
(Amounts in thousands)	Intragovernmental	Other than Intragovernmental	Total
1. Net Cost of Operations (SNC)	$ 41,634,467	$ 129,697,610	$ 171,332,077
Components of net cost that are not part of net outlays:			
2. Property, plant, and equipment depreciation	$ -	$ (16,855,704)	$ (16,855,704)
3. Property, plant, and equipment disposal & revaluation	-	716	716
4. Other	(116,624)	(950,260)	(1,066,884)
5. Increase/(decrease) in assets:			
A. Accounts Receivable	121,637	(99,884)	21,753
B. Investments	(778)	-	(778)
C. Other assets	56,916	(83,917)	(27,001)
6. (Increase)/decrease in liabilities:			
A. Accounts payable	(334,434)	440,988	106,554
B. Salaries and benefits	(52,093)	(640,724)	(692,817)
C. Environmental and disposal liabilities	-	(1,947,622)	(1,947,622)
D. Other Liabilities (unfunded leave, unfunded FECA, actuarial FECA)	63,590	(619,490)	(555,900)
7. Other financing sources:			
A. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(801,490)	-	(801,490)
B. Other imputed financing (Judgment Fund)	(123,768)	-	(123,768)
8. Total components of net cost that are not part of net outlays	$ (1,187,044)	$ (20,755,897)	$ (21,942,941)
Components of net outlays that are not part of Net Cost:			
9. Acquisition of capital assets	-	26,533,176	26,533,176
10. Acquisition of inventory	-	16,636	16,636
11. Other	173,383	(3,628)	169,755
12. Total components of net outlays that are not part of net cost	$ 173,383	$ 26,546,183	$ 26,719,566
13. Other temporary timing differences	-	23,461	23,461
14. Net outlays	$ 40,620,806	$ 135,511,358	$ 176,132,164
15. Agency outlays, net, Statement of Budgetary Resources			$ 176,132,164

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

Public-Private Partnerships (P3s) are risk-sharing agreements between public and private sector entities with expected lives greater than five years. P3s can be extremely complex agreements which transfer or share various forms of risk among the P3 partners, some of which involve government assets. Disclosure of P3s foster accountability and improve understanding of the nature and magnitude of risk of loss, including potential risk of loss, when material to the financial statements. SFFAS 49, *Public-Private Partnerships*, requires the disclosure of the nature of the Government's relationship with the private entities and helps achieve the operating performance and budgetary integrity objectives outlined in *Statement of Federal Financial Accounting Concepts* (SFFAC) 1, *Objectives of Federal Financial Reporting*, by making P3s more understandable.

Overview

The Army MHPI agreements are private sector/market driven businesses established as Limited Liability Companies or Limited Partnerships (LLC/LP) single purpose entities. These entities allow the Army to work with the private sector to build, renovate and sustain military housing by obtaining private capital to leverage government dollars. By engaging in MHPI agreements, the government benefits through the use of private industry expertise and tools, improving the condition of military housing more expediently and efficiently than the traditional military construction process would allow. The MHPI authority stems from the *National Defense Authorization Act for Fiscal Year 1996, Public Law 104-106* (110, Stat 186, Section 2801). Title 10 U.S.C. §§ 2871-2885 codifies the Military Department Secretaries' MHPI authority for acquisition and improvement of military housing. The Private Partner serves as the majority managing member which ensures performance objectives are met over the expected life of the operating agreement. The Army serves as the minority member and enters into a long-term ground lease (generally 50 years), and conveys the associated real property assets (buildings, structures, facilities, and utilities) to the LLC or LP. The contractual terms and termination clauses vary by agreement. The Army is not involved in the day to day operations and management of the LLC or LP, but is provided approval rights for certain "Major Decisions" detailed in the operating agreements.

Funding and Contributions

The Army provides funding to the LLC or LP through:

- Equity Investments – Provision of cash and transfer of real property ownership (land, housing units, and other structures) to a project;
- Government Loan Guarantees – Agreement to pay a percentage of the outstanding balance on a non-Government loan in the event of nonpayment by the project only due to the reduction of military personnel below a specific number at the installation as detailed in the guarantee;

Within the Army MHPI program, the lease hold interest of local family housing portfolios at 44 Army installations were transferred to a unique Limited Liability Company (LLC) (35 projects), with joint ownership between Army and the private company. The private entity manages the LLC, as they are the majority owner within each of the LLCs. All of the MHPI agreements were initiated from 1999 to 2009, with the expected life of the agreements being 50 years plus a 25-year extension option. The contractual terms of these agreements as well as the termination clauses are varied between each of the LLC agreements.

The following table represents the aggregated contributions by the Army to the LLCs/LPs through September 30, 2021:

TABLE 1. Cumulative Contribution ($ in millions)

Army Initial Contributions from the MHPI Program to the LLCs & LPs* ($ in millions)		
Cumulative as of September 30, 2021		
Direct cash contributions (see Note 5, Other Investments)	$	1,900
Real property contributions to the LLCs & LPs (value of Real Property Assets (RPA) conveyed, per OMB scoring documents)	$	2,279
Bonds	$	0
Direct loans disbursed	$	0
Army On-Going Contributions to the DoD MHPI Program* ($ in millions)		
Cumulative as of September 30, 2021		
Direct payments as required by Pub. L. 115-91 § 603 (1% BAH) and 15-232 § 606 (5% BAH) as of 20211018 FY 2021	$	224
Basic allowance for housing (BAH) under § 403 of Title 37 to members living in privatized housing for FY 2020 and FY 2021	$	2,861
Differential Lease Payments	$	0
Property, Cash, Bonds, and Loans	$	4,179
Private Partner Initial Contribution to the MHPI Program ($ in millions)		
Direct cash contributions	$	167
Real property contributions to the LLCs & LPs	$	0
Bonds	$	9,900
Direct loans disbursed	$	0
Private Partner On-Going Contribution to the MHPI Partnership ($ in millions)		
Cumulative as of September 30, 2021		
Direct cash contributions	$	167
Bonds/Loans contributed (Outstanding balance per current amortization schedules)	$	8,847
Real property and land contributions	$	0

*Note 1: The disclosures above are currently presented in the DoD's consolidated financial statements and are not presented within the Military Department's financial statements.

TABLE 2. Cumulative Acreage of Ground Leases in MHPI Agreements

Military Department	Ground Lease in Acres
ARMY	35,558

The Army will continue to use the Ground Lease Compliance Inspection to audit/update the total acreage in each RCI Company Ground Lease.

Assess other agreements for potential P3 disclosure.

The Army assessed agreements executed in FY21 for potential P3 disclosure and determined that none of the agreements met the reporting criteria of SFFAS 49.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

The Army's Nonappropriated Fund Instrumentalities (NAFIs) are fiscal entities supported in whole or in part by nonappropriated funds (NAFs). For the most part, NAFs are generated from sales and user fees. The Army's NAFIs are governed by sections of Title 10. The Army's NAFIs primarily consists of the Army exchanges and morale, welfare, and recreation (MWR) entities. The NAFIs are intended to enhance the quality of life of members of the uniformed services, retired members, and dependents of such members, and to support military readiness, recruitment, and retention.

The Army has an advisory group for its NAFIs. The group ensures the NAFI is responsive to authorized patrons and to the purposes for which the NAFI was created. Additionally, the NAFIs are subject to financial reporting requirements and financial audits conducted by independent public accounting firms. Therefore, while the Army GF does not control NAFIs nor are they considered related parties, Army NAFI financial activity is not included in the Army GF financial statements.

The Rand Army Research Center (the Arroyo Center) is the U.S. Army's sole federally funded research and development center (FFRDC) for studies and analysis. As an FFRDC, the Arroyo Center enables the Army to maintain a strategic relationship with an independent, nonprofit source of high-quality, objective analysis that can sustain deep expertise in domains of direct relevance to perennial Army concerns to meet research or development needs that cannot be met as effectively by existing government or contractor resources. Funding for FFRDC work is provided through the DoD's contract with the parent organization that operates each FFRDC. DoD *Federal Acquisition Regulation* (FAR) Part 35.017 provides federal policy for the establishment and use of FFRDCs.

DoD FFRDC relationships are defined through a bi-lateral sponsoring agreement between each DoD sponsoring organization and the university or private-sector nonprofit parent organization that operates each FFRDC (Analytical Perspectives, *FY 2019 Budget of the U.S. Government*, p. 104-105).

Congress restricts the amount of support that the DoD may receive through a limitation that it sets annually on the staff years of technical effort that may be funded (Analytical Perspectives, p. 230-235, including Tables 17-2, *Federal Investment Budget Authority and Outlays*, and 18-1, *Total Federal R&D Funding by Agency at the Bureau or Account Level*).

The Army GF receives significant benefits from the work of the Arroyo Center, which is critical to national security. The Army GF's oversight and management of the Arroyo Center are stipulated by Army Regulation 5-21.3. The regulation establishes a governing board of Army leaders known as the Arroyo Center Policy Committee (ACPC), co-chaired by the Vice Chief of Staff of the Army and the Assistant Secretary of the Army (Acquisition, Logistics and Technology). The ACPC provides overall guidance, reviews the annual research plan, and approves individual projects. While the Army GF does not control the Arroyo Center, nor is it considered a related party, the Army GF must agree that it will conduct its business in a manner befitting its special relationship with the Army GF, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest. An FFRDC may be used only for work that is within its purpose, mission, and general scope of effort, as established within the sponsoring agreement.

NOTE 27. RESTATEMENTS

Army GF recorded prior period adjustments totaling $14.7 million to its FY 2020 Consolidated Statements of Changes in Net Position, Beginning Balance, for corrections of errors related to OM&S. Refer to Note 1.AA and Note 8 for additional detail.

NOTE 28. COVID-19 ACTIVITY

As of September 30, 2021 the Army GF has been allocated a total $1.3 billion in budgetary resources under the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136). Total funding received by the respective appropriations, together with obligations and outlays to date, are the follows:

For the Year Ended September 30	2021		
(Amounts in thousands)	Budgetary Resources	Obligations	Outlays
Military Personnel, Army	$ 89,438	$ 89,438	$ 89,438
Operation and Maintenance (O&M), Army	888,380	886,691	856,466
National Guard Personnel, Army	69,587	65,960	65,125
O&M, National Guard, Army	64,564	61,214	34,462
O&M, Reserve, Army	36,000	35,891	34,995
Research, Test, Development & Evaluation, Army	65,292	64,559	57,200
Other Procurement, Army	61,458	60,722	54,065
Totals	**$ 1,274,719**	**$ 1,264,475**	**$ 1,191,751**

To date, as of September 30, 2021, overall COVID-19 activity has resulted in a net impact of approximately $1.2 billion to the Army GF cumulative results of operations. Unobligated balances as of September 30, 2021 totaled approximately $10.2 million of which $0.7 million is unexpired.

As of September 30	2020		
(Amounts in thousands)	Budgetary Resources	Obligations	Outlays
Military Personnel, Army	$ 89,438	$ 89,438	$ 89,438
Operation and Maintenance (O&M), Army	888,380	888,348	498,534
National Guard Personnel, Army	69,587	68,681	56,041
O&M, National Guard, Army	64,564	62,533	12,296
O&M, Reserve, Army	36,000	35,942	4,559
Research, Test, Development & Evaluation, Army	65,292	38,809	27,846
Other Procurement, Army	61,458	56,399	4,351
Totals	**$ 1,274,719**	**$ 1,240,150**	**$ 693,065**

NOTE 29. SUBSEQUENT EVENTS

The Army GF does not have any subsequent events as of November 8, 2021.

REQUIRED SUPPLEMENTARY INFORMATION – GENERAL FUND

Real Property Deferred Maintenance and Repairs
For Fiscal Years Ended September 30, 2021 & September 30, 2020
(Excludes Military Family Housing)

(Amounts in millions)	Current Fiscal Year (CFY) 2021			Prior Fiscal Year (PFY) 2020		
Property Type	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/Plant Replacement Value)	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/Plant Replacement Value)
Category 1	$332,616	$43,559	13%	$332,650	$46,245	14%
Category 2	$48,610	$8,602	18%	$50,268	$9,841	20%
Category 3	$16,582	$4,375	26%	$19,992	$5,771	29%

Military Family Housing – Real Property Deferred Maintenance and Repairs
For Fiscal Years Ended September 30, 2021 & September 30, 2020
(Military Family Housing Only)

(Amounts in millions)	Current Fiscal Year (CFY) 2021			Prior Fiscal Year (PFY) 2020		
Property Type	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/Plant Replacement Value)	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/Plant Replacement Value)
Category 1	$11,402	$1,525	13%	$9,857	$2,098	21%
Category 2	$793	$216	27%	$597	$164	27%
Category 3	$666	$142	21%	$399	$155	39%

Narrative Statement

Per DoD Financial Management Regulation 7000.14-R (December 2016), Volume 6B, Chapter 12; Para 120303, the Army's deferred maintenance estimates for FY 2021 and FY 2020 include all facilities in which DoD has ownership interest under the control of the Army and are not funded for Sustainment by another service, Non-Appropriated Funds, commissary surcharges or non DoD sources. Deferred maintenance estimates are based on real property inventory, with no differentiation between non-capitalized or fully depreciated PP&E. Assets that have been fully disposed, damaged beyond repair, are obsolete or have been privatized are excluded.

The deferred maintenance estimates are based on the facility Q-ratings reported in ISR 4th Quarter 2021 and 2020 or Q-ratings obtained by application of business rules described below. For FY 2021 and 2020, the Q-rating values range from 0 to 100. Deferred maintenance is calculated as follows:

Deferred Maintenance = (100 – Q-rating) x 0.01 x plant replacement value (PRV)

Q-ratings are determined by the Installation Status Report (ISR) for the majority of facilities, and by business rule for the remaining facilities. Note that the Army has begun to transition to the Sustainment Management System (SMS) – BUILDER to report facility conditions. During this transition, BUILDER condition ratings are top-loaded into ISR, currently there are 21,000 assets rated by BUILDER. During the BUILDER/ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each facility based on the condition rating of each component of the facility, and the component improvement cost factor. Improvement cost factors are developed using industry standards for each facility component within each facility type. The business rule assignment of Q-ratings is as follows: 95 if the facility is no more than 5 years old; 85 if the facility is permanent or semi-permanent construction and between 5 and 15 years old; 70 if the facility is permanent or semi-permanent construction and more than 15 years old; 59 if the facility is temporary construction and more than 5 years old; 95 if the asset is a lease or privatized. For assets with a Non-Functional operational status, assigned Q-ratings are 100 if the reason code is RENO, 59 if the reason code is ENVR, and 59 if the reason code is DAMG. Acceptable operating condition represents facilities with no deferred maintenance.

Facilities of all ownership interests are included in the data set; relocatable buildings are excluded.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission including multi-use Heritage Assets. Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of “Active” or “Semi-Active” are included, less those that meet the following criteria:
  1. The asset has a Planned Program Event of Abandon in Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.
  2. The asset is designated as a Heritage Asset.
  3. A Disposal Completion Date is associated with the asset.
  4. A Disposal Reason Code is associated with the asset.
- Category 2: Buildings, Structures, and Utilities that are Heritage Assets. Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of “Active” or “Semi-Active” and a Historic Status Code that designates it as Heritage, are included, less those that meet the following criteria:
  1. The asset has a Planned Program Event of Abandon in Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.
  2. A Disposal Completion Date is associated with the asset.
  3. A Disposal Reason Code is associated with the asset.
- Category 3: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets. Facilities with an Operational Status of “Caretaker”, “Excess”, “Non-Functional”, “Outgrant”, “Surplus” or “Closed” plus “Active” and “Semi-active” with a Disposal Reason Code plus “Active” and “Semi-active” with a Planned Program Event of Abandon in Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.

Equipment Deferred Maintenance and Repair (DM&R)
for Fiscal Year Ended September 30, 2021
(Amounts in thousands)

Major Categories	FY 2020 DM&R	FY 2021 OP-30/PB-45/ PB-61 Amounts	Adjustments	FY 2021 Totals
Aircraft	61,858	296,521	-	296,521
Automotive Equipment	16,024	75,954	-	75,954
Combat Vehicles	91,073	144,373	-	144,373
Construction Equipment	324	403	-	403
Electronics and Communications Systems	222,523	307,745	-	307,745
General Purpose Equipment	4,149	54,777	-	54,777
Missiles	76,526	143,827	-	143,827
Ordnance Weapons and Munitions	17,403	22,547	-	22,547
Other	62,915	8,977	-	8,977
Ships	4,734	9,739	-	9,739
Grand Total	**$557,529**	**$1,064,862**		**$ 1,064,862**

The OP-30 from the FY 2021 Budget of the U.S. Government was used to compile the deferred depot level maintenance. Depot Maintenance Operations and Planning System is the automated system for capturing depot-level deferred maintenance data. The data is for sub-activity group 123, all active components. There has been no significant change in reporting methodology in deferred maintenance and repairs from prior years.

Funding provided to support the Program Objective Memorandum (POM) 12-16 for depot maintenance adequately supported the Army’s most critical modernization and equipping strategies. The program ensured that Soldiers have the equipment needed to execute their assigned mission as they progress through the Army Force Generation (ARFORGEN) cycle. The bottom-line is that depot maintenance requirements continue to grow while the Army continues to get fewer resources with reduced budgets.

The funding also provided the resources necessary for Land Forces Depot Maintenance to meet the requirements of an Army transitioning from operations in theater to home station training – an expeditionary Army engaged in full spectrum operation (FSO) training and poised for future contingency response. In recent years, the Army has leveraged Overseas Contingency Operation (OCO) dollars to offset depot maintenance through equipment reset for redeploying units. Redeployed units will demand greater equipment to support FSO training and future contingencies. To meet the exigencies of war, Army has generated a digitally dependent force. The digitally integrated Army of today is far different from the analog Army that went to war at the beginning of the decade. These technologies must now be sustained.

Heritage Assets and Stewardship Land

Heritage Assets and Stewardship Land Condition Information for Fiscal Year Ended September 30, 2021

The conditions of archeological sites across the Army remain varied from poor to excellent based on a number of factors including the environmental setting and natural disasters, the type of the site, and impacts from Army activities. If an Army activity has the potential to adversely impact an archeological site eligible for the National Register, the Garrison's Installation Cultural Resources Management Plan (ICRMP) contains provisions for how the installation might proceed to avoid, minimize, or mitigate those impacts. The ICRMPs provide installations the information and tools necessary to manage their cultural resources, including archeological sites, in compliance with federal requirements. These plans provide for site protection, site condition monitoring, and mitigation procedures for adverse impacts to sites. Overall, the conditions of sites on Army installations are fair, based on the Army's cultural resource management procedures.

U.S.ARMY

Department of Defense – Department of the Army

SCHEDULE OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2021 and 2020

Amounts in thousands	Research, Development, Test & Evaluation	Procurement	Military Personnel	Family Housing & Military Construction
Budgetary Resources:				
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 6,523,144	$ 11,833,489	$ 3,753,013	$ 6,090,532
Appropriations (discretionary and mandatory)	13,909,590	23,696,655	65,778,040	1,541,520
Spending Authority from offsetting collections (discretionary and mandatory)	44,028,657	1,436,054	3,059,272	4,843,397
Total Budgetary Resources	$ 64,461,391	$ 36,966,198	$ 72,590,325	$ 12,475,449
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$ 56,495,531	$ 27,904,903	$ 71,619,317	$ 6,830,270
Unobligated balance, end of year:				
Apportioned, unexpired accounts	7,462,877	8,054,801	38,301	5,471,075
Exempt from apportionment, unexpired accounts	-	-	-	-
Unapportioned, unexpired accounts	-	2,126	-	-
Unexpired unobligated balance, end of year	7,462,877	8,056,927	38,301	5,471,075
Expired unobligated balance, end of year	502,983	1,004,368	932,707	174,104
Unobligated balance, end of year (total)	7,965,860	9,061,295	971,008	5,645,179
Total Budgetary Resources	$ 64,461,391	$ 36,966,198	$ 72,590,325	$ 12,475,449
Outlays, Net:				
Outlays, net (total) (discretionary and mandatory)	13,772,366	26,032,306	66,645,455	1,603,843
Distributed offsetting receipts (-)	-	-	-	-
Agency Outlays, net (discretionary and mandatory)	$ 13,772,366	$ 26,032,306	$ 66,645,455	$ 1,603,843

Department of Defense – Department of the Army

SCHEDULE OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2021 and 2020

Amounts in thousands	Operations, Readiness & Support	2021 Combined	2020 Combined
Budgetary Resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 15,477,984	$ 43,678,162	$ 42,085,058
Appropriations (discretionary and mandatory)	67,918,894	172,844,699	182,918,255
Spending Authority from offsetting collections (discretionary and mandatory)	8,267,781	61,635,161	34,948,045
Total Budgetary Resources	$ 91,664,659	$ 278,158,022	$ 259,951,358
Status of Budgetary Resources:			
New obligations and upward adjustments (total)	$ 85,021,409	$ 247,871,430	$ 227,649,542
Unobligated balance, end of year:			
Apportioned, unexpired accounts	1,914,779	22,941,832	24,765,033
Exempt from apportionment, unexpired accounts	61,114	61,114	36,562
Unapportioned, unexpired accounts	33,704	35,831	35,248
Unexpired unobligated balance, end of year	2,009,597	23,038,777	24,836,843
Expired unobligated balance, end of year	4,633,653	7,247,815	7,464,973
Unobligated balance, end of year (total)	6,643,250	30,286,592	32,301,816
Total Budgetary Resources	$ 91,664,659	$ 278,158,022	$ 259,951,358
Outlays, Net:			
Outlays, net (total) (discretionary and mandatory)	73,191,423	181,245,393	176,224,931
Distributed offsetting receipts (-)	(366,475)	(366,475)	(92,767)
Agency Outlays, net (discretionary and mandatory)	$ 72,824,948	$ 180,878,918	$ 176,132,164

LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of Title 31, United States Code (U.S.C.), Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, and the U.S. generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

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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
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT AND COMPTROLLER
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Department of the Army Working Capital Fund Financial Statements and Related Notes for FY 2021 and FY 2020 (Project No. D2021-D000FI-0042.000, Report No. DODIG-2022-021)

We contracted with the independent public accounting firm of KPMG LLP (KPMG) to audit the U.S. Department of the Army (Army) Working Capital Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2021, and 2020. The contract required KPMG 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 Army's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required KPMG 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). KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in a disclaimer of opinion. KPMG could not obtain sufficient, appropriate audit evidence to support the reported amounts within the Army Working Capital Fund's Financial Statements. As a result, KPMG could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, KPMG did not express an opinion on the Army Working Capital Fund FY 2021 and FY 2020 Financial Statements and related notes.

KPMG's report discusses 14 material weaknesses related to the Army's internal controls over financial reporting.* Specifically, KPMG's report concluded that the Army did not implement adequate controls to:

- prepare complete and accurate populations for beginning balances;
- accurately record, reconcile, and support inventory balances, gains and losses, and Cost of Goods Sold;
- provide a complete and accurate population and value of the General Property, Plant, and Equipment;
- accurately estimate and verify its environmental and disposal liabilities;
- verify that revenue, accounts receivable, collection, and unfilled customer order balances recorded in the consolidated financial statements were complete, accurate, valid, and supported by appropriate documentation;
- ensure that sufficient supporting documentation was readily available to demonstrate that balances and transactions were properly reported on the financial statements;
- ensure the effective design and operation of financial information systems;
- ensure that manual journal entries to the general ledger were complete, accurate, valid, and approved;
- identify, classify, and record accruals for goods and services and civilian payroll;
- present information fairly and in accordance with Generally Accepted Accounting Principles;

* 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.

- ensure that intragovernmental transactions and intra-entity eliminations were reconciled and recorded;
- reconcile Fund Balance With Treasury using reliable financial data;
- validate that financial information was completely and accurately transferred and reconciled between feeder systems; and
- provide an entity-level control system to produce reliable financial reporting.

KPMG's report also discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, KPMG's report describes instances in which the Army's financial management systems did not substantially 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 KPMG's report and related documentation and discussed them with KPMG'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 Army Working Capital Fund's 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 Army's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached November 8, 2021 report, and the conclusions expressed within the report.

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

Lorin T. Venable

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

Attachment:
As stated

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Secretary of the Army and
Inspector General of the Department of Defense:

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the United States (U.S.) Department of the Army (Army) Working Capital Fund (WCF), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements (collectively, the consolidated financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin Number (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.

Basis for Disclaimer of Opinion

Management did not provide sufficient appropriate evidential matter to support the amounts in the consolidated financial statements due to inadequate processes, controls, and records to support transactions and account balances. As a result, we were unable to determine whether any adjustments were necessary related to the consolidated financial statements. Also, Army WCF valued a significant portion of inventory using deemed cost as of October 1, 2018. However, deemed cost is not an acceptable valuation method for the opening balance of inventory until Army WCF makes an unreserved assertion that its inventory is presented fairly in accordance with U.S. generally accepted accounting principles.

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 consolidated financial statements.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Annual Financial Report* to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the Army WCF information in the Management's Discussion and Analysis (MD&A) and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 basic consolidated financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to such information in accordance with auditing standards generally accepted in the United States of America because of the lack of evidential matter. We do not express an opinion or provide any assurance on the information.

Other Information

We were engaged to audit the basic consolidated financial statements as a whole. The following information is presented in the *Annual Financial Report* for purposes of additional analysis and is not a required part of the Army WCF's basic consolidated financial statements: Message from the Secretary of the Army; Message from the Assistant Secretary of the Army (Financial Management and Comptroller); the Army General Fund Financial Section; and the Army General Fund information in the MD&A. Such information has not been subjected to the procedures applied in our engagement to audit the Army WCF's basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In connection with our engagement to audit the consolidated financial statements as of and for the year ended September 30, 2021, we considered the Army WCF's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army WCF's internal control. Accordingly, we do not express an opinion on the effectiveness of the Army WCF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibit I, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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

Compliance and Other Matters

In connection with our engagement to audit the Army WCF's consolidated financial statements as of and for the year ended September 30, 2021, 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04, and which is described in Exhibit II.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement to audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Exhibit II, in which the Army WCF's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

United States Department of the Army Working Capital Fund's Responses to Findings

Management's responses to the findings identified in our engagement are described in a separate letter. Management's responses were not subjected to the procedures applied in the engagement to audit the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Army WCF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 8, 2021

Exhibit I – Material Weaknesses

A. Beginning Year Balances

Management has undergone significant efforts to become auditable; however, management and its service providers did not develop and implement processes and controls to prepare complete and accurate populations for the beginning balances on the consolidated financial statements.

The above condition primarily resulted because management and its service providers did not maintain sufficient and appropriate detailed transactions and supporting documentation, monitor the design and operating effectiveness of the internal control system, and fully implement corrective actions to remediate the deficiencies.

The criteria are Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* and Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Develop and implement processes and controls to prepare complete and accurate populations at the transaction-level for beginning balance sheet and statement of budgetary resource balances.
- Maintain sufficient and appropriate detailed transactions and supporting documentation for the beginning balance sheet and statement of budgetary resource balances.
- Monitor the design and operating effectiveness of the internal control system as part of the normal course of operations.
- Focus resources on implementing corrective actions.

B. Inventory

Management and its service provider did not consistently design, document, implement, and operate controls over inventory as follows:

Inventory Valuation

- Management valued a significant portion of inventory using deemed cost as of October 1, 2018; however, deemed cost is not an acceptable valuation method for the opening balance of inventory until management makes an unreserved assertion that its inventory was presented fairly in accordance with U.S. generally accepted accounting principles.
- Management did not design, implement, and operate controls to record inventory at the proper valuation and demonstrate that sufficient, appropriate supporting documentation for the valuation of inventory was properly maintained and readily available for inspection.
- Management did not sufficiently design, implement, and operate controls to monitor moving average cost transactions and calculations to identify and resolve transactions that incorrectly impacted the moving average cost calculation, moving average costs that were inconsistent across plants, and moving average costs that fluctuated significantly during the year.
- Management did not fully design and implement policies and controls to identify, appropriately account for, and report excess, obsolete, and unserviceable inventory. Additionally, management did not fully establish policies and controls over its methodologies, assumptions, data, and reports used to identify excess, obsolete, and unserviceable inventory or consistently maintain documentation to support its analysis and controls. Management also did not consistently recognize excess inventory at net realizable value.

Inventory Existence and Completeness

- Management did not effectively design, implement, and perform reconciliations between the accounting system and warehouse management systems, resolve differences between such systems, document the reconciliations including how differences were resolved, and maintain reconciliation documentation.
- Management did not consistently execute controls over inventory receipt and issuance transactions as receipt and issuance documentation did not consistently demonstrate the accuracy of relevant inventory attributes (e.g., identification number, condition, description, location, and asset category) in the warehouse management systems.
- Management did not effectively design and consistently implement inventory cycle count controls, including controls over inventory adjustments, across all warehouse locations. Controls did not sufficiently address the definition of items to be counted, support for not counting all inventory, frequency of counts, resolving count differences, resolving differences between warehouse management and accounting systems, monitoring count execution and results, supporting adjustments recorded, and documentation demonstrating execution of all controls.
- Management did not effectively design and consistently operate controls to monitor open stock transport orders (i.e., inter-plant transfers), and adjust inventory records for invalid stock transport orders. Additionally, management did not design and implement controls over criteria and reports used to monitor open stock transport orders.
- Management did not effectively design and implement controls to maintain accurate warehouse system information in the accounting system. In addition, management did not consistently perform and document controls over the accuracy of inventory ownership data to verify that inventory excludes inventory amounts held for other entities.

- Management and its service provider did not effectively design, implement, and operate controls over Army WCF inventory held in Defense Logistics Agency warehouses, including information technology controls and inventory management controls related to receipts, shipments, adjustments, storage, safeguarding, existence, ownership, condition codes, and supporting documentation.
- Management did not have a fully documented understanding of contractors' information, locations, processes, and controls over inventory held at all contractor sites. In addition, management did not effectively design and implement monitoring and reconciliation controls over inventory held at contractors as management did not reconcile its records with all contractors, management's records did not always agree to the contractors' records, and included inventory for closed contracts.

Inventory Held for Repair and Work In Process

- Management did not fully design, implement, and document policies and controls for inventory held for repair, including the repair cost methodology, calculations, assumptions, and underlying data used. Additionally, management did not implement controls to demonstrate that held for repair documentation was properly maintained and readily available for inspection.
- Management did not design and implement controls to monitor work in process projects to identify and adjust for completed projects that should be moved to inventory held for sale and aged projects that need to be adjusted to net realizable value, expense repair costs in excess of serviceable value, and maintain data to support all projects. Additionally, management did not design and implement controls to properly account for and support project costs.

Inventory Gains, Losses, and Other Costs

- Management did not effectively design, implement, and operate controls to monitor gains, losses, costs of goods sold, and other costs resulting from inventory transactions to determine that the transactions were supported, accurate, and recognized in the proper accounting period.

The above conditions primarily resulted because of the following:

- Management did not perform a complete risk assessment to identify financial statement risks and fully establish policies and controls to address such risks.
- Management did not prioritize and timely implement planned corrective actions.
- Management and its service provider did not consistently assign sufficient resources to certain controls that have significant volumes of activity and communicate policies and assigned responsibilities.
- Management did not perform appropriate enforcement and monitoring of controls to determine that transactions are properly recorded and supporting documentation is consistently maintained and readily available for inspection.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Accounting Standards (SFFAS) 1: Accounting for Selected Assets and Liabilities, SFFAS 3: *Accounting for Inventory and Related Property*, SFFAS 4: Managerial Cost Accounting Standards and Concepts, SFFAS 7: *Accounting for Revenue and Other Financing Sources*, and SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*
- The Department of Defense Financial Management Regulation (DoD FMR)
- Department of Defense policies and guidance

- Army policies and guidance
- Treasury Financial Manual
- Federal Financial Management Improvement Act of 1996 (FFMIA)
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control.*

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend management perform, or work with its service providers to perform, the following:

- Complete risk assessments to identify financial statement risks and design, document, and implement policies and controls to verify that inventory, gains, losses, costs of goods sold, and other costs are properly and timely recorded in the accounting system. In addition, assign sufficient resources to perform controls and communicate the policies and assigned responsibilities. Furthermore, enforce and monitor controls to determine that transactions are properly recorded and supporting documentation is consistently maintained and readily available for inspection.
- Record deemed cost adjustments when management is ready to make an unreserved assertion and design and implement controls to consistently apply deemed cost adjustments.
- Design, implement, and monitor the effectiveness of controls to record inventory at the proper valuation and demonstrate that sufficient, appropriate supporting documentation for the valuation of inventory is properly maintained and readily available for inspection.
- Design, implement, and operate controls to monitor moving average cost transactions and calculations to identify and resolve transactions that incorrectly impact the moving average cost calculation, moving average costs that were inconsistent across plants, and moving average costs that fluctuated significantly during the year.
- Design and implement policies and controls over methodologies, assumptions, data, reports, and supporting documentation used to identify and recognize excess, obsolete, or unserviceable inventory at net realizable value.
- Complete the design and implementation of reconciliations between the accounting system and warehouse management systems to include resolving differences between such systems and maintaining reconciliation documentation.
- Enforce proper and timely execution of controls over recording inventory receipt and issuance transactions in the warehouse management and accounting systems.
- Implement consistent cycle count policies and controls across all locations to address the definition of items to be counted, support for not counting all inventory, frequency of counts, resolving count differences, resolving differences between warehouse management and accounting systems, monitoring count execution and results, supporting adjustments recorded, and documentation demonstrating execution of all controls.
- Design, implement, and effectively operate monitoring controls over open stock transport orders (i.e., inter-plant transfers) to adjust the inventory records for invalid stock transport orders and over criteria and reports used to monitor open stock transport orders.
- Design and implement controls to maintain accurate warehouse system information in the accounting system, and consistently perform and document monitoring controls over the accuracy of inventory ownership data.

- Monitor the service provider and design and implement compensating controls when service provider controls over inventory held in Defense Logistics Agency warehouses are not properly designed and implemented or are ineffective.
- Document contractors' information, locations, processes, and controls over inventory held at all contractor sites. In addition, design and implement monitoring and reconciliation controls over inventory held at contractor sites.
- Design and implement policies and controls for inventory held for repair, including repair cost methodologies, calculations, assumptions, and underlying data used. In addition, implement controls to demonstrate that held for repair documentation is properly maintained and readily available for inspection.
- Design and implement controls to identify and adjust for completed work in process projects that should be moved to inventory held for sale and aged projects that need to be adjusted to net realizable value, expense repair costs in excess of serviceable value, maintain data to support all projects, and appropriately account for and support project costs.
- Design and implement controls to monitor gains, losses, costs of goods sold, and other costs resulting from inventory transactions to determine that the transactions are supported, accurate, and recognized in the correct accounting period.

C. General Property, Plant & Equipment

Management did not consistently design, document, and implement controls over general property, plant and equipment as follows:

- Management is in the process of developing a deemed cost methodology for valuation of opening property, plant, and equipment balances; however, management did not complete all steps to make an unreserved assertion and did not provide sufficient appropriate supporting documentation for historical cost valuation.
- Management did not design and consistently implement controls to properly report ownership of real property in the consolidated financial statements and accurately adjust the real property assets' carrying value for ownership changes.
- Management did not consistently design and implement controls over record retention and key data elements (e.g., cost, operational status, useful life, and activation date) to verify data elements were supported and were completely and accurately recorded in the property systems.
- Management did not effectively design and implement controls over the recording of acquisitions, disposals, and impairments of general equipment and real property. In addition, management did not design its real property and general equipment physical inventory processes to include performing procedures to verify that real property and general equipment balances were complete.
- Management did not effectively implement controls over the reconciliations between the property systems and the accounting system and did not research and resolve reconciliation differences.
- Management did not effectively implement the monitoring review controls over general equipment acquisitions and disposals, and the performance of the reconciliations between the property systems and accounting system.
- Management did not effectively design and implement controls to record construction-in-progress costs, or to timely research and transfer costs accumulated in the construction-in-progress accounts.
- Management did not design and implement controls to accurately identify, classify, and report multi-use heritage assets within the real property population.

The above conditions primarily resulted because management did not identify all relevant financial reporting risks, establish controls and procedures to respond to the financial reporting risks, and configure the accounting system to properly record certain transactions. In addition, management did not consistently communicate the operational status or other triggering events affecting key data elements of property, plant, and equipment. Management also did not fully develop and communicate record retention and property, plant, and equipment policies, consistently monitor compliance with such policies, and assign sufficient resources to perform certain responsibilities.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FFMIA
- FASAB SFFAS 6: *Accounting for Property, Plant, and Equipment*, SFFAS 29: *Accounting for Heritage Assets and Stewardship Land*, SFFAS 44: *Accounting for Impairment of General Property, Plant, and Equipment Remaining in Use*, and Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- DoD FMR
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Complete all necessary steps to make an unreserved assertion for property, plant, and equipment, and communicate and enforce policies and procedures to retain supporting documentation for property, plant, and equipment amounts.
- Design and implement controls to report ownership of real property assets reported in the consolidated financial statements and properly record ownership changes.
- Design and implement controls over record retention and key data elements to determine that property, plant, and equipment financial information is supported and completely and accurately recorded in the property systems and the accounting system.
- Design and implement controls to properly record acquisitions, disposals, and impairments, and perform floor-to-book procedures to verify that real property and general equipment balances are complete.
- Design and implement controls over the performance of the reconciliations between the property systems and accounting system and to research and resolve reconciliation differences.
- Design, document, and implement controls to determine the appropriate accounting treatment of costs related to construction-in-progress projects and timely transfer costs accumulated in the construction-in-progress accounts.
- Identify all risks and establish controls to respond to such risks, enhance record retention and property, plant, and equipment policies, provide training to educate responsible personnel on such policies, and monitor compliance with such policies.
- Design and implement controls to accurately identify, classify, and properly report multi-use heritage assets and prioritize the recruitment and development of personnel to determine assets are accurately classified as multi-use heritage assets.

D. Environmental and Disposal Liabilities

Management did not consistently design, document, and implement controls and processes over environmental and disposal liabilities to:

- Verify the completeness, accuracy, and existence of real property populations, identify, and estimate future environmental disposal costs for general equipment, and support the populations.
- Verify the following: the assumptions and inputs are reasonable, in accordance with regulatory and industry standards, and consistently documented within internal guidance; the estimation model is appropriate to perform the estimate; the calculations are accurate; a contingency is included to address uncertainty; and the sites and obligations are supported.
- Review the estimates at a sufficient level of precision to identify misstatements in the estimates, confirm consistency with management's guidance, document the reasonableness of all assumptions and data elements, and maintain documentation evidencing the review to support conclusions on the accuracy and valuation of the estimates.
- Prepare and sufficiently evidence review of the real property category code analysis to validate the completeness of the population of environmental liabilities.
- Implement reproducible processes to evidence the supervisory control over the quarterly environmental liability financial reporting package.
- Perform retrospective reviews to assess the accuracy of the estimation methodologies and the assumptions and data elements used in the estimates.
- Implement processes for recording estimates calculated using Remedial Action Cost Engineering and Requirements (RACER) in current year dollars in accordance with the accounting standards, and determine if the intended use of RACER is applicable for cost estimates.

The above conditions primarily resulted because management did not perform a complete risk assessment to identify financial statement risks, fully establish policies and controls to address such risks, provide sufficient guidance and training to personnel, monitor and enforce performance of controls, and timely implement planned corrective actions. Additionally, the environmental organizational structure lacks a sufficient number of knowledgeable resources with the financial acumen to understand and convey to the responsible parties the purpose and need for supporting documents requested.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government* and *Cost Estimating and Assessment Guide*
- FASAB SFFAS 5: *Accounting for Liabilities of The Federal Government*, SFFAS 6: *Accounting for Property, Plant, and Equipment*, SFFAS 34: T*he Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*, Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, and Federal Financial Accounting Technical Release 18: *Implementation Guidance for Establishing Opening Balances*
- Department of Defense policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Complete risk assessments to identify environmental and disposal liability risks, and fully establish policies and controls to address such risks, assign knowledgeable resources, provide sufficient guidance and training to personnel performing environmental and disposal liability responsibilities, monitor and enforce performance of controls, and prioritize implementation of planned corrective actions.
- Design and implement controls and processes to:
  - Perform and document reviews of the estimates and reconciliations of the populations to source documentation, and retain evidence of the reviews and the related supporting documentation.
  - Identify and determine the valuation methodology for estimating future environmental disposal costs for general equipment.
  - Document review of the estimate methodologies and guidance and support the rationale for the real property category codes, which determine the assets that have an environmental and disposal cost at the end of the assets' useful life.
  - Implement reproducible processes to evidence supervisory controls over the quarterly environmental liability financial reporting package.
- Design and implement controls and processes to perform reviews of the estimates to determine that the assumptions and inputs are reasonable and in accordance with industry standards, the estimation model is appropriate to perform the estimate, the calculations are accurate, a contingency is included to address uncertainty, and the estimate is supported.
- Perform retrospective review to compare the actual environmental disposal costs to prior year cost estimates and determine the accuracy and reasonableness of the estimation methodologies and the assumptions and data used in the estimates. Analyze the results to determine if future costs estimates require adjustments.
- Perform procedures to annually review estimates prepared using RACER to determine if the estimates are expressed in current year dollars and apply escalation appropriately and determine the appropriateness of using RACER for the estimates.

E. Revenue

Management and its service providers did not properly design or consistently operate controls to verify that revenue, accounts receivable, collection, and unfilled customer order balances recorded in the consolidated financial statements are complete, accurate, valid, and supported by appropriate documentation as follows:

- Management did not develop, document, and implement a process and controls to consistently recognize revenue transactions when the goods are delivered to and accepted by the customer in accordance with accounting standards.
- Management did not have appropriate policies and controls over the inputs used in the revenue recognition formula. Policies and controls either did not exist or were inconsistently operated to verify that labor rates, labor hours, material price, material quantity, planned costs, and other costs used to determine revenue were complete and accurate.
- Management and its service providers did not effectively operate controls to verify that revenue, accounts receivable, collection, and unfilled customer order supporting documentation, such as funded amount and actual cost (e.g., support for quantity shipped, material price, labor rates, and other costs used to determine revenue) documentation, were consistently maintained and readily available for inspection.
- Management did not develop, document, and implement processes and controls to properly record and present in the consolidated financial statements a revenue allowance for potential returns, allowances, price redeterminations or other reasons in accordance with accounting standards.
- Management and its service providers did not consistently develop, document, implement, and operate controls to determine that revenue, accounts receivable, collection, unfilled customer order, supply turn-in, and credit memo transactions were recorded in the proper account, in the proper accounting period, or at the correct amount. In addition, management did not implement a process and controls to consistently adjust customer orders for price changes, communicate the related order changes to customers, and retain documentation for such communication.
- Management did not fully design and operate controls to timely identify and adjust invalid unfilled customer order and account receivable balances. Furthermore, management did not adhere to Army's policies and procedures for performing the controls.
- Management did not properly design and implement the accounting system posting logic controls for revenue transactions related to certain collection transactions with non-federal entities, customer orders with an advance, and credit memos. In addition, management did not properly design, document, and implement the material price, credit value, revenue, accounts receivable, and unfilled customer order reconciliations between financial systems to determine that transactions are complete and accurate.

The above conditions primarily resulted because of the following:

- Management did not perform a complete risk assessment over revenue, accounts receivable, collections, and unfilled customer order process areas to identify financial statement risks and fully establish policies and controls to address such risks.
- Management and its service providers did not properly design and document Army's accounting policies, procedures, controls, and posting logic to respond to Army's financial reporting risk and objectives.

- Management and its service providers did not monitor and enforce controls over revenue, accounts receivable, collections, and unfilled customer orders to verify that the balances are complete, accurate, valid, and supported by appropriate supporting documentation that is readily available for inspection.
- Management and its service providers did not timely implement planned corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control,* OMB Circular No. A-136: *Financial Reporting Requirements*, and OMB Circular No. A-11: *Preparation, Submission and Execution of the Budget*
- Treasury Financial Manual
- DoD FMR
- FFMIA
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Develop, document, and implement processes and controls to recognize revenue transactions when goods are delivered to and accepted by the customer.
- Develop, document, and implement policies and controls to address financial reporting risks and verify that labor rates, labor hours, material prices, material quantities, planned costs, and other costs used to determine revenue are consistently approved, and accurately and timely recorded in the accounting system.
- Monitor and enforce controls to verify that revenue, accounts receivable, collections, and unfilled customer order transactions are properly recorded and that supporting documentation is consistently maintained and readily available for inspection.
- Develop, document, and implement policies and controls to address risk points relevant to meet the financial reporting requirements and properly record and present, in the consolidated financial statements, a provision to be recorded and used for returns, allowances, price redeterminations, or other reasons.
- Develop, document, implement, and consistently operate cut-off procedures and controls to verify that revenue, accounts receivable, collection, unfilled customer order, supply turn-in, and credit memo transactions are recorded in the proper amount, correct accounting period, at the correct amount, and adjusted for price changes that cross fiscal years.
- Develop, document, and implement controls to timely record adjustments to unfilled customer orders and accounts receivable for inclusion in the year-end consolidated financial statements; and perform enforcement and monitoring to verify compliance with the controls policies and controls.

- Design and implement the accounting system posting logic controls for transactions related to collections related to non-federal entities, customer orders with advance, and credit memos to be consistent with accounting standards and the United States Standard General Ledger (USSGL).
- Enhance the design, document, and implement the material price, credit value, revenue, accounts receivable, and unfilled customer order reconciliations between financial systems to verify that transactions are complete and accurate.

F. Evidential Matter

Management and its service providers did not always have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that beginning balances, activity, and ending balances for fund balance with treasury, accounts receivable, inventory, general property, plant and equipment, accounts payable, environmental and disposal liabilities, other liabilities, revenue, cost, budgetary, and other transactions were properly reported on the consolidated financial statements. Management and its service providers did not consistently have sufficient evidential matter readily available to demonstrate the performance and effectiveness of control activities. Specifically, the evidential matter that we requested (a) was not readily available and thus not provided, (b) did not sufficiently support the request or transactions recorded in the general ledger used to prepare the consolidated financial statements, and (c) was not effectively reviewed and approved, or the review and approval was not documented by management.

Management and its service providers relied on information produced by the financial and feeder systems to support certain transactions and balances in the consolidated financial statements; however, management and its service providers did not have effective information technology controls over such systems (discussed further in Condition G - Information Technology Controls), and therefore did not provide reliable evidential matter.

The above conditions primarily resulted because of the following:

- Management and its service providers did not fully perform a risk assessment, and did not demonstrate a full understanding of its processes, policies, and procedures over record retention.
- Management and its service providers did not assign sufficient resources to timely locate and provide supporting documentation.
- Management and its service providers did not design and implement business processes and controls, and monitor performance of such controls to maintain evidential matter and evidence of supervisory review.
- Management and its service providers did not implement corrective actions timely.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*, and OMB Circular No. A-11: Preparation, *Submission and Execution of the Budget*
- DoD FMR
- Army policies and guidance

As a result, transactions not supported by appropriate documentation increase the risk that unauthorized transactions may occur or records in the general ledger may not represent complete, accurate, and valid transactions, potentially leading to a material misstatement in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Perform and document a thorough risk assessment and work with its service providers to design, document, and implement procedures and controls to effectively review, document review of evidential matter, and maintain evidential matter.

- Assign the necessary resources to locate and provide evidential matter in a timely manner.
- Update policies and procedures to define the key evidential matter that is required to support financial statement amounts and performance of controls, require evidential matter to agree with the general ledger detail, and have evidential matter readily available for inspection.
- Focus resources on implementing corrective actions, including actions to establish or strengthen access, segregation of duties, configuration management, security management, job processing, and contingency planning controls.

G. Information Technology Controls

Management and its service providers continued to make progress in addressing prior year Information Technology (IT) deficiencies within their systems. However, management and its service providers did not fully implement sufficient and effective IT controls to protect the financial systems and related financial data. In addition, management did not implement compensating controls to address its service providers' IT controls that were not effectively designed, implemented, or operated. The conditions could affect management's and the service providers' ability to provide timely financial data that is complete, valid, and accurate. Our specific findings are summarized as follows:

- **Access Controls**. Management and its service providers did not consistently design and implement operating system, database, and application level access controls around the authorization, provisioning, monitoring, recertifying, and deactivation of end users, privileged users, temporarily elevated access profiles, administration user profiles, and the creation of a system-generated listing of new and modified privileged users. Management and its service providers did not consistently conduct and document periodic reviews of user accounts on at least an annual basis, to include removal of access for terminated or transferred employees and contractors, and to determine the need for continued and appropriate access based on job responsibilities, least privilege security principles, and user inactivity. In addition, management and its service providers did not consistently design, document, implement, or perform the operating system, database, and application audit logging controls, including the identification, tracking, evaluation, and response procedures for identified discrepancies.
- **Segregation of Duties**. Management and its service providers did not consistently design and implement policies and controls to identify, define, evaluate, restrict, and document duties and privileges that should be segregated. In addition, management and its service providers did not consistently segregate duties and restrict access to the financial systems by following established segregation of duties risk rule sets that were based on least privilege considerations. Furthermore, management and its service providers did not consistently monitor segregation of duties and the use of incompatible access privileges that preclude system developers from updating production environments.
- **Configuration Management**. Management and its service providers did not fully document and implement operating system, database, and application configuration change management policies and controls to include timely installation of critical patch updates and proper configuration of production settings to prevent unauthorized changes from being made in the production environment. In addition, management and its service providers did not consistently implement and perform change management controls or maintain evidence to support the identification, tracking, testing, review, or approval of operating system, database, and application changes before migration into production environment.
- **Security Management**. Management and its service providers did not consistently design, implement, or perform formal vulnerability management and assessment program controls for the operating system, database, and application layers. In addition, management and its service providers did not consistently track all known vulnerabilities and associated remediation activities. Management and its service providers also did not perform periodic monitoring of password security and configuration settings at the application, operating system, and database layers.
- **Job Processing**. Management and its service providers did not consistently design, implement, document, and perform controls over monitoring the transferring of data between certain feeder systems.
- **Contingency Planning**. Management did not maintain evidence for database backups.

The above conditions primarily resulted because management and its service providers did not fully identify and address risks, develop, and implement policies and controls, assign sufficient resources to certain responsibilities, provide sufficient oversight and monitoring of the control environment, and timely implement corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53: *Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4*
- DoD and Defense Information Systems Agency (DISA) policies and guidance
- Army policies and guidance
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*

As a result, the weaknesses posed increased risks to the completeness, accuracy, validity, confidentiality, and availability of the systems and their financial data.

Recommendations:

We recommend that management strengthen its IT controls for the operating system, database, and application layers of its system environments as follows:

- Identify risks and implement policies and controls to address the risks to protect the accuracy, integrity, validity, confidentiality, and availability of the systems and financial data.
- Prioritize corrective actions to design, document, implement, and effectively operate policies and controls for access, segregation of duties, configuration management, and security management at the operating, database, and application layers.
- Assign sufficient resources to implement the corrective actions and perform and document the IT controls.
- Provide IT control personnel training that reinforces access policy and control requirements at the application, database, and operating system layers.
- Provide oversight and monitor the IT controls.
- Direct its service providers to strengthen service provide controls or implement compensating controls at Army.

H. General Ledger Adjustments

Management and its service provider continued to make progress in implementing processes and controls over manual journal entries; however, management needs to continue improving controls over manual journal entries and other adjustments to the general ledger as follows:

- Management and its service provider did not fully develop, design, and implement controls to define criteria to identify all manual journal entries, demonstrate that all manual journal entries are covered by journal entry or accounting process controls, demonstrate that all needed manual journal entries were entered into the accounting system, and properly review the month-end journal entry logs and related journal entries.
- Management and its service provider did not properly design and implement controls over certain accounting and reporting processes to properly support manual and automated journal entries recorded in the accounting and financial reporting systems.
- Management and its service provider did not consistently research and investigate the root cause of variances that management recorded to resolve differences between the Department of the Treasury's records and Army's records, budgetary to proprietary relationship imbalances, and inventory movement differences.

The above conditions primarily resulted because of the following:

- Management and its service provider have not completed implementing corrective action plans over journal entries to reduce the total number and dollar value of journal entries recorded in the accounting and financial reporting systems, research and resolve the root cause of the variances that are adjusted with a journal entry, and monitor recording of journal entries.
- Management and its service provider did not fully complete risk assessment procedures to identify and respond to journal entry risks.
- Management did not effectively monitor journal entry controls to determine that they are consistently performed.
- Management and its service provider did not have the documentation readily available to support certain journal entries.

The criteria is GAO *Standards for Internal Control in the Federal Government*.

As a result of the deficiencies noted above, the potential exists that unapproved, inaccurate, invalid, duplicate, or incomplete journal entries are recorded in the accounting and financial reporting systems, potentially causing a material misstatement in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service provider to perform, the following:

- Perform a complete risk assessment and respond to risks to include developing, documenting, and implementing policies and controls to define criteria to identify all manual journal entries, demonstrate that all manual journal entries are covered by journal entry or accounting process controls, and demonstrate that all needed manual journal entries were entered into the accounting and reporting systems.
- Consistently perform and monitor controls over the review of month-end journal entry logs and related journal entries.

- Design and implement controls to properly review and support manual and automated journal entries recorded in the accounting and financial reporting systems, maintain such documentation so it is readily available for review, and monitor such controls.
- Complete the process of implementing corrective action plans to reduce the total number and dollar value of journal entries recorded in the accounting and financial reporting systems, and to research and resolve the root cause of the variances that are adjusted with a journal entry.

Exhibit I – Material Weaknesses

I. Accruals

Management did not fully develop, document, and implement controls over accruals as follows:

- **Goods and services**. Management did not fully design and implement controls to identify and record accruals for certain goods or services as of year end, and appropriately classify accruals as intragovernmental versus with the public. Additionally, management did not complete a retrospective review and analysis to determine that the methodology and assumptions provide a reasonable estimate. Finally, management did not fully design and implement controls to determine that goods and service transactions were valid and recorded at the proper amount and in the proper period.
- **Civilian payroll**. Management did not fully design and implement the quarterly reconciliation process to account for accrued leave through the end of the accounting period. In addition, management did not effectively implement a retrospective review and analysis of its labor and leave accrual to assess the accuracy of the payroll labor and leave accrual amounts at year end, or provide leave liability reports to support the accrued leave liability balance at year end. Furthermore, management did not design and implement policies and controls over the methodology and assumptions used to determine and account for liabilities and related costs for employee compensation lost due to job related injuries.

The above conditions primarily resulted because management did not assign sufficient resources, implement monitoring controls, and perform a complete risk assessment when establishing accrual methodologies. Additionally, management did not configure accounting systems to support the accrual process and timely implement planned corrective actions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Environment*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*, SFFAS 3 *Accounting for Inventory and Related Property*, SFFAS 5: *Accounting for Liabilities of the Federal Government*, and SFFAS 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- DoD FMR
- FFMIA
- Public Law, Title 5, United States Code (U.S.C.), Section, 8147: Employees' Compensation Fund
- Department of Defense policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record accruals, properly classify accruals as intragovernmental versus the public, and implement corrective actions timely.
- Perform a complete risk assessment and develop and document a retrospective review and analysis to determine that the methodologies and assumptions are valid, complete, and accurate.
- Develop and implement controls and configure the accounting system to determine that accruals and transactions are recorded at the proper amount and in the proper period.

- Assign sufficient resources and implement monitoring controls to determine that policies and controls are properly implemented and performed.
- Evaluate and update accounting system configuration to properly interface with other systems, and appropriately record the accruals as either intragovernmental or non-federal.

J. Financial Reporting

Management and its service providers did not effectively design and implement controls over financial reporting as follows:

- Management and its service providers did not consistently perform management review controls over the financial reporting process as management did not consistently prepare contingent liability and public-private partnership data reports used to prepare the consolidated financial statements and note disclosures. Furthermore, management did not include certain required disclosures for deferred maintenance and repairs and heritage assets.
- Management did not configure certain financial systems and processes to comply with the USSGL requirements at the transaction level. In addition, management did not design and implement controls to analyze all financial processes to determine that transactions were recorded consistent with USSGL requirements and accounting standards, or document the analysis completed.
- Management did not fully design and operate the joint reconciliation program review to timely identify and adjust aged, closed, or invalid amounts related to undelivered orders, unfilled customer orders, accounts receivable, goods receipt/invoice receipt, and accounts payable. Furthermore, management did not adhere to Army's policies and procedures for performing the joint reconciliation program to timely correct invalid balances.
- Management did not effectively implement policies and controls to properly record and support obligations, undelivered orders, upward/downward adjustments, expenses and disbursements, contract financing payments, unfilled customer orders, accruals, and accounts payable transactions.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment process to understand and document all financial reporting risks, and fully establish policies and controls to verify that the consolidated financial statements and note disclosures are properly prepared.
- Management did not implement planned corrective actions timely.
- Management did not assign sufficient resources to perform control responsibilities, provide sufficient guidance and training to personnel, consistently monitor and enforce performance of control responsibilities, and configure its feeder system and accounting system to appropriately record transactions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS No. 1: *Accounting for Selected Assets and Liabilities*, SFFAS No. 3: *Accounting for Inventory and Related Property*, SFFAS No. 5: *Accounting for Liabilities of the Federal Government*, SFFAS No. 6: *Accounting for Property, Plant, and Equipment*, SFFAS No. 7: *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, SFFAS No. 29: *Heritage Assets and Stewardship Land*, SFFAS No. 42: *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*, and SFFAS No. 49: *Public-Private Partnerships*, Technical Release 14: *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-11: *Preparation, Submission and Execution of the Budget,* and OMB Circular No. A-136: *Financial Reporting Requirements*
- Treasury Financial Manual

- DoD FMR
- FFMIA
- U.S.C. Title 31, Subtitle II, Chapter 15, Subchapter I, Section 1501: *Documentary evidence requirement for Government obligations*
- Army policies and guidance
- Department of Defense policies and guidance
- National Archives Office of Chief Records Officer General Record Schedules

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Complete risk assessments to identify financial statement risks and design, document, and implement policies and controls to verify that the consolidated financial statements and note disclosures are properly prepared and supported, including the contingent liability and public-private partnership data reports, as well as the deferred maintenance and repairs and heritage assets disclosures.
- Design and implement controls to determine that the posting logic library is complete and accurate, review system posting models to verify they are consistent with the USSGL guidance and the accounting standards, and maintain documentation evidencing completion of such controls.
- Enhance the joint reconciliation program policies and timeline to timely record adjustments to undelivered orders, unfilled customer orders, accounts receivable, goods receipt/invoice receipt, and accounts payable amounts for inclusion in the consolidated financial statements.
- Develop, implement, and monitor controls over properly recording and supporting obligations, undelivered orders, unfilled customer orders, upward/downward adjustments, expenses and disbursements, contract financing payments, contingent liabilities, accruals, and accounts payable transactions.
- Assign sufficient resources to perform financial reporting controls, provide guidance and training to personnel, and consistently monitor and enforce performance of control responsibilities.
- Complete the process of implementing corrective action plans.

K. Intragovernmental Transactions and Intra-entity Eliminations

Management and its service providers did not effectively design and implement controls over transactions conducted with other Federal entities and within the Army WCF as follows:

- Management and its service providers did not effectively design and implement controls for intragovernmental transactions as they did not record the trading partner information at the transaction level needed to facilitate reconciling and eliminating intragovernmental transactions. In addition, management did not effectively reconcile with their trading partners, and support adjustments made to reconcile with trading partners.
- Management and its service providers did not effectively design and implement controls for intra-entity transactions, as they did not determine whether certain activity should be eliminated and at what amount to support elimination adjustments.

The above conditions primarily resulted because of the following:

- Management and its service providers did not perform a complete risk assessment process to understand and document all financial reporting risks, and fully establish policies and controls to respond to such risks.
- The financial systems and processes were not designed to capture all relevant data elements at the detailed transaction level for identifying trading partner, to include intra-entity activity, and is not configured to properly record certain transactions.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-136: *Financial Reporting Requirements*
- Treasury Financial Manual
- DoD FMR

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Configure the accounting system to require individual transactions to include the trading partner information to enable management and its service providers to report, reconcile, and eliminate intragovernmental balances.
- Complete a risk assessment process and develop, document, and implement policies and controls over the trading partner reconciliations and adjustments.
- Complete the risk assessment process, design, and implement controls, and configure the accounting system to appropriately identify and eliminate intra-entity amounts, properly record transactions, and maintain documentation to support adjustments recorded.

L. Fund Balance with Treasury (FBwT)

Management and its service provider continued to make progress in implementing processes and controls over FBwT; however, management needs to continue improving controls over FBwT as follows:

- Management and its service provider did not sufficiently perform and document controls related to Army's FBwT reconciliations, including controls over the reliability of data used for the reconciliations and controls over the research and resolution of disbursement and collection reconciling differences by management's required due dates. Additionally, management and its service provider did not fully implement controls to assess the consolidated financial statement impact of suspense and statement of difference transactions.
- Management and its service provider did not fully design and implement controls related to undistributed journal entries and recorded such journal entries without the transactional level details that support the amounts or reflect the underlying business event.
- Management and its service provider did not effectively operate controls to maintain readily available documentation to support that collection and disbursement transactions were properly reported on the consolidated financial statements and the underlying business events occurred to support the transactions.

The above conditions primarily resulted because management and its service provider process a large volume of FBwT transactions initiated by Army and other Defense entities, and did not identify all of the relevant risks and complete the design and implementation of policies, procedures, and controls to address such risks; monitor and enforce FBwT controls, and timely implement all planned corrective actions for FBwT controls.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*
- OMB Circular A-11: *Preparation: Submission and Execution of the Budget*
- Treasury Financial Manual
- DoD FMR
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform the following:

- Perform and document controls over the reliability of data used for the FBwT reconciliations, and maintain such documentation so that it is readily available for inspection.
- Continue to assign sufficient resources to timely research and resolve FBwT reconciliation differences, suspense transactions, and statement of difference transactions, and implement controls to assess the consolidated financial statement impact of suspense and statement of difference transactions.

- Work with the Office of the Secretary of Defense to design and implement Department-wide business processes and controls that limit the extent of undistributed transactions, allow for accelerated availability of undistributed transaction-level detail, and verify that undistributed journal entries are properly recorded and supported.
- Develop and implement controls to consistently maintain documentation to demonstrate that collection and disbursement transactions are properly recorded, appropriate, and represent the underlying business events that occurred.
- Perform a complete risk assessment and monitor and enforce FBwT controls.

M. Completeness

Management and its service providers continued to make progress in implementing processes and controls to validate that financial transactions are completely and accurately reported in the consolidated financial statements; however, management needs to improve the processes and controls as follows:

- Management and its service providers did not fully design and implement reconciliation processes to validate that financial information is transferred completely and accurately between feeder systems, and from feeder systems to the accounting system.
- Management and its service providers did not research and resolve reconciliation differences in a timely manner or retain sufficient reconciliation documentation.

The above conditions primarily resulted because management and its service providers did not perform a complete risk assessment process for certain reconciliations, fully respond to risks, and monitor and enforce the execution of policies and procedures over certain reconciliations. Additionally, management did not assign sufficient resources to perform all reconciliations or implement planned corrective actions over reconciliations.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB SFFAS 1: *Accounting for Selected Assets and Liabilities*
- DoD FMR
- Treasury Financial Manual
- Army policies and guidance

As a result of the deficiencies noted above, the potential exists that controls would fail to prevent, or detect and correct material misstatements in the consolidated financial statements.

Recommendations:

We recommend that management perform, or work with its service providers to perform, the following:

- Perform a risk assessment for all reconciliations, enhance reconciliation policies and procedures, and design and implement reconciliation processes and controls to respond to identified risks and determine the data used in the reconciliations is complete and accurate.
- Assign sufficient resources to perform all reconciliations, provide training to individuals performing reconciliations, and implement corrective action plans to reconcile transactional data between systems.
- Design and fully implement a process to monitor and enforce the timely completion of reconciliations, resolution of reconciliation differences, and maintenance of supporting documentation so it is readily available for inspection.

N. Entity Level Controls

Management did not properly design and implement entity level controls, including the control activities described in previous sections of Exhibit I, to establish a control system that will produce reliable financial reporting. Specifically:

Control Environment. Management did not establish an effective control environment. For example, management did not:

- Consistently develop policies to establish and implement controls across its control environment and did not develop and maintain sufficient documentation of the control system.
- Consistently recruit, develop, and retain competent personnel to achieve the entity's financial reporting objectives, provide evidence that management evaluated employee performance, evaluate pressures on personnel, and hold individuals accountable for their control responsibilities.
- Identify, design, and implement test plans for monitoring control activities related to entity level controls.
- Provide evidence to demonstrate the design, implementation, and monitoring of controls over ethical values and standards of conduct, ethics trainings and briefings, and financial disclosures.
- Effectively design and implement monitoring controls over financial management certification requirements.

Risk Assessment. Management did not effectively design and implement its risk assessment controls. For example, management did not:

- Define measurable risk tolerance for each objective in the risk profile for reporting organizations or define risk objectives and tolerances for certain financial process areas.
- Complete its risk assessment process by considering risks associated with prior year findings and analyzing and responding to identified changes and related risks to maintain an effective internal control system.

Information and Communication. Management did not effectively design and implement its information and communication controls. For example, management did not:

- Fully design and implement controls over the quality and reliability of financial data and supporting documentation.
- Effectively obtain and communicate quality information down and across internal and external reporting lines.

Monitoring. Management did not effectively design and implement monitoring controls. For example, management did not:

- Effectively monitor and evaluate entity level, manual, general information technology, and system application controls for key consolidated financial statement line items and risks.
- Evaluate service organizations' controls as a part of the internal control assessment. In addition, management did not identify and evaluate all key service provider controls and Army controls to address the complimentary user entity controls noted by the service organizations. Additionally, management did not implement controls to address control deficiencies at service organizations or perform assessments for service organizations that did not have an examination.

- Consistently develop and timely implement actions to remediate control deficiencies from prior financial statement audits.

The above conditions primarily resulted because management did not assign the appropriate level of resources to achieve control objectives, consistently perform risk assessment procedures to identify all relevant risks, properly design the control environment to respond to risks, disseminate quality information on a timely basis across the entity, consistently monitor the control environment, and timely complete its corrective action efforts for previously identified deficiencies.

The criteria are as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Department of Defense policies and guidance
- Army policies and procedures

Without effective entity level controls, the risk exists that the consolidated financial statements are materially misstated. In addition, there is an increased risk that management will continue to have control deficiencies over financial reporting.

Recommendations:

We recommend that management perform the following:

- Continue to develop and implement control procedures across its control environment, including maintenance of documentation readily available to support the control system.
- Recruit, develop, and retain competent personnel to achieve financial reporting objectives, complete and document performance evaluations in a readily accessible form, and hold individuals accountable for their control responsibilities.
- Continue corrective action efforts to complete the control catalog to include entity level controls, and design and implement a comprehensive enterprise-wide testing program.
- Implement uniform tracking and monitoring processes for ethical values and standards of conduct, ethics training and briefings, financial disclosures, and financial management certifications, and maintain documentation of such so that it is readily available for inspection.
- Enhance the risk assessment process to define risk objectives and tolerances for reporting organizations and financial process areas, consider risks associated with prior year findings, and analyze and respond to identified changes and related risks.
- Develop, document, and implement controls over the quality and reliability of financial data and supporting documentation.
- Communicate policies, procedures, and quality information down and across internal and external reporting lines.
- Continue efforts to develop and complete the control evaluation program covering the entity level, manual, general information technology, and system application controls for key financial statement line items and risks.

- Evaluate service organization controls as a part of its internal control assessment, obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports, and implement controls to address control deficiencies at service organizations.
- Continue efforts to develop and implement corrective action plans related to control deficiencies.

A. Federal Financial Management Improvement Act of 1996 (FFMIA)

The United States (U.S.) Department of the Army's (Army) Working Capital Fund (WCF) financial systems did not substantially comply with the following FFMIA requirements:

- **Federal Financial Management Systems Requirements**. As discussed in Exhibit I – Material Weaknesses, management did not implement sufficient and effective financial and information technology controls to consistently support reliable financial reporting and financial transaction compliance with applicable laws and regulations. As a result, Army WCF did not substantially comply with the federal financial management systems requirements.
- **Federal Accounting Standards**. As discussed in Exhibit I – Material Weaknesses, management did not properly design, implement, and effectively operate controls, which affected management's ability to prepare the consolidated financial statements and support the amounts reported on the consolidated financial statements in accordance with the federal accounting standards. As a result, the Army WCF did not substantially comply with the federal accounting standards requirements.
- **U.S. Standard General Ledger**. Management did not configure certain financial systems and processes to comply with the United States Standard General Ledger (USSGL) requirements at the transaction level. In addition, management did not fully analyze all financial processes to determine transactions are recorded consistently with USSGL requirements or document the analysis completed.

The Army WCF did not substantially meet FFMIA requirements because of the reasons discussed in Exhibit I – Material Weaknesses, and did not fully perform a risk assessment and remediate deficiencies identified in previous years. In addition, management did not complete its analysis to demonstrate that the accounting system posting logic is consistent with the USSGL.

The criteria are as follows:

- FFMIA
- Office of Management and Budget (OMB) Circular Number (No.) A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*
- Army policies and procedures

As a result of the deficiencies noted above, the financial systems did not substantially comply with FFMIA and the risk exists that transactions are incorrectly recorded to the general ledger, impacting the completeness, existence, and accuracy of the balances in the consolidated financial statements.

Recommendations:

We recommend that management perform the following:

- Complete risk assessment and implement the recommendations discussed in Exhibit I – Material Weaknesses to support compliance with the federal financial system federal accounting standard and USSGL requirements.
- Complete and document an analysis of all financial processes to determine transactions are recorded consistent with USSGL guidance.

B. Federal Managers' Financial Integrity Act (FMFIA)

Management performed an internal control assessment as required under the FMFIA; however, management's assessment did not substantially comply with FMFIA and the related OMB Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB No. A-123), requirements as follows:

- Management did not develop and implement effective controls related to the use of quality data, and management did not complete development of a data quality plan.
- Management did not effectively design its internal control assessment as management did not base its materiality assessment on the most recent consolidated financial statements, document a comprehensive analysis of the key processes supporting material financial statement line items, or address all risk profile components required by OMB No. A-123 in its risk assessment.
- Management did not effectively execute its internal control assessments as management did not consistently document the internal control evaluation plans, financial statement risks, financial assertions, testing procedures, testing results, and evidence of management review.
- Management did not develop and maintain corrective action plans or perform internal controls testing at all reporting organizations.

The above conditions resulted because management did not assign sufficient resources to its internal control testing program and assign responsibility at the appropriate levels of the organization. Additionally, management did not perform sufficient risk assessment and prioritize implementation of all FMFIA and OMB No. A-123 requirements when designing their evaluation over internal controls.

The criteria are as follows:

- FMFIA
- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123: *Management's Responsibility for Enterprise Risk Management and Internal Control*

The Army WCF did not substantially comply with FMFIA and the related OMB No. A-123 requirements, which may lead to not identifying the appropriate risks, key controls, and not detecting internal control or compliance deficiencies. The risk of not detecting and correcting deficiencies could cause misstatements to the consolidated financial statements. Additionally, the Army WCF internal control environment did not support management's assertion of modified assurance of the operating effectiveness of internal controls over reporting in its Annual Statement of Assurance.

Recommendations:

We recommend that management perform the following:

- Develop and execute a data quality plan to address the requirements of OMB No. A-123.
- Implement an enterprise risk management approach over the evaluation of internal controls as defined by OMB No. A-123.
- Design its internal control assessment to determine materiality using the most recent consolidated financial statements and identify and document all key processes and financial statement line items.
- Assign knowledgeable and sufficient resources to the internal control assessment program, assign responsibilities to such resources, monitor the execution of the internal control assessment program, and hold individuals accountable for their assigned responsibilities.

- Update internal control assessment guidance and risk assessment template to include all risk profile components required by OMB No. A-123.
- Expand and communicate policies on documenting internal control evaluation plans, financial statement risks, financial assertions, testing procedures, testing results, corrective action plans, and evidence of management review.
- Perform and document the internal control assessment for all reporting organizations to include the entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls.

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109

SAFM-FO

MEMORANDUM FOR KPMG LLP

SUBJECT: Management Response to the Fiscal Year 2021 Army Working Capital Fund Financial Statement Audit Report

1. We appreciate the opportunity to respond to the audit report. We concur with the findings described in the report and will continue to implement corrective actions to remediate the material weaknesses and instances of non-compliance identified.

2. The Army will continue to collaborate internally and externally with all stakeholders to implement the systems, processes, and internal controls necessary to achieve accurate financial statements prepared in accordance with generally accepted accounting principles. This will not only result in an unmodified audit opinion, but more importantly, will improve the quality and timeliness of the data used to efficiently and effectively manage the Department's resources.

3. Our strategy is to establish an auditable balance sheet first and then build off that success with the other financial statements. We have prioritized and focused our remediation efforts on the following areas: Information Technology controls, Fund Balance with Treasury, Inventory, Real Property, General Equipment, Accruals, and Environmental Liabilities. We are committed to resolving our material weaknesses, improving all aspects of operations and financial management, and being champions of the fiscal stewardship for the resources provided to us by the Congress and the American taxpayer.

Wesley C. Miller

Wesley C. Miller
Deputy Assistant Secretary of the Army
(Financial Operations)

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2021 and 2020

(Amounts in Thousands)		2021 Consolidated		Restated 2020 Consolidated
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	$	1,773,653	$	1,302,046
Accounts Receivable, Net (Note 6)		180,729		241,270
Total Intragovernmental Assets	$	1,954,382	$	1,543,316
Other Than Intragovernmental				
Cash and Other Monetary Assets (Note 4)	$	15,948	$	20,312
Accounts Receivable, Net (Note 6)		5,463		13,042
Inventory and Related Property, Net (Note 8)		19,741,612		19,768,995
General Property, Plant and Equipment, Net (Note 9)		2,160,971		2,222,487
Advances and Prepayments (Note 10)		137,871		135,277
Total Other Than Intragovernmental		22,061,865		22,160,113
TOTAL ASSETS	$	24,016,247	$	23,703,429
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable	$	156,081	$	148,776
Other Liabilities (Note 15 & 17)		54,500		54,950
Total Intragovernmental Liabilities	$	210,581	$	203,726
Other Than Intragovernmental				
Accounts Payable	$	131,124	$	286,916
Federal Employee and Veteran Benefits (Note 13)		179,048		187,437
Environmental and Disposal Liabilities (Note 14)		488,516		501,729
Other Liabilities (Note 15, 16 & 17)		299,980		331,136
Total Other Than Intragovernmental		1,098,668		1,307,218
TOTAL LIABILITIES	$	1,309,249	$	1,510,944
COMMITMENTS AND CONTINGENCIES (Note 17)				
NET POSITION				
Unexpended Appropriations – Funds Other than Dedicated Collections	$	135,623	$	143,626
Total Unexpended Appropriations (Consolidated)		135,623		143,626
Cumulative Results of Operations – Funds Other than Dedicated Collections		22,571,375		22,048,859
Total Cumulative Results of Operations – (Consolidated)		22,571,375		22,048,859
TOTAL NET POSITION	$	22,706,998	$	22,192,485
TOTAL LIABILITIES AND NET POSITION	$	24,016,247	$	23,703,429

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF NET COST (UNAUDITED)

For the Years Ended September 30, 2021 and 2020

(Amounts in Thousands)	2021 Consolidated	2020 Consolidated
Program Costs		
Gross Costs	$ 16,848,595	$ 16,030,126
Operations, Readiness & Support	16,848,595	16,030,126
(Less: Earned Revenue)	(16,073,889)	(16,362,501)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	774,706	(332,375)
Net Program Costs Including Assumption Changes	$ 774,706	$ (332,375)
Net Cost of Operations (Note 19)	$ 774,706	$ (332,375)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION (UNAUDITED)

For the Years Ended September 30, 2021 and 2020

(Amounts in Thousands)	2021 Consolidated	Restated 2020 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 143,626	$ 140,421
Beginning Balances, as adjusted	143,626	140,421
Appropriations transferred-in/out	1,122,078	839,802
Appropriations used	(1,130,081)	(836,597)
Net Change in Unexpended Appropriations	(8,003)	3,205
Total Unexpended Appropriations, Ending Balance	135,623	143,626
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	22,048,859	19,833,130
Prior Period Adjustment (Note 20)		
Changes in Accounting Principles (+/-)	-	(22,110)
Correction of Errors (+/-)	-	(58,689)
Beginning Balance, as adjusted	22,048,859	19,752,331
Appropriations used	1,130,081	836,597
Nonexchange revenue (Note 20)	378	2
Transfers-in/out without reimbursement (+/-)	(98,552)	949,649
Imputed financing from costs absorbed by others	159,027	147,292
Other (+/-) (Note 20)	106,288	30,613
Net Cost of Operations (+/-)	774,706	(332,375)
Net Change in Cumulative Results of Operations (+/-)	522,516	2,296,528
Cumulative Results of Operations, Ending	22,571,375	22,048,859
Net Position	$ 22,706,998	$ 22,192,485

The accompanying notes are an integral part of these financial statements.

COMBINED STATEMENTS OF BUDGETARY RESOURCES (UNAUDITED)

For the Years Ended September 30, 2021 and 2020

(Amounts in Thousands)	2021 Combined	2020 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 5,550,090	$ 4,831,857
Appropriations (discretionary and mandatory)	310,612	489,743
Contract Authority (discretionary and mandatory)	4,219,784	8,624,792
Spending Authority from offsetting collections (discretionary and mandatory)	4,093,549	4,871,695
Total Budgetary Resources	$ 14,174,035	$ 18,818,087
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 10,236,345	$ 14,562,782
Unobligated balance, end of year:		
Apportioned, unexpired accounts	3,937,690	4,255,305
Unexpired unobligated balance, end of year	3,937,690	4,255,305
Unobligated balance, end of year (total)	3,937,690	4,255,305
Total Budgetary Resources	$ 14,174,035	$ 18,818,087
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	650,471	1,432,350
Agency Outlays, net (discretionary and mandatory)	$ 650,471	$ 1,432,350

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS – WORKING CAPITAL FUND

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Reporting Entity

The United States (U.S.) Department of the Army's ("Army") mission is to support the national security and defense strategies by providing well-trained, well-led, and well-equipped forces to the Combatant Commanders. This mission encompasses the intent of the Congress, as defined in Title 10 and Title 32 of the U.S.C., to preserve peace and security and provide for the defense of the U.S., its territories, commonwealths, possessions, and any areas occupied by the U.S.; support national policies; implement national objectives; and overcome any nations responsible for aggressive acts that imperil the peace and security of the U.S.

In support of the Army's overarching mission discussed above, the mission and purpose of the Army Working Capital Fund (WCF) is to provide Army General Fund (GF) and other DoD entities, the supplies, equipment and ordnance necessary to protect, sustain, and reconstitute forces. The Army WCF reporting entity and related financial statements includes two activity groups: SMA and IO. The SMA group buys and manages spare and repair parts for sale to its customers, primarily Army operating units. The IO activity group provides the Army an organic industrial capability to conduct depot level maintenance, repair and upgrade; manufacture munitions and large caliber weapons; and store, maintain, and demilitarize materiel for all branches of DoD.

1.B. Basis of Presentation and Accounting

The Army WCF's financial statements have been prepared to report the financial position and results of operations of the U.S. Department of the Army WCF, as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*, and other appropriate legislation.

The financial statements have been prepared from the records of the Army WCF in accordance with and to the extent possible, U.S. Generally Accepted Accounting Principles (GAAP) promulgated by the FASAB and the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. The Army WCF has presented comparative financial statements for the Consolidated Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position and Combined Statements of Budgetary Resources, in accordance with OMB financial statement reporting guidelines. Accounting standards also allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The Army WCF financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Army WCF business areas. The Army WCF derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems.

1.C. Appropriations and Funds

The Army WCF received its initial cash corpus through an appropriation from Congress to finance initial operations. The Army WCF provides goods and services to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. The Army WCF uses contract authority which permits obligations to be incurred in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. While reimbursable authority may be subject to apportionment by the Office of Management & Budget, recovered (deobligated) contract/reimbursable authority is subject to automatic reapportionment. In addition, Congress may appropriate funds to finance specific programs within the working capital fund.

1.D. Basis of Accounting

The Army WCF's financial statements and supporting trial balances are compiled from the underlying proprietary and budgetary financial data of the Army WCF. The Army WCF records financial transactions on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned, and costs/expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds may be recognized in advance of the proprietary accruals. Budgetary basis of accounting facilitates compliance with legal requirements and controls over the use of Federal funds. Under the budgetary basis of accounting, Army WCF records budgetary authority when authorized through legislation or agreements with customers and records new obligations when the Army WCF signs a contract for goods or services or takes other actions that requires Army WCF to make payments to other entities. In addition, Army WCF records outlays when disbursements are made and receipts when received.

1.E. Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements. Significant estimates that affect Army WCF financial statements include, but are not limited to, estimates for Environmental & Disposal Liabilities (E&DL), the valuation of some classes of inventory, payroll and benefit accruals, contingent liabilities, goods and services accruals, and useful lives of property, plant, and equipment. Actual results may differ from those estimates; therefore, estimates are adjusted to reflect actuals during the period they become available.

1.F. Revenues and Other Financing Sources

The Army WCF earns revenue as a result of costs incurred for goods and services provided to the Army GF, other federal agencies, and to the public. Army WCF utilizes full-cost pricing, as defined in Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, for services provided as required by OMB Circular No. A-25, *User Charges*.

The Army WCF revenue is primarily the result of exchange transactions, which arises when the Army WCF provides goods and services to the public or to another government entity for a price. The IO business area recognizes revenue according to the percentage-of-completion method. The SMA business area recognizes revenue when inventory is sold and issued to customers.

1.G. Recognition of Expenses

The Army WCF recognizes costs at the time the expense is incurred, or benefit received, regardless of whether an invoice has been received. Cost is the monetary value of resources used or sacrificed or liabilities incurred to achieve an objective, such as to acquire or produce goods or to perform services. The costs that apply to the Army WCF operations in that period are recognized as either cost of goods sold or operating expenses in that period.

1.H. Accounting for Intragovernmental and Intergovernmental Activities

The Treasury Financial Manual, Volume 1, Part 2 – Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements in order to prevent an overstatement for business with itself. However, the Army WCF cannot accurately identify intragovernmental transactions by customer because there are some instances when Army WCF systems do not track buyer and seller data at the transaction level. DoD entities and other federal entities who sell to the Army WCF ("Sellers") provide summary balances for revenue, accounts receivable, and unearned revenue to the Army WCF. In most cases, the Army WCF adjusts the reciprocal account balances (i.e. expenses, accounts payable, and liabilities for advances and prepayments) to agree with the seller's details which allows intragovernmental balances to be eliminated at the consolidated DoD level. The Army WCF is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable the Army WCF to correctly report, reconcile, and eliminate intragovernmental balances.

Imputed financing represents the cost paid on behalf of the Army WCF by another Federal entity. The Army WCF recognizes imputed costs for: (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers' compensation under the *Federal Employees' Compensation Act*; and (3) losses in certain litigation proceedings. Consistent with SFFAS No. 55, *Amending Inter-entity Cost Provisions*, certain unreimbursed inter-entity costs of goods and services other than those previously identified are not included in the financial statements.

The Army WCF's proportionate share of public debt is not included in the financial statements. The federal government does not apportion debt and its related costs to federal agencies.

1.I. Transactions with Foreign Governments and International Organizations

The Department of Defense implements the administration's foreign policy objectives under the provisions of the *Arms Export Control Act of 1976* through the Foreign Military Sales (FMS) trust fund, which facilitates the sale of U.S. Government-approved defense articles and services to foreign partners and international organizations. In doing so, the Army WCF may perform reimbursable activities on behalf of the FMS trust fund. The cost of administering these sales is required to occur at no cost to the Federal Government. For each sale, the foreign government makes an advance payment in U.S. dollars as required to the FMS trust fund. The FMS trust fund subsequently reimburses the Army WCF.

1.J. Nonentity Assets

Nonentity assets are not available for use in the Department's normal operations. The Department has stewardship accountability and reporting responsibility for nonentity assets. An example of a nonentity asset is the portion of Fund Balance with Treasury (FBwT) that consists of deposit and receipt funds. For additional information, see Note 2, *Nonentity Assets*.

1.K. Fund Balance with Treasury

The Army WCF maintains its monetary resources of collections and disbursements in U.S. Treasury accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), Military Departments, U.S. Army Corps of Engineers (USACE), and the financial service centers of the Department of State process the majority of the worldwide cash collections, disbursements, and adjustments of the Army WCF. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable Fund Balance with Treasury (FBwT) account. On a monthly basis, the Army WCF FBwT is reconciled and adjusted to agree with the U.S. Treasury accounts. For additional information, see Note 3, *Fund Balance with Treasury*.

1.L. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Army WCF including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. There are no restrictions on cash. For additional information, see Note 4, *Cash and Other Monetary Assets*.

1.M. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history by aging category. In addition, any claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in Appendix 10 of the Treasury Financial Manual, Volume I, Part 2, Chapter 4700. For additional information, see Note 6, *Accounts Receivable, Net*.

The Army WCF records interest receivable as nonentity assets. Nonentity assets are not available for use in the Department's normal operations. For additional information, see Note 2, *Nonentity Assets*.

1.N. Direct Loans and Loan Guarantees

Not Applicable

1.O. Inventories and Related Property

On October 1, 2018, the Army WCF adjusted the value of certain inventory from moving average cost to deemed cost. However, the Army WCF use of deemed cost was not in accordance with SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* because Army did not make an unreserved assertion that its inventory is presented fairly in accordance with U.S. GAAP. The Army WCF is implementing corrective actions to be able to make an unreserved assertion for inventory beginning balances in the future.

The Army WCF Inventory and Related Property is categorized as follows:

Inventory Held for Sale – This includes both consumable, non-reparable as well as reparable spare parts owned and managed by the Army WCF. Inventory held for sale is valued using the moving average cost method for inventory recorded after considering the deemed cost adjustment as of October 1, 2018 that is discussed above.

Inventory Held for Repair – This includes damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Army WCF customers often rely on weapon systems and machinery no longer in production. As a result, the Army WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Army WCF values inventory held for repair using the direct method. SFFAS No. 3, *Accounting for Inventory and Related Property*, and Interpretation 7 require that inventory held for repair and resale reflects the accumulation of capitalized rebuild costs to include the costs of the unserviceable carcasses. During repairs, these costs are accumulated and capitalized in a work in process account.

Raw Material – This includes material to be used in the Industrial Operations mission. Raw material is valued using the moving average cost method.

Excess, Obsolete, and Unserviceable (EOU) – Excess inventory is inventory that exceeds management requirements to meet the Army WCF mission. Obsolete inventory is inventory that is no longer needed due to changes in technology, laws, customs, or operations. Unserviceable inventory is damaged inventory that is non-reparable or more economical to dispose of than repair. Army WCF values EOU inventory at its expected net realizable value using an allowance account.

Work in Process – Work in Process balances include (1) the reparable item from inventory held for repair which is valued using standard price (less the estimated cost to repair) and (2) the repair costs incurred to date. Repair costs include material, labor, and applied overhead. When the repair is completed, the capitalized costs are moved to the inventory held for sale account.

Operating Materiel and Supplies (OM&S) includes stocked items to be used for equipment and facilities maintenance at the Industrial Operations sites. OM&S is valued at the moving average cost method. There are no restrictions on the use of OM&S. For additional information, see Note 8, *Inventory and Related Property, Net*.

1.P. Investments and Related Interest

The Army WCF does not currently have Investments in U.S. Treasury Securities.

1.Q. General Property, Plant and Equipment

Consistent with SFFAS 6, *Accounting for Property, Plant, and Equipment*, General Property, Plant and Equipment (General PP&E) assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the Army WCF capitalization threshold. The Army WCF capitalizes improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Army WCF depreciates all General PP&E, other than Construction-in-Progress, on a straight-line basis over the estimated useful life. The Army WCF has not adopted SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, except for land and land rights. In accordance with SFFAS 50, paragraph 40.f.i, the Army WCF excludes land and land rights from its reported property, plant and equipment balances on the balance sheet. Instead, the Army WCF discloses acreage information and expenses acquisitions. The Army WCF is currently reporting known acquisition costs for Buildings, Structures, and Facilities; General Equipment; Software; Construction-In-Progress; and Leasehold Improvements.

The Army's General PP&E capitalization threshold is $250 thousand. With the exception of General Equipment, the $250 thousand capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. For General Equipment, the capitalization threshold was applied retroactively. All other Army WCF General PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels of $100 thousand except for real property, which is $20 thousand, and are carried at their remaining net book value. For additional information, see Note 9, *General Property, Plant and Equipment, Net*.

1.R. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, the Army WCF records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Army WCF records the asset and the liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Army WCF as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An operating lease does not substantially transfer all the benefits and risk of ownership. The Army WCF reports leases that do not meet the capital lease criteria as an operating lease and expenses lease payments when they become payable. The future minimum operating lease payments are based on amounts obtained from existing leases, General Services Administration (GSA) bills, and inter-service support agreements. For additional information, see Note 16, *Leases*.

1.S. Other Assets

Other assets include those amounts, such as civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the Army WCF's Balance Sheet. The Army WCF reports payments made in advance of the receipt of goods and services as an asset on the Balance Sheet. The Army WCF recognizes an expense or asset when the related goods and services are received.

The Army WCF 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, the Army WCF may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations (FAR), Part 32 - *Contract Financing*, as authorized disbursements to a contractor before acceptance of supplies or services by the government. Contract financing payments clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or a stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments, based on a percentage or stage of completion, are reported as Construction-in-Progress. For additional information, see Note 10, *Other Assets*.

1.T. Commitments and Contingencies

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

The Army WCF discloses contingent losses when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The risk of loss and resultant contingent liabilities and disclosures for the Army WCF arises from pending or threatened litigation or claims and assessments due to events such as aircraft, vessel, and vehicle accidents; property or environmental damages; and contract disputes. For additional information, see Note 17, *Commitments and Contingencies*.

1.U. Military and Civilian Retirement Benefits

The Army WCF's actuarial liability for workers' compensation benefits is developed by the Department of Labor and provided to the Army WCF at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims.

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

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial FECA liability is not covered by budgetary resources and will require future funding. Assumptions related to Federal Employee and Veteran Benefits Payable are detailed in Note 13, *Federal Employee and Veteran Benefits Payable*.

1.V. Environmental and Disposal Liabilities (E&DL)

E&DL are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Army's assets or operations. Consistent with SFFAS 5, *Accounting for Liabilities of the Federal Government* and SFFAS 6, *Accounting for Property, Plant, and Equipment*, Army WCF recognizes an anticipated environmental disposal liability when the asset is placed into service.

Interpretation of SFFAS No. 9, *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation of SFFAS 5 & 6 (Interpretation No. 9)*, requires component entities that report general PP&E should also recognize the associated E&DL cleanup costs. For additional information, see Note 14, *Environmental and Disposal Liabilities*.

1.W. Other Liabilities

Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30.

The Army WCF also reports liabilities for accrued compensatory and annual leave for civilians when earned by the employee and is reduced as leave is taken. The balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. The Army WCF expenses sick leave when used and no liability is recognized because employees do not vest in these benefits. For additional information, see Note 15, *Other Liabilities*.

1.X. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. The cumulative results of operations also include transfers in and out of assets that were not reimbursed.

1.Y. Treaties for Use of Foreign Bases

Not Applicable

1.Z. Fiduciary Activities

Not Applicable

1.AA. Subsequent Events

Not Applicable

1.BB. Standardized Notes to the Financial Statements

Beginning in FY 2020, the DoD Agency-wide Footnotes and its stand-alone Components' Footnotes have the same Footnote structure in the notes to the financial statements included in their respective annual financial statements. For Footnotes not applicable to a Component because it does not have such transactions, or has such transactions that are immaterial to the financial statements, the Footnote number and name is included but is marked as "Not Applicable." The shared Footnote structure provides efficiency in the preparation of the DoD Agency-wide financial statements and consistency among the DoD Agency-wide and stand-alone Component annual financial statements.

1.CC. Standardized Balance Sheet and Related Footnotes – Comparative Year Presentation

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities as required by the Office of Management and Budget. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this report to understand how amounts shown on the Army WCF Balance Sheet align to the DoD-wide Balance Sheet and are reflected in the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the fiscal year 2020 Balance Sheet and the related footnotes was modified to be consistent with the fiscal year 2021 presentation. The footnotes affected by the modified presentation are Note 6, Accounts Receivable, Net; Note 10, *Other Assets*; Note 12, *Federal Debt and Interest Payable*; Note 13, *Federal Employee and Veteran Benefits Payable*, and Note 15, *Other Liabilities*.

1.DD. Tax Exempt Status

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

NOTE 2. NONENTITY ASSETS

As of September 30	2021	Restated 2020
(Amounts in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ -	$ -
B. Accounts Receivable	-	-
C. Other Assets	-	-
D. Total Intragovernmental Assets	$ -	$ -
2. Other Than Intragovernmental Assets		
A. Accounts Receivable	$ 383	$ 5
B. Total Other Than Intragovernmental Assets	383	5
3. Total NonEntity Assets	383	5
4. Total Entity Assets	24,015,864	23,703,424
5. Total Assets	$ 24,016,247	$ 23,703,429

Information Related to Nonentity Assets

Assets are categorized as either entity or nonentity. Entity assets consist of resources that are available for use in the operations of the Army WCF.

Nonentity assets are assets for which the Army WCF maintains stewardship accountability and reporting responsibility. These assets are not available for the Army WCF's normal operations.

Nonentity Other Than Intragovernmental Accounts Receivable are interest receivables. Collections related to these receivables will be returned to the U.S. Treasury as miscellaneous receipts.

The FY 2020 Total Entity Asset balance is restated to reflect the impact of a net $58.7 million reduction in the Army WCF's FY 2020 General PP&E, Net line item on the Balance Sheet. See Note 28, *Restatements*, for more information.

NOTE 3. FUND BALANCE WITH TREASURY

Status of Fund Balance with Treasury

As of September 30	2021	2020
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 3,937,690	$ 4,255,305
2. Obligated Balance not yet Disbursed	6,740,620	9,507,154
3. Non-FBWT Budgetary Accounts		
A. Unfilled Customer Orders without Advance	(5,503,178)	(6,003,428)
B. Contract Authority	(3,181,311)	(6,172,613)
C. Receivable and Other	(220,168)	(284,372)
D. Total Non-FBWT Budgetary Accounts	(8,904,657)	(12,460,413)
4. Total FBWT	$ 1,773,653	$ 1,302,046

The Treasury records cash receipts and disbursements on the Army WCF's behalf. Funds are available only for the purposes for which the funds were appropriated. The Army WCF's Fund Balances with Treasury consists of both revolving and appropriated funds.

Status of Fund Balance with Treasury Definitions

The Status of Fund Balance with Treasury (FBwT) table displays the reconciliation between the budgetary resources supporting FBwT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means (Non-FBwT Budgetary Accounts). The total FBwT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not yet been obligated. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations.

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

Non-FBwT Budgetary Accounts reduce budgetary resources, but do not impact FBwT. For the Army WCF these include unfilled customer orders without an advance, reimbursements and other income earned-receivable, and contract authority.

Total FBwT does not include funds held as a result of allocation transfers received from other federal agencies. The Army WCF did not receive allocation transfers from other federal agencies for execution on their behalf.

The FBwT reported in the financial statements has been reconciled and adjusted to reflect the Army WCF's balance as reported by Treasury. Prior to adjustment, the differences between FBwT in the Army WCF's general ledgers and FBwT reflected in the Treasury accounts were attributable to transactions that have not been posted to the individual detailed accounts in the Army WCF's general ledger as a result of timing differences or the inability to obtain complete accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the Army WCF's general ledger accounts.

NOTE 4. CASH AND OTHER MONETARY ASSETS

As of September 30	2021	2020
(Amounts in thousands)		
1. Cash	$ 15,948	$ 20,312
2. Total Cash, Foreign Currency, & Other Monetary Assets	$ 15,948	$ 20,312

Cash includes collections on hand that were not deposited during the accounting period.

NOTE 5. INVESTMENTS AND RELATED INTEREST

Not Applicable

NOTE 6. ACCOUNTS RECEIVABLE, NET

As of September 30	2021		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 180,789	$ (60)	$ 180,729
2. Other Than Intragovernmental Receivables	$ 8,066	$ (2,603)	$ 5,463
3. Total Accounts Receivable	$ 188,855	$ (2,663)	$ 186,192

As of September 30	2020		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 241,600	$ (330)	$ 241,270
2. Other Than Intragovernmental Receivables	$ 13,729	$ (687)	$ 13,042
3. Total Accounts Receivable	$ 255,329	$ (1,017)	$ 254,312

Accounts receivable represent the Army WCF's claim for payment from other entities. Allowances for uncollectible accounts are based upon an analysis of the aging of accounts receivable, a debtor's ability to pay and payment history by aging category. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, Chapter 4700. For FY 2021 and FY 2020, the Army WCF recognized $1.6 million and $819 thousand in bad debt expense (respectively).

NOTE 7. LOAN RECEIVABLE, NET AND GUARANTEE LIABILITIES

Not Applicable

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

As of September 30	2021	2020
(Amounts in thousands)		
1. Inventory, Net	$ 19,736,134	$ 19,764,211
2. Operating Materiel & Supplies, Net	5,478	4,784
2. Total	$ 19,741,612	$ 19,768,995

Inventory, Net

As of September 30	2021			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Inventory Held for Sale	$ 11,993,749	$ -	$ 11,993,749	MAC
B. Inventory Held for Repair	5,663,058	-	5,663,058	MAC
C. Raw Materiel	1,376,613	-	1,376,613	MAC
D. Excess, Obsolete, and Unserviceable Inventory	552,562	(552,562)	-	NRV
E. Work In Process	702,714	-	702,714	*SP/AC
F. Total Inventory, Net	$ 20,288,696	$ (552,562)	$ 19,736,134	

As of September 30	2020			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Inventory Held for Sale	$ 11,346,765	$ -	$ 11,346,765	MAC
B. Inventory Held for Repair	5,642,415	-	5,642,415	MAC
C. Raw Materiel	1,415,585	-	1,415,585	MAC
D. Excess, Obsolete, and Unserviceable Inventory	401,333	(401,333)	-	NRV
E. Work In Process	1,359,446	-	1,359,446	*SP/AC
F. Total Inventory, Net	$ 20,165,544	$ (401,333)	$ 19,764,211	

Legend for Valuation Methods:
MAC = Moving Average Cost NRV = Net Realizable Value *SP/AC = Standard Price /Actual Cost
**WIP value reflects the standard price of the inventory item (less the estimated cost of repairs) and the repair costs incurred to date.*

Operating Materiel and Supplies, Net

As of September 30	2021			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. OM&S Categories				
A. OM&S Held for Use	$ 5,478	$ -	$ 5,478	MAC
B. Total Inventory, Net	$ 5,478	$ -	$ 5,478	

As of September 30	2020			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. OM&S Categories				
A. OM&S Held for Use	$ 4,784	$ -	$ 4,784	MAC
B. Total Inventory, Net	$ 4,784	$ -	$ 4,784	

Legend for Valuation Methods:
MAC = Moving Average Cost

Inventory

The Army WCF Inventory and Related Property is categorized as follows:

Inventory Held for Sale includes both consumable, non-reparable as well as reparable spare parts owned and managed by the Army WCF. Inventory held for sale is valued using the moving average cost method.

Inventory Held for Repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items than to procure them. The Army WCF customers often rely on weapon systems and machinery no longer in production. As a result, the Army WCF supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Army WCF values inventory held for repair using the direct method. SFFAS No. 3 and Interpretation 7 require that inventory held for repair and resale reflect all capitalized rebuild costs to include the costs of the unserviceable carcasses. During repairs, these costs are accumulated and capitalized in a work in process account.

Excess, Obsolete, and Unserviceable (EOU) Inventory includes excess inventory that exceeds management requirements to meet the Army WCF mission; obsolete inventory, which is inventory that is no longer useful due to changes in technology, laws, customs, or operations; and unserviceable inventory which is damaged, non-reparable or more economical to dispose of than repair. Army WCF values EOU inventory at its expected net realizable value using an allowance account. The Army WCF's FY 2021 $552.6 million carrying value of EOU is offset by a $552.6 million allowance balance to reflect no net realizable value.

Raw Material includes material to be used in the IO's mission. Raw material is valued using the moving average cost method.

Work in Process balances includes (1) the reparable item from inventory held for repair which is valued using standard price (less the estimated cost of repairs) and (2) the repair costs incurred to date. Repair costs include material, labor, and applied overhead. When the repair is completed, the capitalized costs are moved to the inventory held for sale account.

There are restrictions on the use, sale, and disposition of inventory classified as war reserve, which includes petroleum products, subsistence items, spare parts, and medical materiel. These reserves are set aside for use during times of war.

Operating Materiel and Supplies

Operating Materiel and Supplies (OM&S) includes stocked items to be used for equipment and facilities maintenance at the Industrial Operations sites. OM&S is valued using the moving average cost method. There are no restrictions on the use of OM&S.

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30	2021				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	Various*	$ 3,684,390	$ (2,146,377)	$ 1,538,013
B. Software	S/L	5	1,705,686	(1,578,451)	127,235
C. General Equipment	S/L	5 or 10	1,611,486	(1,336,142)	275,344
D. Construction-in-Progress	N/A	N/A	220,279	N/A	220,279
E. Leasehold Improvements	S/L	10	668	(568)	100
F. Total General PP&E			$ 7,222,509	$ (5,061,538)	$ 2,160,971

As of September 30	Restated 2020				
(Amounts in thousands)	Depreciation/ Amortization Method	Service Life (Years)	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Buildings, Structures, and Facilities	S/L	Various*	$ 3,700,267	$ (2,111,593)	$ 1,588,674
B. Software	S/L	5	1,686,362	(1,545,915)	140,447
C. General Equipment	S/L	5 or 10	1,566,946	(1,289,235)	277,711
D. Construction-in-Progress	N/A	N/A	215,488	N/A	215,488
E. Leasehold Improvements	S/L	10	668	(501)	167
F. Total General PP&E			$ 7,169,731	$ (4,947,244)	$ 2,222,487

S/L = Straight Line NA = Not Applicable
*Service lives may be 15, 20, 35, 40, or 45 years

The Army WCF's General PP&E is comprised of buildings, structures, and facilities; software, general equipment, construction in progress, leasehold improvements, and other PP&E.

The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage of completion only for construction of real property, alteration, or repair. Progress payments based on percentage or stage of completion are reported as construction-in-progress.

In accordance with SFFAS 50, paragraph 40.f.i, the Army WCF excludes land and land rights from its reported property, plant and equipment balances. Instead, the Army WCF discloses acreage information and expenses acquisitions. As of FY 2021, the Army WCF reports 207,366 acres of land and 91 acres of leased land, for a total of 207,457 acres in land and land rights. As of FY 2020 the Army WCF reported 207,369 acres of land and 18 acres of leased land, for a total of 207,387 acres in land and land rights. During FY 2021 there was a disposal of 3 acres of land and an increase of 73 acres of leased land.

During FY 2020, in accordance with the Office of the Under Secretary of Defense (Comptroller) Memorandum, "Application of Capitalization Threshold for General Property, Plant, and Equipment (FPM# 19-01)", the Army WCF retroactively applied the capitalization threshold of $250 thousand to all general equipment, which is a change from previous threshold amounts. As such, the Army WCF decreased the gross acquisition cost by $335.8 million and accumulated depreciation by $313.7 million of general equipment, resulting in a decrease of the net book value (acquisition cost less accumulated depreciation) of general equipment balances by $22.1 million.

In addition, during FY 2020, the Army WCF implemented the Office of the Under Secretary of Defense (Comptroller) Memorandum, "Real Property Financial Reporting Responsibilities Policy Update (FMP# 19-05)", which was effective October 1, 2019 and requires the financial reporting of real property to be the responsibility of the installation host instead of the previous policy that was based on the entity who uses 90% or more of the physical capacity of the asset and who is also responsible for the sustainment requirements. As a result, the Army WCF transferred in $1.5 billion of gross acquisition cost and $468.3 million of accumulated depreciation of real property from other defense organizations. The Army WCF also transferred out $136.7 million of gross acquisition cost and $102.6 million of accumulated depreciation to other defense organizations.

During FY 2021, in steps towards achieving supportable beginning balances for General PP&E and in accordance with related initiatives across the Department of Defense, Army restated the FY 2020 construction-in-progress balances. The restatement reflects a net $58.7 million reduction in the Army WCF's FY 2020 General PP&E, Net line item on the balance sheet and in the 2020 "Construction-In-Progress" balance in the table above. In addition, because the error occurred in a prior period, the cumulative results of operations and the Army WCF's net position are also restated. See Note 28, *Restatements*, for more information.

Heritage Assets

For the Period Ended September 30	2021			
Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Buildings and Structures	4,950	11	-	4,961

For the Period Ended September 30	2020			
Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Buildings and Structures	5,185	-	(235)	4,950

Heritage Assets

The Army WCF has stewardship responsibilities for heritage assets that date not only from the military history of the land, but also from prior historic occupations. The Army WCF relies upon heritage assets such as historic buildings, for daily use in conducting mission activities. These buildings and structures are included on the balance sheet as multi-use heritage assets (capitalized and depreciated).

General PP&E deferred maintenance and repair totals are reported as Required Supplementary Information within the FY 2021 Army WCF Annual Financial Report.

SFFAS No. 29, *Heritage Assets and Stewardship Land*, requires note disclosures for these types of assets. The Army policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

Buildings and Structures

Buildings and Structures, including multi-use heritage assets, are listed on, or eligible for listing on, the National Register of Historic Places in accordance with Section 110, National Historical Preservation Act. The Army WCF reported 4,961 and 4,950 heritage buildings and structures as of FY 2021 and FY 2020, respectively. During FY 2021 there was a net increase of 11 heritage assets for buildings and structures.

Stewardship Land

Stewardship land is land and land rights owned by the Department, but not acquired for, or in connection with items of General Property, Plant, and Equipment. The Army WCF's stewardship land consists mainly of mission-essential land that was acquired for or in connection with items of general PP&E. As a result, stewardship land is not presented separately.

General PP&E, Net Summary of Activity

For the period ended September 30	2021	Restated 2020
(Amounts in thousands)		
1. General PP&E, Net beginning of year	$ 2,222,487	$ 1,305,472
2. Capitalized acquisitions	302,883	149,654
3. Dispositions	(167,620)	(3,733)
4. Transfers in/(out) without reimbursement	-	-
5. Revaluations (+/-)	-	1,015,782
6. Depreciation expense	(196,779)	(244,688)
7. Donations	-	-
8. Other (+/-)	-	-
9. General PP&E, Net end of year	$ 2,160,971	$ 2,222,487

*This table reflects estimates of the Army WCF's acquisitions and disposals of capital assets during the period. The Army WCF continues to work towards solidifying the accounting and reporting of this information.

NOTE 10. OTHER ASSETS

As of September 30	2021	2020
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Other Assets	$ -	$ -
B. Total Intragovernmental Other Assets	$ -	$ -
2. Other Than Intragovernmental Other Assets		
A. Outstanding Contract Financing Payments	$ 137,855	$ 135,267
B. Advances and Prepayments	16	10
C. Subtotal	$ 137,871	$ 135,277
D. Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	$ (137,871)	$ (135,277)
E. Net Other than Intragovernmental		
3. Total Other Assets	$ -	$ -

Information Related to Other Assets

Outstanding Contract Financing Payments are a separate classification of advances and prepayments and reflect contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets.

Advances and prepayments are made by the Army WCF to cover certain periodic expenditures before those expenses are incurred, or for goods and services to provide for future benefits over a specified time period. Advances and prepayments are recorded when it is generally accepted industry practice to pay for items in advance of the service being provided and the prepayment is authorized.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2021	2020
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Other	$ 28,642	$ 29,948
B. Total Intragovernmental Liabilities	$ 28,642	$ 29,948
2. Other than Intragovernmental Liabilities		
A. Federal Employee and Veteran Benefits Payable	174,652	178,521
B. Environmental and Disposal Liabilities	488,516	501,729
C. Other Liabilities	300	-
D. Total Other Than Intragovernmental Liabilities	$ 663,468	$ 680,250
3. Total Liabilities Not Covered by Budgetary Resources	$ 692,110	$ 710,198
4. Total Liabilities Covered by Budgetary Resources	$ 617,139	$ 800,746
5. Total Liabilities Not Requiring Budgetary Resources	$ -	$ -
6. Total Liabilities	$ 1,309,249	$ 1,510,944

Liabilities not covered by budgetary resources represent amounts owed without available budgetary authority to cover them. Liabilities that do not require the use of budgetary resources are covered by monetary assets that are not budgetary resources.

Intragovernmental Liabilities, Other, are unfunded *Federal Employees' Compensation Act* (FECA) liabilities the Army WCF owes to the Department of Labor (DOL) for payments made by DOL to Army beneficiaries totaling $28.6 million as of the end of FY 2021. As of the end of FY 2020, unfunded FECA liabilities were $29.9 million.

Federal Employee and Veteran Benefits Payable consists of the $174.7 million actuarial FECA benefits liability as of the end of FY 2021 and $178.5 million as of the end of FY 2020. Refer to Note 13, *Federal Employee and Veteran Benefits Payable*, for additional details and disclosures.

E&DL consists of the liabilities associated with the Army WCF that include disposal liabilities for operational assets. E&DL are not covered by Army WCF budgetary resources because all expenditures are funded by the Army GF. See Note 14, *Environmental and Disposal Liabilities*, for additional details and disclosures.

Other than Intragovernmental Liabilities, Other reflects a $300 thousand contingent liability for a material claim related to Fair Labor Standards Act grievances with a probable possibility of loss. In FY 2020, the Army WCF contingent liability was $0.

NOTE 12. FEDERAL DEBT AND INTEREST PAYABLE

Not Applicable

NOTE 13. FEDERAL EMPLOYEE AND VETERAN BENEFITS PAYABLE

As of September 30	2021		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 174,652	$ -	$ 174,652
B. Other	4,396	(4,396)	-
C. Total Other Benefits	$ 179,048	$ (4,396)	$ 174,652
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 179,048	$ (4,396)	$ 174,652
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 51,694	$ (23,052)	$ 28,642
4. Total Federal Employee and Veteran Benefits Payable	$ 230,742	$ (27,448)	$ 203,294

As of September 30	2020		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 178,521	$ -	$ 178,521
B. Other	8,916	(8,916)	-
C. Total Other Benefits	$ 187,437	$ (8,916)	$ 178,521
2. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	$ 187,437	$ (8,916)	$ 178,521
3. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	$ 50,896	$ (20,948)	$ 29,948
4. Total Federal Employee and Veteran Benefits Payable	$ 238,333	$ (29,864)	$ 208,469

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $0

SFFAS No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*, requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and other postemployment benefits. This standard also provides guidance for selecting the discount rate and valuation date used in estimating these liabilities.

The FECA actuarial liability includes the estimated liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The DOL selects the Cost of Living Adjustment (COLA) factors, Consumer Price Index Medical (CPI-M) factors, and discount rates by averaging the COLA rates, CPI-M factors, and discount rate estimates to reflect historical trends.

FECA actuarial liabilities are computed for employee compensation benefits as mandated by the FECA. The DOL provides an updated Army actuarial liability during the 4th quarter of each fiscal year. The Army WCF computes its portion of the total Army actuarial liability based on the percentage of Army WCF FECA expense to the total Army FECA expense. During FY 2021, an increase of $3.9 million in FECA related costs were realized. The Army WCF estimated its portion of actuarial liability based on a percentage of the Army's liability.

Other Benefits, Other consists of Employer Contributions and Payroll Taxes Payable, other than health, life and retirement benefits. The prior year balance was previously reflected under Note 15, *Other Liabilities*.

Other Benefit-Related Payables included in Intragovernmental Other Liabilities on the Balance Sheet includes employer contributions and payroll taxes payable for health, life and retirement benefits and required FECA Reimbursements to the Department of Labor. The liabilities for the FECA reimbursement to the DOL represents balances due under the Federal Employee Compensation Act. This amount includes balances due in both FY 2023 and FY 2024 for both incurred and estimated costs.

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

In FY 2020, the methodology for billable projected liabilities was revised to include, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY 2021 methodology remained the same, but included adjustments to normalize the levels of payments in chargeback years 2021 and 2020 because payment levels in these years were not representative of what could be expected to occur absent the pandemic.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPI-Ms) were applied to the calculation of projected future benefits.

DOL selected the COLA factors, CPI-M factors, and discount rate by averaging the COLA rates, CPI-M rates, and interest rates for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year.

The FY 2021 and FY 2020 methodologies for averaging the COLA rates used OMB-provided rates; the FY 2020 methodology also considered updated information provided by program staff. The FY 2021 and FY 2020 methodologies for averaging the CPI-M rates used OMB-provided rates and information obtained from the Bureau of Labor Statistics public releases for CPI. The actual rates for these factors for the charge back year (CBY) 2021 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPI-Ms used in the projections for various CBY were as follows:

CBY	COLA	CPI-M
2021	N/A	N/A
2022	2.11%	2.74%
2023	2.48%	3.15%
2024	2.55%	3.56%
2025	2.62%	3.49%
2026	2.68%	3.79%

[and thereafter]

The compensation COLAs and CPI-Ms used in the projections for FY 2020 were as follows:

CBY	COLA	CPI-M
2020	N/A	N/A
2021	1.87%	3.21%
2022	2.14%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025	2.30%	3.94%

[and thereafter]

DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2021 and FY 2020, respectively. Interest rate assumptions utilized for FY 2021 discounting were as follows:

Discount Rates
For wage benefits:
2.231% in Year 1 and years thereafter;
For medical benefits:
2.060% in Year 1 and years thereafter.

Interest rate assumptions utilized for FY 2020 discounting were as follows:

Discount Rates
For wage benefits:
2.414% in Year 1 and years thereafter;
For medical benefits:
2.303% in Year 1 and years thereafter.

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

The American Rescue Plan Act, P.L. 117-2, section 4016, *Eligibility for Workers' Compensation Benefits for Federal Employees Diagnosed with COVID-19*, mandated that the FECA Special Benefits Fund assume an unreimbursed liability (i.e., a liability that is not chargeable to the agencies) for approved claims of certain covered employees for injuries proximately caused by exposure to the novel coronavirus that causes COVID-19 (or another coronavirus declared to be a pandemic by public health authorities) while performing official duties during the covered exposure period. Pursuant to section 4016, these claims must be accepted on or after March 12, 2021 and through September 30, 2030 and cover benefits for disability compensation and medical services and survivor benefits. Accordingly, section 4016 future benefits are properly omitted from the table of Estimates of Total FECA Future Liabilities as of September 30, 2021.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2021	2020
(Amounts in thousands)		
1. Environmental Liabilities – Other Than Intragovernmental		
A. Accrued Environmental Restoration Liabilities	-	-
B. Other Accrued Environmental Liabilities – Non-BRAC	-	-
1. Environmental Corrective Action	-	-
2. Environmental Closure Requirements (Non-Asbestos)	140,332	110,282
3. Environmental Response at Operational Ranges	-	-
4. Asbestos	348,184	391,447
C. Base Realignment and Closure Installations	-	-
D. Environmental Disposal for Military Equipment/Weapons Programs	-	-
E. Chemical Weapons Disposal Program	-	-
2. Total Environmental and Disposal Liabilities	$ 488,516	$ 501,729

Types of Environmental and Disposal Liabilities (E&DL) Identified

The Army WCF report for Environmental & Disposal Liabilities (E&DL) consists of only asset-driven liabilities (closure and disposal) for PP&E. Event-driven liabilities caused by the release of contamination to the environment that require future cleanup are all covered under the Army General Fund (GF). Asset-driven liabilities are the environmental closure and disposal costs incurred at the end of the asset's useful life. The Army WCF E&DL is reported in the following categories:

1.B.2 Environmental Closure Requirements
1.B.4 Asbestos

The Army WCF E&DL addresses asset-driven disposal liabilities for operational assets such as buildings (asbestos, lead-based paint, other environmental issues), underground storage tanks (USTs), aboveground storage tanks (ASTs), piping associated with storage tanks, landfills, Nuclear Regulatory Commission (NRC) Licensed commodities, and open burn/open detonation (OB/OD) areas.

For each category, the E&DL reflects the estimated future work required to address legal and environmental requirements.

Applicable Laws, Guidance and Regulations

This section provides the guidance, policies, laws, and regulations that govern the development and reporting of the environmental and disposal liabilities.

Applicable laws and regulations addressing cleanup requirements include:

- *Toxic Substances Control Act* (TSCA)
- *Low-Level Radioactive Waste Act*
- *Resource Conservation and Recovery Act* (RCRA)
- *Asbestos Hazard Emergency Response Act* (AHERA)
- *Nuclear Regulatory Commission Regulation (NUREG)* – (e.g. NUREG 1757 - Consolidated Decommissioning Guidance and NUREG CR6477 - Revised Analyses of Decommissioning Reference Non-Fuel-Cycle Facilities)
- Federal Accounting Standards Advisory Board (FASAB) published Technical Bulletin (TB) 2006-1 (FASAB TB 2006-1), *Recognition and Measurement of Asbestos-Related Cleanup Costs and Technical Release 10, Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities, and Installed Equipment*

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The General Fund Enterprise Business System (GFEBS) is the source of asset data used to develop the E&DL estimates for Army assets, except OB/OD and NRC licenses. OB/OD units inventory which are developed using the Joint Ordnance Commanders Group report and supplemented by the Army's G-9 Environmental Quality annual data call. The Army NRC license holders, the Director of Army Safety, and the United States Nuclear and Countering Weapons of Mass Destruction Agency (USANCA) track the listing of radioactive materials license holders.

Asset-driven liabilities for facility closures/disposal include the environmental costs associated with a building demolition. The environmental liability associated with facility closures are made up of the costs for asbestos and Other Regulated Materials (ORM). For asbestos, the costs include a cost for pre-demolition surveys and a cost for potential abatement. ORM covers all other environmentally regulated materials that would need to be removed and properly disposed as part of the building closure and the cost for the environmental survey. The historical costs to support the estimating model is taken from various sites located within the United States and updated annually. The costs for the historical contracted demolitions are leveraged to establish a Unit Cost Factor (UCF) for asbestos and ORM. UCFs are applied to asset inventory data to develop environmental closure liabilities. Environmental closure liabilities for individual building demolition will vary depending on location, so to account for such environmental related building closure liabilities are reported in aggregate and adjusted for area cost variations. The methodology is based on the September 30, 2015 Assistant Secretary of Defense (Energy, Installation and Environment) memo entitled, “Strategy for Environmental & Disposal Liabilities Audit Readiness”. On July 12, 1989, EPA issued a final rule banning most asbestos-containing products. In 1991, this regulation was overturned by the Fifth Circuit Court of Appeals in New Orleans. As a result of the Court’s decision, the 1989 asbestos regulation only bans new uses of asbestos in products that would be initiated for the first time after 1989 and bans the following specific asbestos-containing products: flooring felt, rollboard, and corrugated, commercial, or specialty paper.

OB/OD are environmentally permitted treatment units used to destroy unserviceable, unstable, or unusable munitions and explosives. The Army utilizes RACER modeling software to capture closure requirements and determine the environmental liabilities.

The Army also uses RACER modeling software to estimate environmental disposal liabilities for aboveground and underground storage tanks and piping. Cost estimates for storage tank closure were developed considering the size of tank. RACER cost estimates are developed for various categories within the tank inventory. The length of the piping is used to calculate the piping estimate. The costs estimates are adjusted using area cost factors when reporting the tank/piping E&DL.

The Army uses RACER modeling software to estimate environmental closure liabilities for landfills. Permitted landfills closure liabilities are estimated within RACER using federal solid waste closure requirements. The future closure costs for operating landfills considers the type of landfill (e.g., hazardous waste or sanitary/municipal), acreage and location. The reported environmental liability also includes post-closure requirements.

The Army WCF reports E&DL for Army NRC license holders as a part of the asset-driven liabilities. Army NRC license holders are regulated under the Low-Level Radioactive Waste Act (LLRW), and LLRW disposal is conducted in accordance with U.S. NRC regulations. Engineering estimates, leveraging the regulation above, are used to develop the NRC license holder estimates.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General PP&E

Cleanup costs are allocated to future periods where the PP&E still has useful life and these costs are not included in the current liability reporting. The unrecognized costs amounted to $3.9 million as of FY 2021 compared to the $3.3 million reported as of FY 2020. The recognized amounts are included in the Environmental Closure Requirements over the useful life of the asset.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

The Army WCF estimates are updated annually to reflect changes in previously unknown information, re-estimation based on different assumptions, price growth (inflation), increase in labor rates and materials, and lessons learned. Environmental liabilities may change in the future due to changes in laws and regulations, agreements with regulatory agencies, and advancements in technology.

All environmental liabilities as of FY 2021 and FY 2020 are stated in 2021 and 2020 dollars, respectively, as required by generally accepted accounting principles for federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities

The E&DL for the Army are based on accounting estimates, which require certain professional judgments and assumptions that are believed to be reasonable based upon information available to the Army at the time of calculating the estimates. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated.

The Army WCF has reported asbestos survey costs, but estimating the amount of non-friable asbestos removal/disposal at the time of building renovation or demolition, per FASAB TB 2006-1, presents too much uncertainty to estimate. Friable asbestos abatement estimates are based on historical costs of asbestos abatement during facility demolition.

The E&DL for some of the Army's WCF asset-driven liabilities are based on estimates, which are dependent on the accountable property system of record (APSR) and require certain technical judgments, historical cost information, and assumptions that are believed to be reasonable based upon information available at the time of calculating the estimates. Due to the dependencies on the APSR, the asset-driven liability methodologies assume that the APSR are accurate and the data used from these systems are the most up to date. Discrepancies, inaccuracies, and incompleteness of APSR data may cause the environmental liabilities for assets to be reported inaccurately on the Army's financial statement. The Army WCF is also uncertain regarding the costs for cleanup associated with general equipment. Currently, the Army WCF is still defining valuation methods to estimate general equipment disposal liabilities.

NOTE 15. OTHER LIABILITIES

As of September 30	2021		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others and Deferred Revenue	$ 2,423	$ -	$ 2,423
B. Liabilities for Nonentity Assets	383	-	383
C. Employer Contribution and Payroll Taxes Payable	-	-	-
D. Other Liabilities	-	-	-
E. Subtotal	2,806	-	2,806
F. Other Liabilities reported on Note 13, Federal Employee and Veteran Benefits Payable	51,694	-	51,694
G. Total Intragovernmental Other Liabilities	$ 54,500	$ -	$ 54,500
2. Other Than Intragovernmental			
A. Accrued Funded Payroll and Benefits	$ 212,493	$ -	$ 212,493
B. Advances from Others and Deferred Revenue	70,787	-	70,787
C. Deposit Funds and Suspense Accounts	15,948	-	15,948
D. Contract Holdbacks	452	-	452
E. Contingent Liabilities	-	300	300
F. Other Liabilities	-	-	-
G. Total Other Than Intragovernmental Other Liabilities	$ 299,680	$ 300	$ 299,980
3. Total Other Liabilities	$ 354,180	$ 300	$ 354,480

As of September 30	2020		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others and Deferred Revenue	$ 4,049	$ -	$ 4,049
B. Liabilities for Nonentity Assets	5	-	5
C. Employer Contribution and Payroll Taxes Payable	-	-	-
D. Other Liabilities	-	-	-
E. Subtotal	4,054	-	4,054
F. Other Liabilities reported on Note 13, Federal Employee and Veteran Benefits Payable	50,896	-	50,896
G. Total Intragovernmental Other Liabilities	$ 54,950	$ -	$ 54,950
2. Other Than Intragovernmental			
A. Accrued Funded Payroll and Benefits	$ 208,292	$ -	$ 208,292
B. Advances from Others and Deferred Revenue	102,282	-	102,282
C. Deposit Funds and Suspense Accounts	20,312	-	20,312
D. Contract Holdbacks	250	-	250
E. Contingent Liabilities	-	-	-
F. Other Liabilities	-	-	-
G. Total Other Than Intragovernmental Other Liabilities	$ 331,136	$ -	$ 331,136
3. Total Other Liabilities	$ 386,086	$ -	$ 386,086

Intragovernmental

Advances from Others and Deferred Revenue

Advances from Others represent liabilities for collections received from the customer to cover Army WCF's future expenses incurred or assets acquired related to fulfillment and delivery of the respective goods or services.

Liabilities from Nonentity Assets

Intragovernmental Liabilities from Nonentity Assets represent liabilities for collections reported as non-exchange revenues for which the Army WCF is acting on behalf of another Federal entity. Army WCF collects interest payments, penalties, and administrative fees from both individuals and organizations that are remitted to U.S. Treasury.

Other Than Intragovernmental

Accrued Funded Payroll and Benefits

Accrued funded payroll and benefits represents the estimated amount of liability for salaries, wages, and funded annual leave that has been earned but not yet paid.

Advances from Others and Deferred Revenue

Advances from Others represent liabilities for collections received from the customer to cover Army WCF's future expenses incurred or assets acquired related to fulfillment and delivery of the respective goods or services.

Deposit Funds and Suspense Accounts

Deposit funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily.

Contract Holdbacks

Contract holdbacks consist of amounts withheld from payments to contractors to assure compliance with contract terms, usually expressed as a percentage in the respective contract provisions.

Contingent Liabilities

Contingent liabilities include the accrual of various legal actions for which the Army Office of General Counsel considers an adverse decision probable and the amount of loss measureable. See Note 17, *Commitments and Contingencies*

In FY 2021, Employer Contributions and Payroll Taxes Payable, previously reflected in this note were moved to Note 13, *Federal Employee and Veteran Benefits Payable*.

NOTE 16. LEASES

Operating Leases

As of September 30	2021			
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total
1. Intragovernmental				
Future Payments Due Fiscal Year:				
2022	$ -	$ -	$ 12,990	$ 12,990
2023	-	-	13,252	13,252
2024	-	-	13,331	13,331
2025	-	-	13,395	13,395
2026	-	-	13,479	13,479
After 5 years	-	-	21,070	21,070
Total Intragovernmental Future Lease Payments	$ -	$ -	$ 87,517	$ 87,517
2. Other Than Intragovernmental				
Future Payments Due Fiscal Year:				
2022	$ 8	$ -	$ -	$ 8
2023	8	-	-	8
2024	8	-	-	8
2025	9	-	-	9
2026	9	-	-	9
After 5 years	121	-	-	121
Total Other Than Intragovernmental Future Lease Payments	$ 163	$ -	$ -	$ 163
3. Total Future Lease Payments	$ 163	$ -	$ 87,517	$ 87,680

As of September 30	Restated 2020			
(Amounts in thousands)	Land and Buildings	Equipment	Other	Total
1. Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2021	$ -	$ 65	$ 13,895	$ 13,960
2022	-	66	13,950	14,016
2023	-	68	14,030	14,098
2024	-	69	14,104	14,173
2025	-	69	14,192	14,261
After 5 years	-	69	21,948	22,017
Total Intragovernmental Future Lease Payments	$ -	$ 406	$ 92,119	$ 92,525
2. Other Than Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2021	$ 8	$ -	$ -	$ 8
2022	8	-	-	8
2023	8	-	-	8
2024	9	-	-	9
2025	9	-	-	9
After 5 years	137	-	-	137
Total Other Than Intragovernmental Future Lease Payments	$ 179	$ -	$ -	$ 179
3. Total Future Lease Payments	$ 179	$ 406	$ 92,119	$ 92,704

The future non-cancelable operating lease amounts presented for Army WCF include estimates for land, equipment and other leases. Other leases include GSA motor vehicles leases. The GSA motor vehicle future lease payments are based upon FY 2021 and FY 2020 annualized activity levels for motor vehicles obtained for indefinite assignment under the GSA Interagency Fleet Management System (IFMS) program (Federal Property Management Regulation Section 101-39.204).

The land lease includes 2.13 acres of land to construct, operate, and maintain railroad track/facilities. The land lease renews yearly with options until June 30, 2036 and restricts usage to only railway related activities. FY 2020 lease amounts were restated to properly reflect non-cancelable leases during the period.

NOTE 17. COMMITMENTS AND CONTINGENCIES

Nature of Contingency

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

In accordance with SFFAS No. 5, A*ccounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote.

During FY 2021, Army WCF accrued a $300 thousand contingent liabilities for a material claim related to Fair Labor Standards Act grievances with a probable possibility of loss. The estimated range of loss for the probable claim is between $300 thousand and $3 million. In addition, the Army WCF had an estimated range of loss between $200 thousand and $2 million related to overtime grievances where the possibility of loss is considered reasonably possible.

During FY 2020, the Army WCF had an estimated range of loss between $900 thousand to $12 million related to employee compensation and vendor contract disputes which are considered reasonably possible. There were, however, no claims with a probable possibility of loss.

Summary of Legal Contingent Liabilities						
As of September 30, 2021			Estimated Range of Loss			
(Amounts in thousands)	Accrued Liabilities		Lower End		Upper End	
Reasonable Possible	$	-	$	200	$	2,000
Probable	$	300	$	300	$	3,000

Summary of Legal Contingent Liabilities						
As of September 30, 2020			Estimated Range of Loss			
(Amounts in thousands)			Lower End		Upper End	
Reasonable Possible			$	900	$	12,000

As the end of FY 2021 and FY 2020, other legal claims existed for which the estimated loss amount or the range of loss could not be reasonably measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceedings, actions, and claims will materially affect the Army WCF's financial position or results of operation.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

Not Applicable

NOTE 19. GENERAL DISCLOSURES RELATED TO THE STATEMENTS OF NET COST

For the Period Ended September 30	2021			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Summary Adjustments	2021 Consolidated
1. Program Costs				
A. Gross Costs	$ 5,035,792	$ 13,491,075	$ (1,678,272)	$ 16,848,595
Operations, Readiness & Support	5,035,792	13,491,075	(1,678,272)	16,848,595
B. (Less: Earned Revenue)	(4,370,359)	(13,383,447)	1,679,917	(16,073,889)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	665,433	107,628	1,645	774,706
D. Net Program Costs Including Assumption Changes	665,433	107,628	1,645	774,706
2. Net Cost of Operations	$ 665,433	$ 107,628	$ 1,645	$ 774,706

For the Period Ended September 30	2020			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Summary Adjustments	2020 Consolidated
1. Program Costs				
A. Gross Costs	$ 5,708,958	$ 12,217,592	$ (1,896,424)	$ 16,030,126
Operations, Readiness & Support	5,708,958	12,217,592	(1,896,424)	16,030,126
B. (Less: Earned Revenue)	(5,139,204)	(13,120,540)	1,897,243	(16,362,501)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	569,754	(902,948)	819	(332,375)
D. Net Program Costs Including Assumption Changes	569,754	(902,948)	819	(332,375)
2. Net Cost of Operations	$ 569,754	$ (902,948)	$ 819	$ (332,375)

Information Related to the Statements of Net Cost

The Statements of Net Cost (SNC) represents the net cost of programs and organizations of the Army WCF that are supported by spending authority, appropriations, or other resources. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. Earned Revenue totaling $16.1 billion is presented net of $800.6 million in material returns as FY 2021. Earned Revenue for FY 2020 is $16.4 billion and presented net of $1.8 billion in material returns.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Information Related to the Statement of Changes in Net Position

Cumulative Results of Operations, Other on the Statement of Changes in Net Position primarily consists of other gains and other losses from non-exchange activity primarily attributable to intragovernmental transfers-in/out for which trading partners could not be identified.

During FY 2021, in steps towards achieving supportable beginning balances for General PP&E and in accordance with related initiatives across the Department of Defense, Army restated the FY 2020 construction-in-progress balances to remove balances that were previously erroneously reported. The impact of the change is also reflected in the Army WCF's net position. The restatement reflects a $58.7 million reduction in the Army WCF's General PP&E, Net line item on the Balance Sheet. See Note 28, *Restatements* for more information.

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Net adjustments to unobligated balance brought forward, October 1 represents the total of Recoveries of prior year unpaid obligations and Other changes in unobligated balance, together impacting the Obligated balance, end of the prior year and brought forward, October 1, as reported.

Terms of Borrowing Authority Used

The Army WCF has no borrowing authority.

Available Borrowing / Contract Authority

The Army WCF has no borrowing or contract authority as of the end of FY 2021.

Budgetary Resources Obligated for Undelivered Orders at the End of the Period

For the Years Ended September 30	2021	2020
(Amounts in thousands)		
1. Intragovernmental:		
A. Unpaid	$ 3,340,258	$ 2,983,294
B. Prepaid/Advanced	-	-
C. Total Intragovernmental	$ 3,340,258	$ 2,983,294
2. Other Than Intragovernmental:		
A. Unpaid	$ 2,806,152	$ 5,753,337
B. Prepaid/Advanced	137,871	135,277
C. Total Other Than Intragovernmental	$ 2,944,023	$ 5,888,614
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 6,284,281	$ 8,871,908

Intra-entity Transactions

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

Legal Arrangements Affecting the Use of Unobligated Balances

There are no legal arrangements affecting the use of unobligated balances of budgetary authority.

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

There are no material differences between the prior year amounts reported on the Army WCF SBR and actual FY 2020 amounts on the Budget of the U.S. Government. The Budget of the U.S. Government with the actual amounts for FY 2021 will be available at a later date on the OMB website.

Contributed Capital

The Army WCF does not have contributed capital.

COVID-19 Impacts

The COVID-19 pandemic has resulted in shifts in mission and priorities across the Department. As a result, demand and related inventory purchases have declined below initial targets impacting both the Army WCF funding and budget execution during the fiscal year. During FY 2021, as a result of these conditions, the SMA received $920.3 million in appropriation and balance transfers.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

Not Applicable

NOTE 23. FIDUCIARY ACTIVITIES

Not Applicable

NOTE 24. RECONCILIATION OF THE NET COST OF OPERATIONS TO NET OUTLAYS

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the Army WCF's Net Cost of Operations, reported on an accrual basis, and Net Outlays, reported on a budgetary basis. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the Army WCF's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the Army WCF. Outlays are payments to liquidate an obligation.

The FY 2020 reconciliation was modified to conform to the FY 2021 presentation.

Miscellaneous Reconciling Items, Other include the net impact of intragovernmental transfers. This line item is required to adjust the change in net assets for the transfers that do not result in a budgetary outlay and are not reflected in the Statements of Net Cost.

As of September 30	2021		
	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	$ (7,585,736)	$ 8,360,442	$ 774,706
Components of Net Cost Not Part of Net Outlays			
2. General property, plant, and equipment, net changes	$ -	$ (61,516)	$ (61,516)
3. Year-end credit reform subsidy re-estimates	-	-	-
4. Increase/(decrease) in assets:			
a. Accounts and taxes receivable, net	(90,356)	(7,579)	(97,935)
b. Loans receivable, net	-	-	-
c. Other assets	-	(1,770)	(1,770)
5. Decrease/(increase) in liabilities:			
a. Accounts payable	21,712	155,792	177,504
b. Loans guarantee liability	-	-	-
c. Insurance and guarantee program liabilities	-	-	-
d. Environmental and disposal liabilities	-	13,213	13,213
e. Benefits due and payable	-	-	-
f. Federal employee and veteran benefits payable	-	8,389	8,389
g. Other liabilities	1,248	31,156	32,404
6. Other financing sources:			
a. Imputed cost	(159,027)	-	(159,027)
b. Donated revenue	-	-	-
7. Total Components of Net Cost Not Part of Net Outlays	$ (226,423)	$ 137,685	$ (88,738)
Components of Net Outlays Not Part of Net Cost			
8. Acquisition of capital assets	$ -	$ -	$ -
9. Investments	-	-	-
10. Inventories and related property	-	(27,383)	(27,383)
11. Debt	-	-	-
12. Other	-	-	-
13. Total Components of Net Outlays Not Part of Net Cost	$ -	$ (27,383)	$ (27,383)
Miscellaneous Reconciling Items			
14. Eliminations between financing and non-financing	$ -	$ -	$ -
15. Distributed offsetting receipts	-	-	-
16. Other	98,552	(106,666)	(8,114)
17. Total Other Reconciling Items	$ 98,552	$ (106,666)	$ (8,114)
18. Total Net Outlays	$ (7,713,607)	$ 8,364,078	$ 650,471
19. Agency Outlays, Net (Statement of Budgetary Resources)			$ 650,471
20. Unreconciled Difference			$ -

As of September 30	Restated 2020		
	Federal	Non-Federal	Total
1. Net Cost of Operations (SNC)	$ (7,771,818)	$ 7,439,443	$ (332,375)
Components of Net Cost Not Part of Net Outlays			
2. General property, plant, and equipment, net changes	$ -	$ 891,647	$ 891,647
3. Year-end credit reform subsidy re-estimates	-	-	-
4. Increase/(decrease) in assets:			
a. Accounts and taxes receivable, net	43,752	(6,662)	37,090
b. Loans receivable, net	-	-	-
c. Other assets	-	35,435	35,435
5. Decrease/(increase) in liabilities:			
a. Accounts payable	(30,730)	56,013	25,283
b. Loans guarantee liability	-	-	-
c. Insurance and guarantee program liabilities	-	-	-
d. Environmental and disposal liabilities	-	(210,631)	(210,631)
e. Benefits due and payable	-	-	-
f. Federal employee and veteran benefits payable	-	74,575	74,575
g. Other liabilities	14,979	34,001	48,980
6. Other financing sources:			
a. Imputed cost	(147,292)	-	(147,292)
b. Donated revenue	-	-	-
7. Total Components of Net Cost Not Part of Net Outlays	$ (119,291)	$ 874,378	$ 755,087
Components of Net Outlays Not Part of Net Cost			
8. Acquisition of capital assets	$ -	$ -	$ -
9. Investments	-	-	-
10. Inventories and related property	-	1,967,792	1,967,792
11. Debt	-	-	-
12. Other	-	-	-
13. Total Components of Net Outlays Not Part of Net Cost	$ -	$ 1,967,792	$ 1,967,792
Miscellaneous Reconciling Items			
14. Eliminations between financing and non-financing	$ -	$ -	$ -
15. Distributed offsetting receipts	-	-	-
16. Other	(949,649)	-	(949,649)
17. Total Other Reconciling Items	$ (949,649)	$ -	$ (949,649)
18. Total Net Outlays	$ (8,840,758)	$ 10,281,613	$ 1,440,855
19. Agency Outlays, Net (Statement of Budgetary Resources)			$ 1,432,350
20. Unreconciled Difference			$ 8,505

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

Public-Private Partnerships are defined as "risk-sharing arrangements or transactions lasting more than five years between public and private sector entities." SFFAS 49, *Public-Private Partnerships* establish disclosure requirements. The Army WCF has assessed its agreements and has not identified any Public-Private Partnerships to date.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

Not Applicable

NOTE 27. SECURITY ASSISTANCE ACCOUNTS

Not Applicable

NOTE 28. RESTATEMENTS

During FY 2021, in steps towards achieving supportable beginning balances for General PP&E and in accordance with related initiatives across the Department of Defense, Army restated the FY 2020 construction-in-progress balances on the Balance Sheet to remove balances that were previously erroneously reported. The impact of the change is also reflected in the Army WCF's net position on the Statement of Changes in Net Position. The restatement reflects a $58.7 million reduction in the Army WCF's General PP&E, Net line item on the Balance Sheet.

NOTE 29. COVID-19 ACTIVITY

The COVID-19 pandemic has resulted in shifts in mission and priorities across the Department. As a result, demand and related inventory purchases have declined below initial targets. During FY 2021, as a result of these conditions, the SMA received $920.3 million in appropriation and balance transfers.

During FY 2020, in response to the initial shifts in demand that resulted from the pandemic, the Army WCF received $492.1 million and $100.0 million in appropriation and balance transfers to the SMA and IO business activity, respectively.

See Note 21 for additional information related to the impact of the COVID-19 Activity on the Army WCF's budgetary resources and related execution.

NOTE 30. SUBSEQUENT EVENTS

The Army WCF does not have subsequent events as of November 8, 2021.

NOTE 31. RESCLASSIFICATION OF FINANCIAL STATEMENT LINE ITEMS FOR FINANCIAL REPORT COMPILATION PROCESS

Not Applicable

Department of Defense — Army Working Capital Fund

SCHEDULE OF DISAGGREGATED BUDGETARY RESOURCES

For the Periods Ended September 30, 2021 and 2020

Amounts in thousands	Industrial Operations	Supply Management Activities	Component	2021 Combined	2020 Combined
Budgetary Resources:					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 4,661,029	$ 889,061	$ -	$ 5,550,090	$ 4,831,857
Appropriations (discretionary and mandatory)	157,551	153,061	-	310,612	489,743
Contract Authority (discretionary and mandatory)	56,560	4,163,224	-	4,219,784	8,624,792
Spending Authority from offsetting collections (discretionary and mandatory)	4,093,517	32	-	4,093,549	4,871,695
Total Budgetary Resources	$ 8,968,657	$ 5,205,378	$ -	$ 14,174,035	$ 18,818,087
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 5,107,610	$ 5,128,735	$ -	$ 10,236,345	$ 14,562,782
Unobligated balance, end of year:					
Apportioned, unexpired accounts	3,861,047	76,643	-	3,937,690	4,255,305
Unexpired unobligated balance, end of year	3,861,047	76,643	-	3,937,690	4,255,305
Unobligated balance, end of year (total)	3,861,047	76,643	-	3,937,690	4,255,305
Total Budgetary Resources	$ 8,968,657	$ 5,205,378	$ -	$ 14,174,035	$ 18,818,087
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	541,503	104,078	4,890	650,471	1,432,350
Agency Outlays, net (discretionary and mandatory)	$ 541,503	$ 104,078	$ 4,890	$ 650,471	$ 1,432,350

Department of Defense — Army Working Capital Fund

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

For the Years Ended September 30, 2021 and 2020
(In Millions)

	Fiscal Year 2021			**Fiscal Year 2020**		
Property Type	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/ Plant Replacement Value)	Plant Replacement Value	Required Work (Deferred maintenance and repair)	Percentage (Required Work/ Plant Replacement Value)
Active Real Property						
Category 1: Buildings, Structures, and Linear Structures (Enduring Facilities)	$14,716	$1,743	12%	$16,129	$ 1,858	12%
Category 2: Buildings Structures, and Linear Structures (Heritage Assets)	$8,101	$762	9%	$10,196	$1,433	14%
Inactive Real Property						
Category 3: Building, Structures, and Linear Structures (Excess Facilities or Planned for Replacement	$715	$136	19%	$718	$136	19%

Per DoD Financial Management Regulation 7000 14-R (December 2016), Volume 6B, Chapter 12; Para 120303, the Army's deferred maintenance estimates for FY 2021 and FY 2020 include all facilities in which DoD has an ownership interest under the control of the Army and are not funded for Sustainment by another service, Non-Appropriated Funds, commissary surcharges or non-DoD sources. Assets that have been fully disposed, damaged beyond repair, are obsolete or have been privatized are excluded.

The deferred maintenance estimates are based on the facility Q-ratings reported in Installation Status Report (ISR) fourth quarter FY 2021 and FY 2020 or Q-ratings obtained by application of business rules described below. For FY 2021 and FY 2020, the Q-rating values range from 0 to 100. Deferred maintenance is calculated as follows:

Deferred Maintenance = (100 – Q-rating) x 0.01 x plant replacement value (PRV)

Q-ratings are determined by the ISR for the majority of facilities, and by business rule for the remaining facilities. During ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each facility based on the condition rating of each component of the facility, and the component improvement cost factor. Improvement cost factors are developed using industry standards for each facility component within each facility type. The business rule assignment of Q-ratings is as follows: 95 if the facility is no more than 5 years old; 85 if the facility is permanent or semi-permanent construction and between 5 and 15 years old; 70 if the facility is permanent or semi-permanent construction and more than 15 years old; 40 if the facility is temporary construction and more than 5 years old; 95 if the asset is a lease. For assets with a Non-Functional operational status, assigned Q-ratings are 95 if the reason code is RENO, 70 if the reason code is ENVR, and 40 if the reason code is DAMG. Acceptable operating condition represents facilities with no deferred maintenance. Facilities of all ownership interests are included in the data set; relocatable buildings are excluded.

Property Categories are as follows:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission including multi-use Heritage Assets Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of “Active” or “Semi-Active” are included, less those that meet the following criteria:
    1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
    2. The asset is designated as a Heritage Asset
    3. A Disposal Completion Date is associated with the Asset
    4. A Disposal Reason Code is associated with the asset
- Category 2: Buildings, Structures, and Utilities that are Heritage Assets Facilities that are Permanent, Semi-Permanent, or Temporary with an Operational Status of “Active” or “Semi-Active” and a Historic Status Code that designates it as Heritage, are included, less those that meet the following criteria:
    1. The asset has a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year
    2. A Disposal Completion Date is associated with the asset
    3. A Disposal Reason Code is associated with the asset
- Category 3: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal including multi-use Heritage Assets Facilities with an Operational Status of “Caretaker”, “Excess”, “Non-Functional”, “Outgrant”, “Surplus” or “Closed” plus “Active” and “Semi-active” with a Disposal Reason Code plus “Active” and “Semi-active” with a Planned Program Event of Abandon In Place, Caretaker/Mothball, Disposal or Replace with a Planned Date within the current or subsequent fiscal year.

Equipment Deferred Maintenance and Repair

The Army WCF’s depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. The Army WCF is in the process of developing a methodology to identify and properly report the value of deferred maintenance and repair requirements for its equipment.

1. Proficiency testing in basic infantry and tasks (U.S. Army photo by Spc. Jessica Scott)
2. Fitness challenge (U.S. Army photo by 1st Lt. Angelo Mejia)
3. A soldier takes a fighting position during a simulated gas attack. (U.S. Army photo by Sgt. Randis Monroe)
4. Bilateral exercises to enhances long-range interception capabilities (U.S. Army photo by Sgt. 1st Class Justin A. Naylor)
5. Rehearsing for a change of command ceremony. (U.S. Army photo by Capt. David Gasperson)
6. Performing preflight checks on an RQ-20 Puma unmanned aircraft system. (U.S. Army photo by Staff Sgt. Tawny Schmit)
7. Soldiers practice exiting CH-47 Chinook helicopters. (U.S. Army photo by Maj. Robert Fellingham)
8. Donning protective gas mask during a chemical, biological, radiological, and nuclear training exercise. (U.S. Army photo by Spc. Aaliyah Craven)
9. Soldiers perform routine maintenance on AH-64 Apache Helicopters. (U.S. Army photo Sgt. Sarah D. Sangster)
10. Recruiting and family day live-fire artillery demonstration (U.S. Army photo by Ileen Kennedy)
11. Rear tire replacement on a Black Hawk helicopter (U.S. Army photo by 2nd Lt. Kyle Gallagher)
12. Creating a sector sketch before a combined urban assault training event. (U.S. Army photo by Marine Corps Cpl. Michael Jefferson)
13. Face and wrist scan at a screening terminal in an effort to eliminate required staffing of soldiers, and help with contact tracing (U.S. Army photo by Reserve Master Sgt. Michel Sauret)
14. Competing in the obstacle course event (U.S. Army photo by Staff Sgt. Dongjun Lee)

We are interested in your feedback regarding the content of this report.
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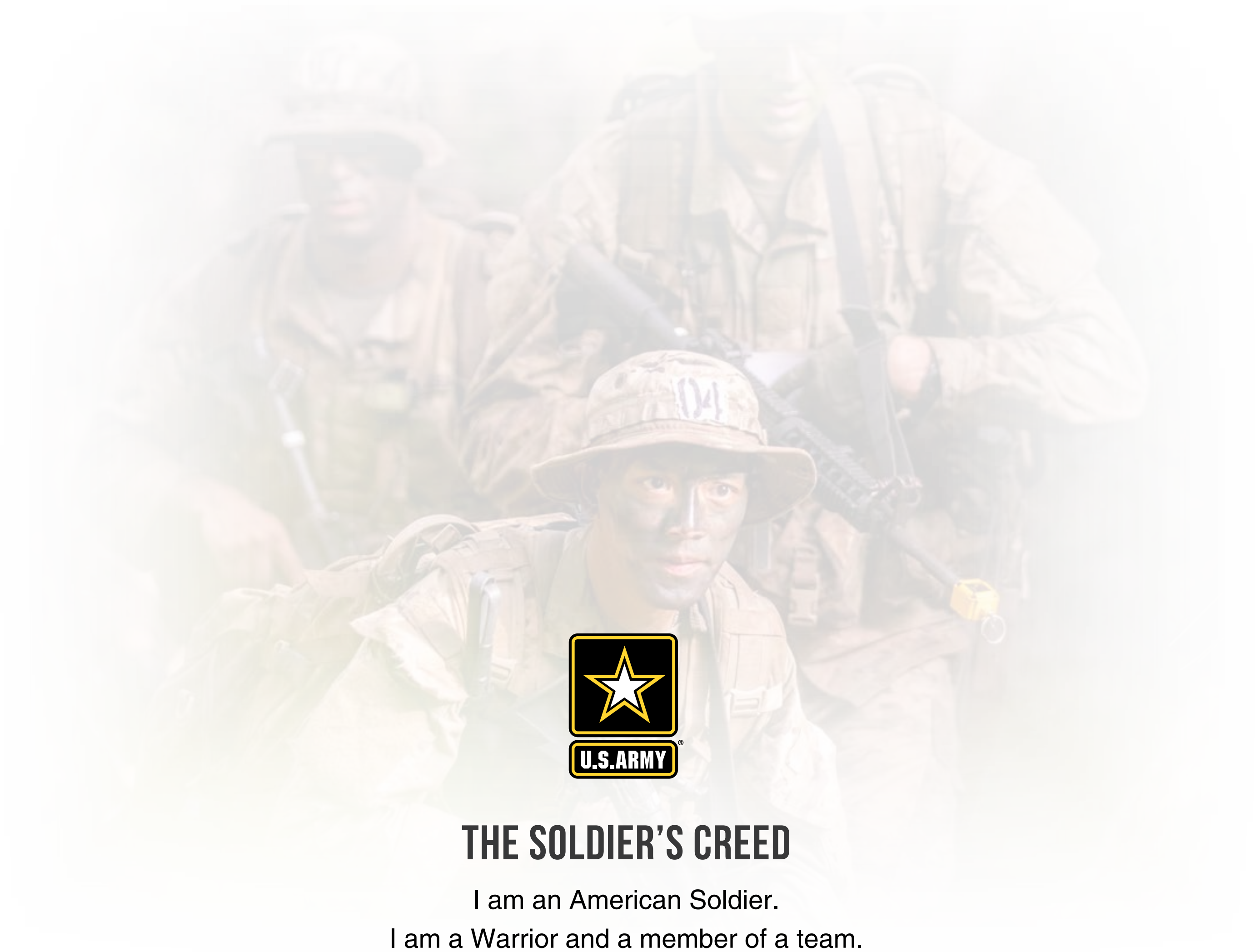

THE SOLDIER'S CREED

I am an American Soldier.
I am a Warrior and a member of a team.
I serve the people of the United States and live the Army Values.
I will always place the mission first.
I will never accept defeat.
I will never quit.
I will never leave a fallen comrade.
I am disciplined, physically and mentally tough, trained and
proficient in my warrior tasks and drills.
I always maintain my arms, my equipment and myself.
I am an expert and I am a professional.
I stand ready to deploy, engage, and destroy the enemies of the
United States of America in close combat.
I am a guardian of freedom and the American way of life.
I am an American Soldier.