U.S.ARMY

FISCAL YEAR
2019
UNITED STATES
ARMY
ANNUAL
FINANCIAL REPORT

A VISION OF CHANGE

ADAPTING FOR SUSTAINABILITY

FISCAL YEAR 2019 UNITED STATES ARMY ANNUAL FINANCIAL REPORT

U.S. ARMY

FY 2019 CONTENTS

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Through multiple conflicts across a broad spectrum of operations in various locations around the world, the United States Army has proven to be the most capable ground combat force in history, defending the Nation and serving the American people for more than 244 years. Today, the Army employs a high standard of excellence to consistently ensure trained and well-prepared forces for combat operations. The quality of its leaders, the skill and grit of the American Soldier, the superiority of its equipment, and its ability to adapt to and dominate a complex and dynamic environment as a member of the joint force has been the key to the Army's success.

In its "Army Vision of 2028," Army leadership detailed a 10-year plan to prepare for possible high-end warfare, which in today's environment now includes cyber and space, by growing its active force through attracting and retaining talented individuals, and by training and equipping our Soldiers for this future worldview.

By 2028 the Army will be ready to deploy, fight, and win decisively against any near-peer adversary within this ever-threatening environment, while concurrently deterring others and maintaining its ability to conduct irregular warfare where needed. The Army will also commit to its objectives for force growth in the National Guard and Army Reserve by similarly recruiting and retaining high-quality personnel.

The Army's 2019 Annual Financial Report demonstrates the unyielding focus and determination the Army has displayed in moving from a limited level of audit readiness, to its first full year financial statement audit by an independent accounting firm, and now its second year of an annual joint effort. The Army began the shift from legacy systems and business processes designed to operate in a pre-modernization era to capabilities that can conduct multi-domain operations across multiple platforms and against our most capable adversaries. This report contains a discussion of the material weaknesses challenging our audit readiness goals and the corrective actions we are taking to resolve them.

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 through its six modernization priorities (Long-Range Precision Fires, Next Generation Combat Vehicle, Future Vertical Lift, Army Network, Air and Missile Defense, and Soldier Lethality) that will enable continuous advancements in readiness and will define American land power for another generation. These efforts will free time, money, and Soldiers to ensure they go to the highest priority activities that produce the greatest benefit. The Army will continue to prioritize resources to ensure its budget remains aligned with our Army Vision and the overall National Defense Strategy. The establishment of U.S. Army Futures Command during 2018 allows us to unify our entire modernization enterprise under one command. Futures Command will allow us to better partner with academia and the private sector to find innovative solutions to achieve our priorities and accomplish the objective of bringing the technical community closer to the warfighter.

Facing a potential peer threat within the next decade, our modern Army cannot afford to not be prepared. The Army must be ready to succeed at a moment's notice, and America's Soldiers must be prepared for the battlefields of tomorrow.

Ryan D. McCarthy

RYAN D. MCCARTHY

Secretary of the Army

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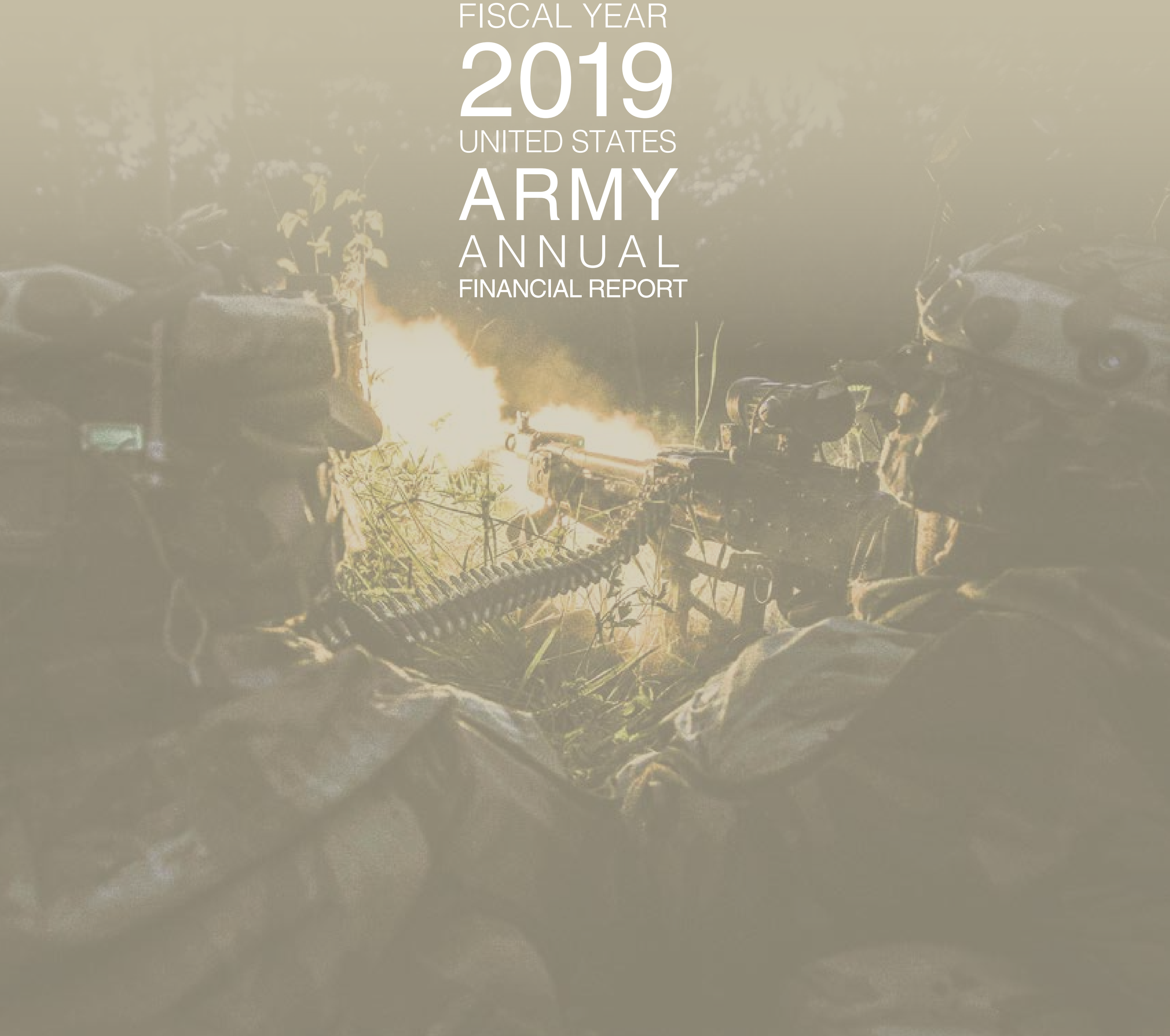


The Army entered its 2nd year of full financial statement audits in Fiscal Year (FY) 2019, building upon the momentum generated from its FY 2018 audits, and moving forward without interruption during FY 2019. Although the FY 2019 audit resulted in a disclaimer, the Army has made significant headway into improving its business processes and accountability. This Army Annual Financial Report (AFR) reflects our enduring commitment to achieving audit success to support in full the Army's mission through better management of our financial resources and with timely, accurate, and reliable information.

Continuing this progress, the Army is aggressively developing and maintaining a culture that expects auditable records at every level. These include, for example, Army leaders in logistics, acquisitions information technology, and facilities. To coordinate and support these leaders, the Army implemented the Business Mission Area Champion framework. In FY 2019 the Army focused on developing an Enterprise-level Universe of Transactions to improve the monitoring and reconciling of Fund Balance with Treasury, reduce the number of required manual journal vouchers, and ensure system posting logic and data categorization is compliant with the United States Treasury Financial Manual.

Another key step toward audit success is compliance within the Army Enterprise Resource Planning (ERP) systems. The General Fund Enterprise Business System (GFEBS), Logistics Modernization Program (LMP), and Global Combat Support System (GCSS)–Army are our primary systems of record providing financial visibility to achieve Army's operating goals at all levels. Inadequate information technology general controls (ITGCs) has been one of the biggest challenges the Army has faced, as well as non-standardized business processes across its Commands. In FY 2018, LMP passed an audit of its ITGCs – a major milestone and the first Army system to achieve this goal. During FY 2019, GFEBS began the System and Organization Controls (SOC 1) assessment procedure, which results in a report on Controls at a Service Organization, instrumental to user entities' internal control over financial reporting.

The Army's mission of improving and standardizing business processes likewise continued through FY 2019. This focused effort has created a collaborative environment in which leaders from Army commands meet to establish the functional processes and associated business rules for the organization to follow. The Army is committed to ensuring compliance with congressionally mandated auditability requirements and continues to implement systematic Corrective Action Plans to address key problems, document control procedures, and standardize business processes. As a result of Army's corrective actions, efficiency and effectiveness of controls is improved and transparency and accountability are achieved.

Army leaders and financial managers are committed to ensuring compliance with congressionally mandated auditability requirements to support achievement of Army priorities of readiness, modernization, and reform. A major milestone for the Army has been the completion of its first full financial statement audit in FY 2018, and our continued efforts during FY 2019 bring us one step closer to achieving a clean audit opinion.

JONATHAN D. MOAK

Senior Official Performing the Duties of the Assistant Secretary of the Army (Financial Management and Comptroller)

A VISION OF CHANGE: ADAPTING FOR SUSTAINABILITY

Soldiers assault the objective during a situational exercise. (U.S. Army Photo by Capt. Justin Wright)

SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS – GENERAL FUND

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.

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 fiscal year (FY) 2019 Army General Fund (GF) performance aligned with the Army's four principal strategic goals: readiness, modernization, reform, and people.

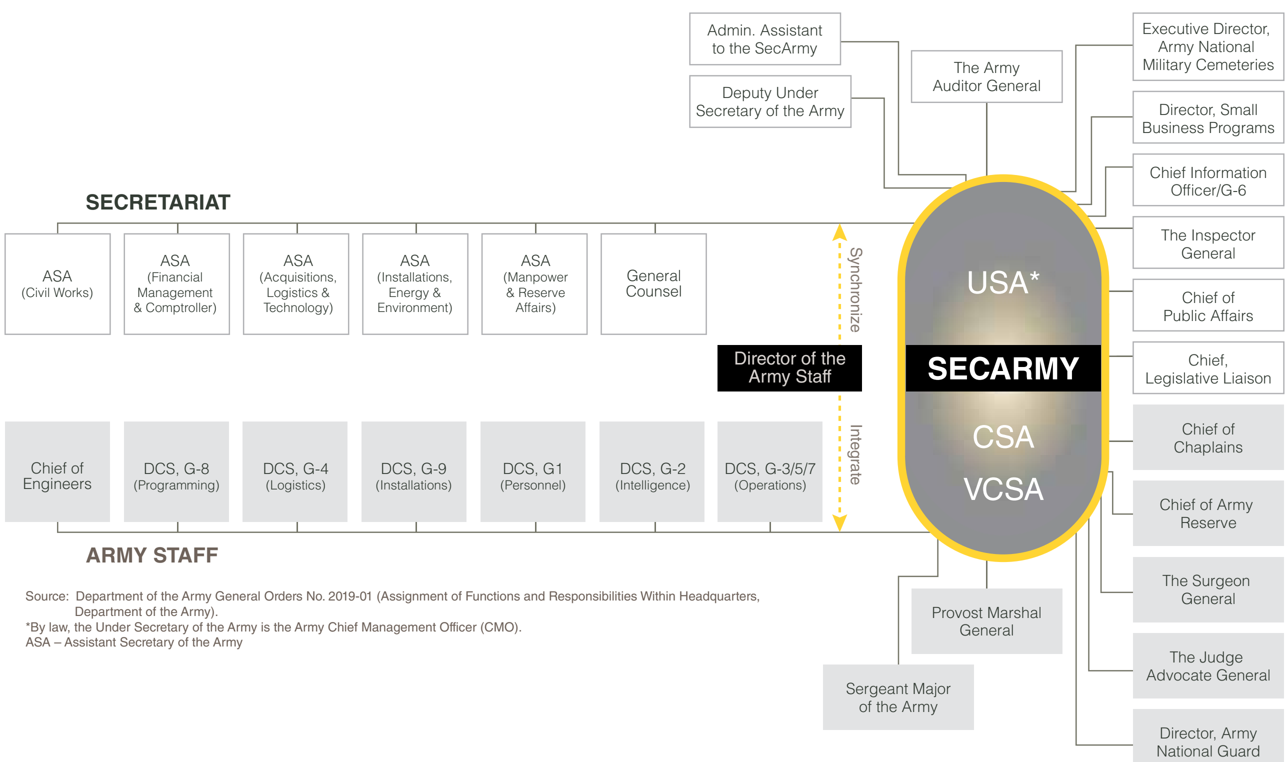
MISSION AND ORGANIZATION OF THE ARMY

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 the majority of its mission. The GF consists of assets and liabilities used to finance the daily and long-term operations of the U.S. Government as a whole.

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.

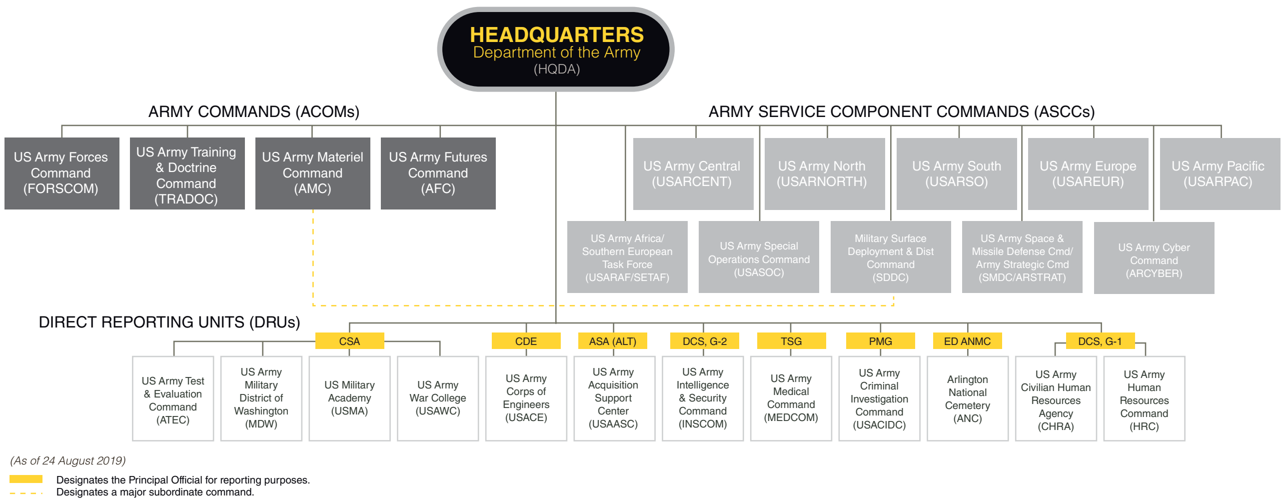
FIGURE 1. Headquarters, Department of the Army (HQDA)



Source: Department of the Army General Orders No. 2019-01 (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 (CMO).
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



In fall of 2018, Army stood up the Army Futures Command (AFC). Headquartered in Austin, TX, the Army Futures Command (AFC) vision is to offer innovators an opportunity in developing their ideas and technologies to advance its drive to protect tomorrow. As AFC commanding General John M. Murray indicated in October 2018, "We intend to develop the technologies and solutions that will enable us to modernize the force quickly, effectively and cost effectively, wherever and whenever they might be." The AFC utilizes the best expertise, regardless of source, working closely with industry, academic and private sector partners to create innovative solutions faster and better. Modernizing the way in which the Army does business, AFC facilitates a space of endless possibilities to explore, develop and test new methods, organizations and technologies. Above all, in anticipating our Soldiers' requirements, AFC ensures Soldiers have what they need, for future protection, today.

The three major elements of the AFC include: Futures and Concepts, Combat Development and Combat Systems. The former U.S. Army Capabilities Integration Center, renamed Futures and Concepts in December 2018, is responsible for studying and preparing the Army for the future. In January 2019 the Army Research, Development and Engineering Command transitioned from the Army Materiel Command (AMC) to AFC and was renamed the Combat Capabilities Development Command. As part of ongoing efforts to modernize its operations, tactics and technologies, the AFC held demonstrations of existing technology and equipment in May 2019, during which new robotic combat tanks and other vehicles, potentially helping reduce the risk to our Soldiers operating traditional vehicles on the battlefield, were showcased, underscoring Secretary Esper's assertion in his Army Vision for 2028 that “Robotics and artificial intelligence can fundamentally change the nature of warfare.”

In addition, in April, senior Army leadership conducted an overall Pentagon review of Army’s current programs, with participation from AFC cross-functional teams, to work with industry to enable “quick prototyping” of new systems to help expedite the modernization process by connecting private sector experts with viable ideas to Army’s requirements developers, who can then “fast track” the program, such as, for example, the optionally manned vehicle. The Future Vertical Lift Cross-Functional Team, for example, has rapidly begun developing two aircraft, the Future Attack Reconnaissance Aircraft and Future Long Range Attack Aircraft, which aim to replace some AH-64 Apache and UH-60 Black Hawk helicopters, respectively.

Conducting a multi-national platoon live fire qualification (Photo courtesy of the U.S. Army)

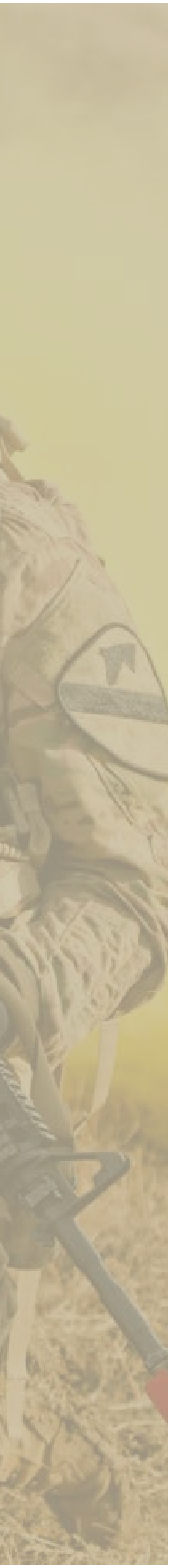
PERFORMANCE GOALS, OBJECTIVES, AND RESULTS – **GENERAL FUND**

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.*

Our Army must be ready to deploy, fight, and win decisively, anytime and anywhere, by conducting large-scale ground combat, joint, and, in the future, multi-domain operations (MDO). We develop leaders and units prepared to engage any potential adversary on future congested, contested, and contaminated battlefields, under persistent surveillance from satellite systems while encountering advanced threat

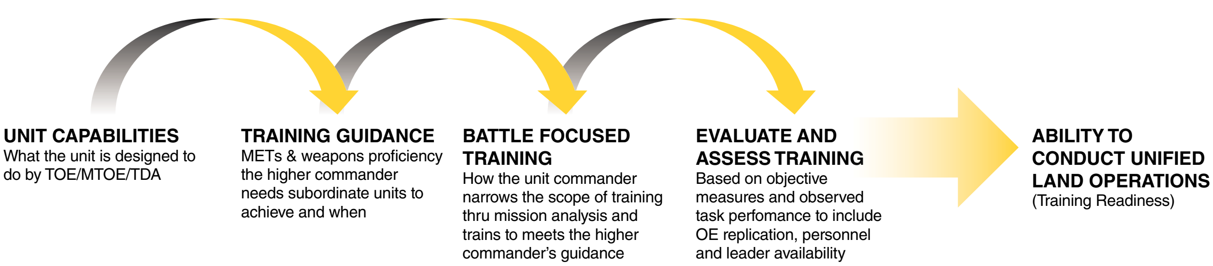


capabilities. The Army trains to build and sustain combat readiness through institutional training, home station training, the Combat Training Center Program, as well as Joint and Army Exercise Programs.

The training environment must provide realistic battlefield conditions. We are developing the simulation of operational environments (OE) with contested domains extending into the homeland; near-peer hybrid threats with potential overmatch; weapons of mass destruction; advanced cyberspace, electronic warfare, space, and contested space capabilities. Training is adding 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. Complexity and speed of exercise operations with mission command will develop leaders and units able to quickly adapt and exploit temporary windows of opportunity.

Leaders practice disciplined initiative, training to execute mission essential tasks. They can create realistic training and leader development environments using the intelligence informed regional decisive action training environments (DATE) (Europe, Pacific, Caucasus, and Africa). The DATE makes training for land operations dynamic and complex, while providing continuity of training conditions across all training domains and within live, virtual, and constructive (LVC) environments and, in the future, the Synthetic Training Environment (STE). Leader development emphasizes "how" and not "what" to think about the operational environments (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. Figure 3 is a brief illustration of how the Army manages readiness. By first looking at unit capabilities, and then by identifying the appropriate training and continually assessing and evaluating that training.

FIGURE 3. Managing Army Readiness



MET Mission-Essential Task
OE Operational Environment
MTOE Modified Table of Organization and Equipment
TDA Table of Distribution and Allowances
TOE Table of Organization and Equipment

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: Percent 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).
- Measure 1.1.b: Percent graduation rate. The graduation rate measures the number of Soldiers who graduated from their assigned training as a percentage of input.

Table 1 displays data from FY 2015 – 2018 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%. In the 10 categories of training displayed, Army was able to achieve its fill and graduation rate most of the time. The Army will continue to work toward meeting training quotas to assure its Soldiers are always ready. Note: Year-end FY 2019 data was not available at the time of AFR publication.

TABLE 1. Individual Training

	FY 2015					FY 2016					FY 2017					FY 2018				
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	97094	83723	82003	86%	98%	98171	85795	84493	87%	98%	97230	82429	80070	85%	97%	103519	86743	84375	84%	97%
BCT	81211	71807	65963	88%	92%	87697	72491	66096	83%	91%	91256	73501	67698	81%	92%	102631	74994	67808	73%	90%
BOLC	15202	12271	11998	81%	98%	15917	13178	12909	83%	98%	14831	12600	12289	85%	98%	15582	12935	12641	83%	98%
IERW	803	858	837	107%	98%	879	769	743	87%	97%	985	1045	1049	106%	100%	1088	1052	1023	97%	97%
IERW-CC	822	928	911	113%	98%	876	866	859	99%	99%	990	918	897	93%	98%	1088	1132	1109	104%	98%
INITIAL LANG	883	851	633	96%	74%	796	714	589	90%	82%	675	639	490	95%	77%	842	720	436	86%	61%
OCS	5868	3336	2891	57%	87%	4964	3281	2754	66%	84%	4282	3126	2770	73%	89%	4566	3779	3471	83%	92%
OSUT	32526	29474	26069	91%	88%	33698	30978	27050	92%	87%	37428	31416	28212	84%	90%	37848	31533	28221	83%	89%
WOBC	2671	2106	2098	79%	100%	3098	2603	2590	84%	100%	3313	2966	2948	90%	99%	3734	3121	3103	84%	99%
WOCS	2755	2078	1939	75%	93%	2701	2270	2140	84%	94%	2831	2441	2317	86%	95%	2842	2501	2420	88%	97%
TOTAL	**239835**	**207432**	**195342**	**86%**	**94%**	**248797**	**212945**	**200223**	**86%**	**94%**	**253821**	**211081**	**198740**	**83%**	**94%**	**273740**	**218510**	**204607**	**80%**	**94%**

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: Data includes multi-phase courses
Note 3: Data based on Army Training Requirements and Resources System (ATTRS) reports as of October 9, 2019

Objective 1.2: *Training Units*

The Army trains, as part of a joint team, to shape Operational Environments (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: 95% of brigades scheduled to participate in a CTC rotation during FY 2019 completed training. JRTC rotation 19-01 was cancelled in October 2018 due to a hurricane, otherwise the CTC Program would potentially have 100% execution.

TABLE 2. Brigade Training

	FY 2019	
	Target	Actual
Percent of scheduled brigades completing CTC rotations	100%	95%

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	15
	Army National Guard (ARNG) BCTs	4
Command Post Exercises	Army Service Component Commands	5
	Army Corps	4
	Army Divisions	8
	Army BCTs	5
	Army Sustainment Brigades	10
	Functional/ Multifunctional Brigades	22
	Army Special Forces	4

Soldiers conducting a multi-national platoon live fire qualification and enduring training exercise (Photo courtesy of the U.S. Army)

Objective 1.3: *Developing Adaptive Army Leaders*

Unit training and leader development are the Army's life-blood. Competent, ethical leaders with a warrior mentality are the Army's competitive advantage that cannot be replaced by technology, or substituted with advanced weaponry and platforms. 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 us to be ready to deploy, fight, and win decisively against any adversary.

Performance Indicators: Table 3 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 Education System (NCOES) 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 (grad). The Army will continue to strive to meet the quotas for professional development courses.

TABLE 4. Professional Development

		Professional Development									
		Noncomissioned Officer Education System (NCOES)					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 2015	Quota	44846	28706	14877	0	1921	3426	2351	701	12718	1851
	Grads	32338	20925	11959	0	1506	2985	2271	723	9112	1553
FY 2016	Quota	39241	30734	17665	0	2009	3231	2482	812	12493	1861
	Grads	32596	28021	16581	141	1525	2965	2248	804	8180	1565
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

Note 1: All data is based on start date, i.e., if a class starts in FY 2018 and graduates in FY 2019, it is counted as FY 2019 data.
Note 2: Data based on Army Training Requirements and Resources System (ATTRS) reports as of October 9, 2019.
Note 3: Year-end FY 2019 data was not available at the time of AFR publication.

Modernization

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

Giving commands during a practice missile reload and unload drills. (U.S. Army photo by Capt. Adan Cazarez)

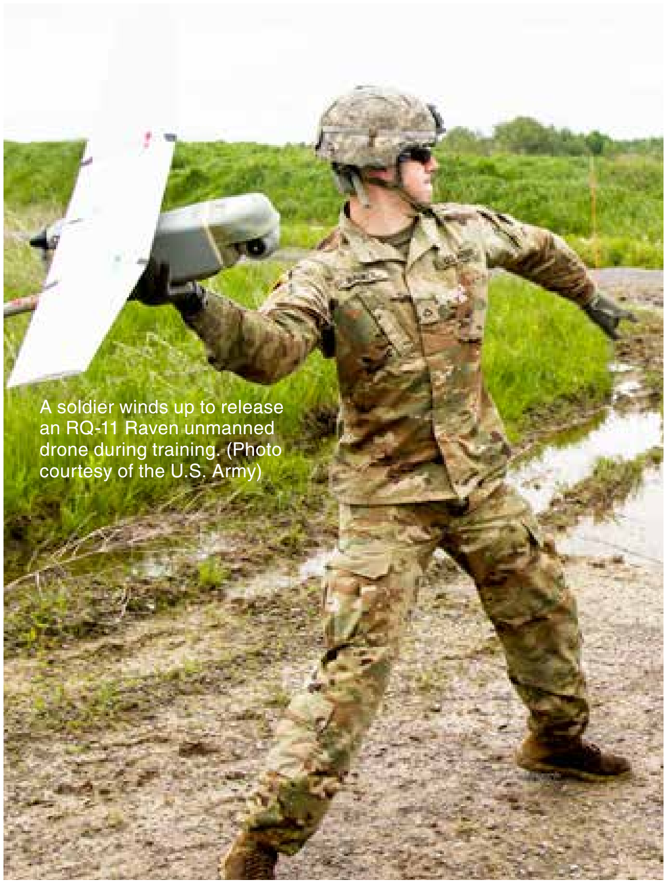
Modernization of the Army is critical to achieving the Army's mission. The Army has reached an inflection point: we can no longer afford to defer modernizing our formations and capabilities without risking overmatch and the ability to accomplish our mission on future battlefields. Given the challenges 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.



A soldier winds up to release an RQ-11 Raven unmanned drone during training. (Photo courtesy of the U.S. Army)

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 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 2019.

Objective 2.1: *Resourcing the equipment reset of operational (Operation and Maintenance, Army) and procurement programs (Other Procurement, Army) for overseas contingency operations.*

Contingency operation reset funding restores units to the desired level of combat readiness required for future missions. Reset is performed to restore equipment readiness. Reset encompasses maintenance and supply activities that restore and enhance combat capability to unit and pre-positioned equipment by repairing, rebuilding, or procuring replacement equipment that was either destroyed, damaged, stressed, or worn beyond economic repair due to contingency operations. Reset is a vital means for maintaining Army equipment readiness in order to sustain a force that is ready for any contingency.

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

- Measure 2.1.a: Percentage obligated of FY 2019 equipment reset operational and sustainment funding.
- Measure 2.1.b: Number of items repaired by AMC, including completed aircraft and vehicles.
- Measure 2.1.c: Percentage obligation of procurement funding for FY 2017, FY 2018, and FY 2019.

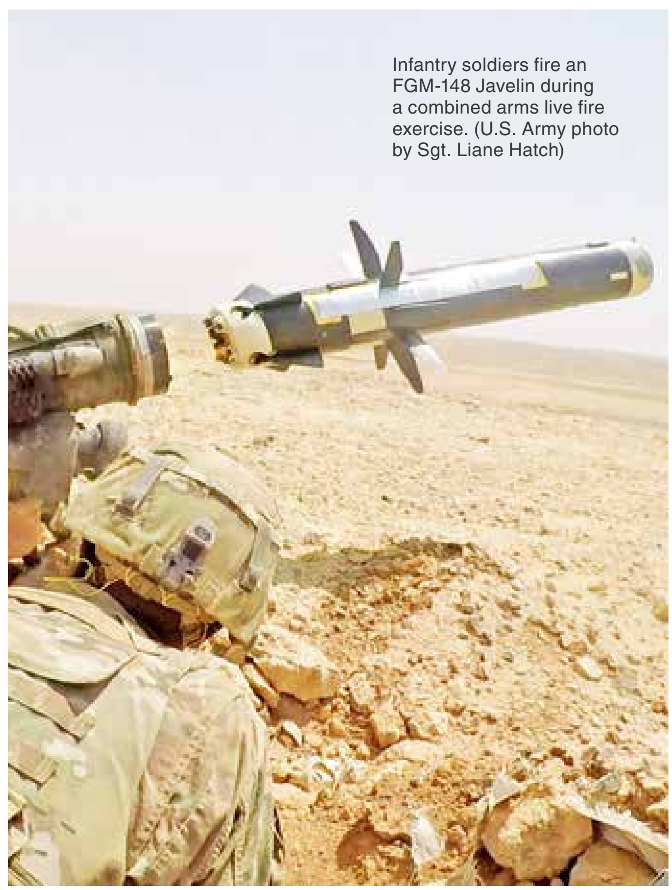
Performance Results: As of September 30, 2019, the Army had obligated 98% of the $1,466 million equipment reset operational and maintenance funding. The goal is 100% obligated by the end of FY 2019.

As of September 30, 2019, the AMC had repaired 9,309 items in sustainment level reset with a FY 2019 requirement of 13,739 items. AMC reported the completion of 117 aircraft with a FY 2019 requirement of 167. Items that are not completed in FY 2019 will be carried over to FY 2020. Eight brigades have completed field level reset.

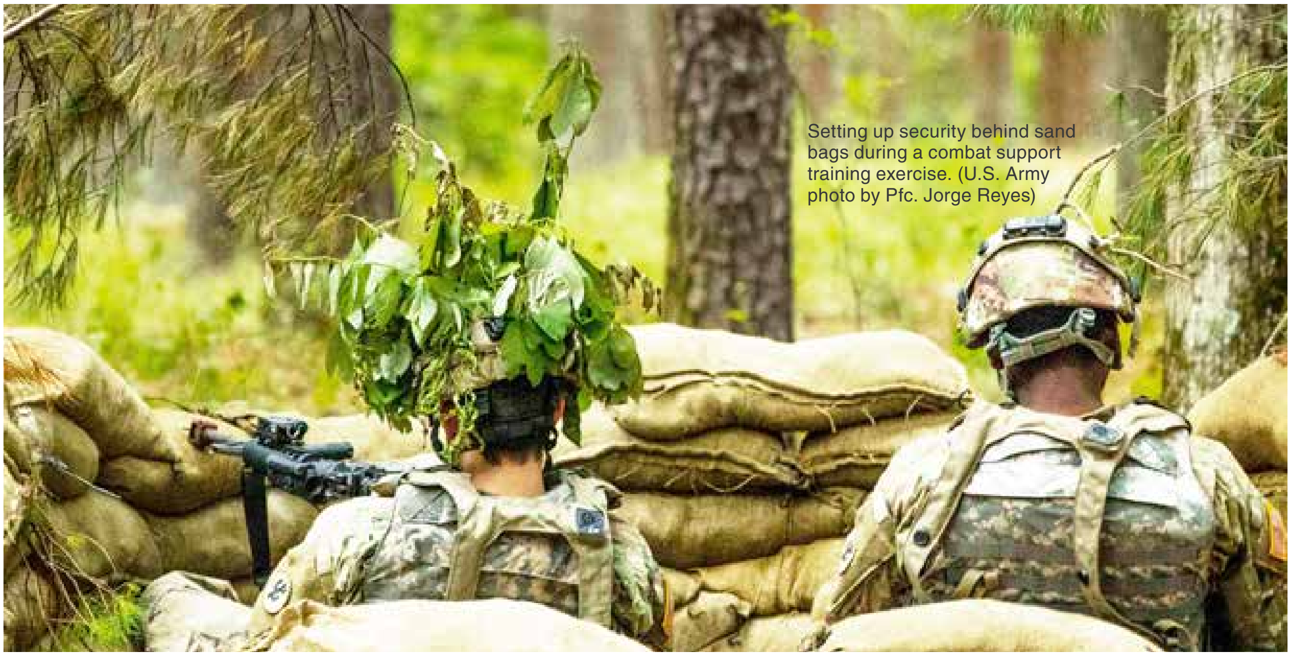
As of September 30, 2019, the Army executed 75% of the $378 million available from FY 2017 procurement funding, 98% of the $249 million available from FY 2017 procurement funding, and 99% of the $857 million available from FY 2019 procurement funding. The goal for procurement is 100% obligation of FY 2017, 90% of FY 2018 and 80% of FY 2019 funding. This funding directly supports the procurement of new equipment or the recapitalization of equipment used in a named operation.

Objective 2.2: *Department of Defense Information Network – Army (DoDIN-A) Operational Capabilities and Focus. Establish BCTs with new tactical network capabilities, highly expeditionary communications capability, and standardized mission command (MC) software applications. Standardize MC software applications in mounted and dismounted tactical environments.*

The desired future state for the network is a survivable unified end-to-end network that enables leaders to prepare, lead, and fight in high-intensity conflict with Unified Action Partners against any adversary anywhere, anytime, to win decisively in all domains.



Infantry soldiers fire an FGM-148 Javelin during a combined arms live fire exercise. (U.S. Army photo by Sgt. Liane Hatch)



Setting up security behind sand bags during a combat support training exercise. (U.S. Army photo by Pfc. Jorge Reyes)

DoDIN-A is the Army's contribution to the Department of Defense Information Network (DoDIN), which collects, processes, stores, disseminates, and manages information on demand to warfighters, policy makers, and support personnel. It includes all Army and Joint communications computing systems and services, software, data security services, and other associated services. This objective is in line with the Army modernization goals, specifically Army network.

In FY 2018, the Army presented a report to Congress in response to the National Defense Authorization Act for FY 2018 (Public Law 115-91), Section 112, which directs the Secretary of the Army, in consultation with the Chief of Staff of the Army, to submit a report to the congressional defense committees on the Army's strategy for modernizing air-land, ad hoc, mobile, tactical communications and data networks. The Army is pivoting to a new network modernization approach that is simple, intuitive, resilient, mobile, survivable and capable of operating in a contested environment against peer adversaries.

Currently, the Army's four network modernization lines of effort are: (1) unified network: merging of networks that operate worldwide in any environment; (2) common operating environment: computing environments that enable both joint and coalition operations; (3) interoperability: a network that enables collaboration with all unified action partners; and (4) command posts: capabilities that enable the Army to employ command posts across all operations. The Army's four network modernization lines of effort will develop a pilot future state of DoDIN-A by FY 2020, and a refined future state of DoDIN-A by FY 2025.

Performance Measure / Indicators: Tables 5-8 below displays measures that are performance indicators in determining progress in meeting this objective.

- <u>Measure 2.2.a</u>: Total number of BCTs equipped with Warfighter Information Network – Tactical (WIN-T) Increment 1 (Inc1), tactical networking capability.

- Measure 2.2.b: Total number of BCTs equipped with WIN-T Increment 2 (Inc2), tactical networking capability.
- Measure 2.2.c: Total number of BCTs equipped with highly expeditionary communications. This measure tracks the effort to establish a baseline of BCTs equipped with Transportable Tactical Command Communications (T2C2) systems.
- Measure 2.2.d: Total number of BCTs equipped with Software Block 11/12 (SWB 11/12) Capability Set (CS) baseline. The SWB 11/12 CS baseline implements common versions of Mission Command (MC) software applications.
- Measure 2.2.e: Total number of BCTs upgraded with the Command Post Computing Environment (CPCE). The CPCE will establish a Common Operating Environment by combining 15 MC software applications from SWB 11/12 CS into one.
- Measure 2.2.f: Total number of BCTs upgraded with Mobile/Handheld (M/HH) Computing Environment (CE).
- Measure 2.2.g: Total number of BCTs upgraded with the Mounted Computing Environment (MCE).

Performance Results: Tables 5-8 below display results of total number of BCTs equipped with each of the capabilities, communications, and applications. The future fiscal year and current year targets below are projections that may differ from those presented for the same years in the FY 2018 Annual Financial Report.

TABLE 5. BCTs Equipped with Tactical Network Capability

					FY 2019	
		FY 2020	FY 2021	FY 2022	Target	Actual
M 2.2.a	Total Number of BCTs w/ WIN-T Inc1	40	38	38	42	42
M 2.2.b	Total Number of BCTs w/ WIN-T Inc2	18	20	20	20	16

TABLE 6. BCTs Equipped with Highly Deployable Expeditionary Tactical Communications

							FY 2019	
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Target	Actual
M 2.2.c	Total Number of BCTs with highly deployable expeditionary communications	14	27	35	46	51	20	20

TABLE 7. BCTs Equipped with Standardized MC Software Applications

							FY 2019	
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Target	Actual
M 2.2.d	Total Number of BCTs with SWB 11/12	44	30	16	-	-	-	58
M 2.2.e	Total Number of BCTs with CPCE	14	28	42	58	58	58	-

TABLE 8. BCTs Equipped with Standardized MC Software Applications

							FY 2019	
		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	Target	Actual
M 2.2.f	Total Number of BCTs with M/HH CE	12	13	14	15	16	58	11
M 2.2.g	Total Number of BCTs with MCE	30	30	38	46	54	58	22

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: *Reorganizing Brigade Combat Teams (BCT) to Armored Brigade Combat Teams (ABCT) while assuring Soldiers and equipment are readily available.*

One of the projects during FY 2019 was to adjust and improve BCT capabilities, refocusing on large scale ground combat operations. In order to do this, the Army had a goal to increase power lethality by increasing ABCT capacity within the Army by one. To cut cost and gain efficiencies, the Army uses pre-established BCTs to transition to ABCTs.

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

- Measure 3.1.a: Increase the number of ABCTs by one in FY 2019.
- Measure 3.1.b: Percent of availability of authorized Soldiers.
- Measure 3.1.c: Percent of on hand pacing items.

Performance Results: In June 2019, the Army began the conversion of the 1st Brigade, 1st Armored Division (AD) at Fort Bliss, Texas from a Stryker Brigade Combat Team (SBCT) to an ABCT. This is an increase of 6% in ABCTs, increasing the Total Army quantity of ABCTs from 15 to 16, with 11 in the regular Army and 5 in the ARNG. The overall number of BCTs remains at 58 with 31 in the regular Army and 27 in the ARNG.

As of September 2019, 1st Brigade, 1st AD at Fort Bliss, Texas has 101% of its authorized Soldiers with 94% available for deployment.

The Army also monitors the quantity of on hand pacing items to include tanks, artillery systems. Currently, 20% of these items are on hand at Fort Bliss, Texas. Achieving high percentages of available Soldiers and on hand equipment is critical to a successful brigade-level training exercise in FY 2021.

A paratrooper emplaces a braizer charge during an exercise. (Photo courtesy of the U.S. Army)

The conversion of 1st Brigade, 1st AD at Fort Bliss, Texas continues through FY 2019 into FY 2021. This brigade will execute a training rotation at the National Training Center early in FY 2021 as part of its final certification before any planned deployments.

Objective 3.2: *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 EIC actions completed in FY 2019 are listed below.

Performance Indicators: Table 9 displays measures that are performance indicators in determining progress in meeting this objective.

- Measure 3.2: Percent of EIC actions completed.

Performance Results: In 2019 the Army spent approximately $27 million[1] to implement EIC actions. The Army completed two additional EIC actions in FY 2019, bringing the total completed to 18 of 33 actions[2]. Collectively, the 33 EIC actions require one-time costs across FY 2016-25 of $356 million[1] and will yield $105 million[3] in annual savings beginning in FY 2025. The annual savings the EIC effort produces will provide beneficial outcomes for the Army and the Joint Force. The net effect is to reduce costs significantly; eliminate excess infrastructure; and validate the remaining European infrastructure without degrading strategic or operational capabilities.

TABLE 9. EIC Performance Results

EIC Performance Results[4]	FY 2016	FY 2017	FY 2018	FY 2019
Number of EIC Actions scheduled to complete	2	1	3	1
Number of EIC Actions completed	3	1	2	2
Percentage	150%	100%	67%	200%

[1] Army EIC Cost and Savings Summary Exhibit, EC-02, as of 16 Sept 2019
[2] Army EIC Business Plan Coordination Spreadsheet & Army EIC Quick Wins Chart
[3] Army EIC Cost and Savings Summary Exhibit, EC-02, as of 16 Sept 2019 & Army "Quick Wins" Chart
[4] Army EIC Business Plan Coordination a/o 31 Jul 2019 & Army Quick Wins Status Chart a/o 16 Sept 2019

Objective 3.3: *Business Transformation Initiatives*

To optimize cost savings and improve the Army's ability to deliver readiness at the best value, the Army has refined and institutionalized its approach to business process improvement. The Army does this through application of a variety of methodologies, to include continuous process improvement (CPI) and business process reengineering (BPR). Through effective application of these core methodologies the Army is greatly improving its ability to ensure delivery of the highest possible product and service quality, on-time, every time, anywhere.

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 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. CPI efforts result in direct cost savings or cost avoidance achieved from FY 2015 baseline, with a target of 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 initial planned capabilities were the establishment of the center of excellence, development of BPR curriculum, and the development of a cadre of trained BPR specialists to support Army's business process owners with a target for delivery by the end of FY 2018. The BPR CoE currently supports training of professionals to support the optimization of Army end-to-end business processes, provides evaluations of BPR efforts in support of the Business Capability Acquisition Cycle (BCAC), and continues to evolve the modernized BPR approaches to support the force.
Performance Indicators: The measures below are performance indicators in determining progress in meeting this objective.

- Measure 3.3.a: FY 2018 financial benefits conferred from CPI initiatives.
- Measure 3.3.b: Number of students trained in BPR Foundation course.
- Measure 3.3.c: Number of students trained in BPR Intermediate course.

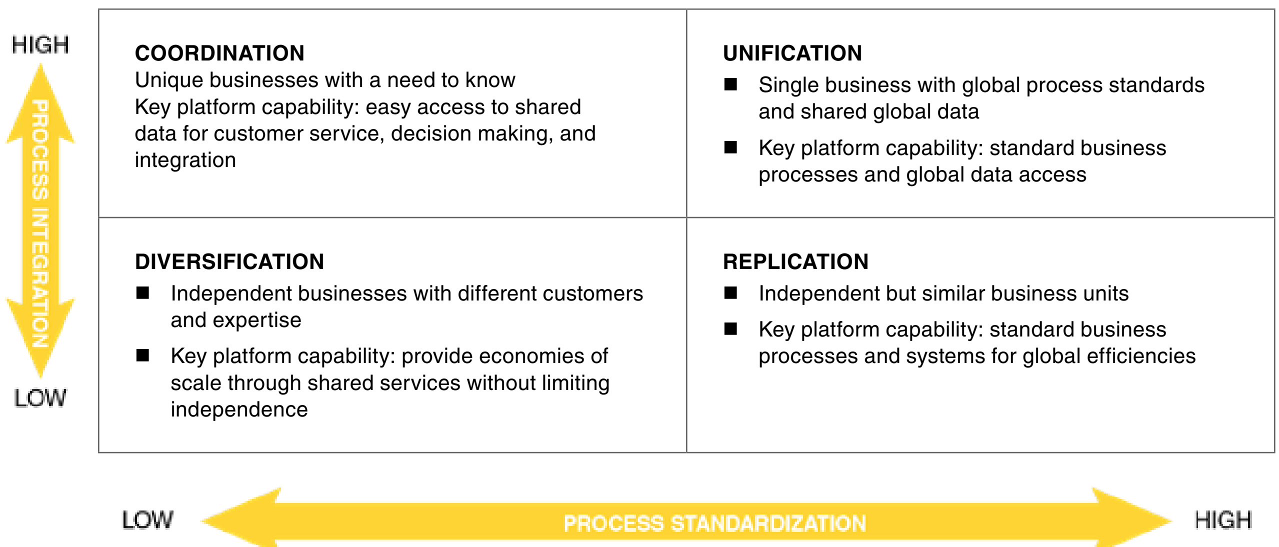
Performance Results: Army leaders continue their efforts to streamline and improve Army processes, infrastructure and organization design. Since the Secretary of the Army and Chief of Staff of the Army initiated the CPI effort in FY 2006, the program has delivered an average annual financial benefit (savings and cost avoidance) of $1 billion. In FY 2018, the Army's CPI efforts resulted in a financial benefit (savings and cost avoidance) of $3.75 billion. This is an increase of 9% over the FY 2017 amount.

In FY 2018, the BPR CoE reached full operational capability and began providing full service support. This followed the successful execution of preliminary training materials and a piloted BPR effort focused on enterprise identity management. The CoE has established a three-tiered training curriculum which culminates in an Army BPR Professional Certification. In FY 2018, 183 students completed the Tier One Foundation course and 35 students completed the Tier Two Intermediate course, with two preparing to enter Tier Three. The knowledge learned from these courses will support leaders as they continue to press the Army's strategic goal of reform.

Objective 3.4: *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.

FIGURE 4. BMA Business System Information



Weill, Peter and Ross, Jeanne. *IT Savvy*, p. 35

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

- Measure 3.4.a: Planned legacy system retirements accomplished on time. Target: 95%.

Performance Results: In FY 2015, the Army developed a plan to reduce the number of defense business systems (DBS) in the Army portfolio by more than one-third. The target number of DBS for sunset during FY 2018 was 79 systems. The Army retired 123 legacy DBS investments during FY 2018. The Army exceeded the planned number by 44 systems and surpassed the 95% target established in the Army Business Strategy.

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 492,000 Soldiers in FY 2026. 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 10-14 display measures that are performance indicators in determining progress in meeting this objective.

- <u>Measure 4.1.a</u>: Quality Percent Tier 1 Educational Credential Holders (Active Component).
- <u>Measure 4.1.b</u>: Total Enlisted Recruiting.
- <u>Measure 4.1.c</u>: Active Component End Strength. The number of Soldiers on active duty at the

A soldier hugs his daughter before taking off for a deployment (U.S. Air National Guard photo by Master Sgt. Matt Hecht)

FY-end; data as of September 30, 2019; 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 2015 – FY 2018 identified within the National Defense Authorization Act (NDAA). Goal and minimum of FY 2019 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, 2019.
- Measure 4.1.e: Number of Soldiers reenlisted during a given FY against published goals.

Performance Results: While the recruiting environment is challenging, 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, i.e., high school diploma or above. The Army has achieved approximately 94% Tier 1 recruits for FY 2019. The overall attrition rate has decreased from FY 2018 to FY 2019. The decreased attrition rate and overall quality of recruits are positive signs that the Army is recruiting, training, and retaining a highly qualified force.

The Army achieved the Active Component and Army National Guard (ARNG) FY19 recruiting mission. The Army are fell short of the United States Army Reserve (USAR) FY19 recruiting mission. Although falling short of its FY 2019 mission, the Army Reserve surpassed its FY 2019 end-strength target and therefore, only required (and achieved) 98.1 percent of its FY 2019 recruiting mission.

The retention program continued to support Army readiness by retaining Soldiers serving in high demand special skills areas. In FY 2019, the Army offered a selective retention bonus to attract and retain personnel in specific skill areas, including Special Forces, cyber, and language proficiencies. These bonuses, which are vital tools in retaining Soldiers who possess valuable combat experience, helped the Army exceed its FY 2019 retention goal. The Army will continue to develop and implement programs to address Soldier retention.

TABLE 10. Quality Percent Tier 1 Educational Credential Holders (Active Component)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Tier 1 Goal	90%	90%	90%	90%	90%
Tier 1 Actual*	98%	96%	96%	95%	94%

*Actual data as of FY-end September 2019.

TABLE 11. Enlisted Recruiting

	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Goal	FY 2018 Actual	FY 2019 Goal	FY 2019 Actual	Percent Delta
Active Component	59,177	62,681	68,862	76,500	69,972	68,000	68,185	+0.3%
ARNG	38,430	33,135	34,298	44,342	34,629	39,000	39,063	-1.9%
USAR	14,971	15,865	13,272	15,600	11,327	15,600	15,304	+0.2%

*Actual data as of September 30, 2019. The Percent Delta does has no adverse impact on Army Operational Readiness.

TABLE 12. Active Component End Strength

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Goal	490,000*	475,000*	476,000*	483,500*	478,000**
Actual*	491,365	475,400	476,245	476,179	483,941
Percent Delta	+0.3%	+0.1%	+0.05%	-1.5%	+1.2%

* Goals and minimums of FY15-FY18 identified within the National Defense Authorization Act (NDAA).
**Goal and minimum of FY19 established by SECARMY, approved by SECDEF, and within 2% of end-strength limits identified within the National Defense Authorization Act (NDAA).

TABLE 13. Reserve (ARNG and USAR) End Strength

	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Goal*	FY 2019 Actual*	Percent Delta
ARNG	350,023	341,590	343,603	335,204	335,500	335,973	+0.1%
USAR	198,552	198,395	194,318	188,811	189,250	190,719	+0.8%

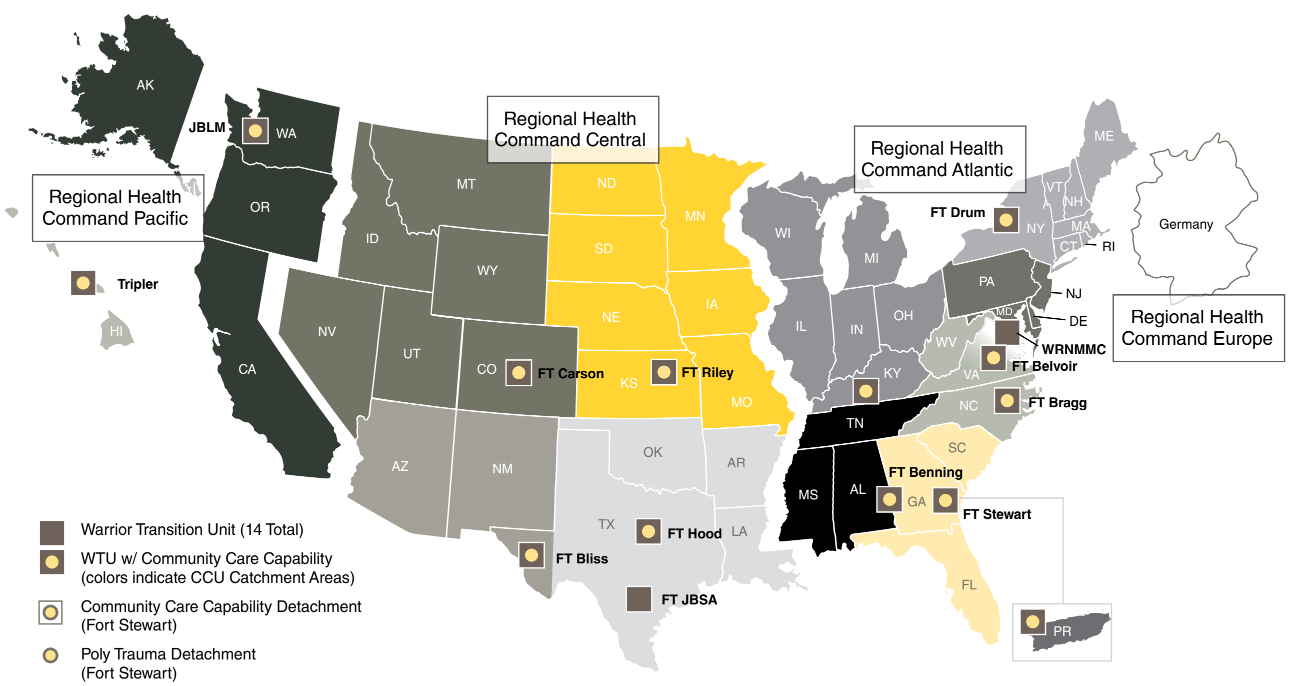
* Goal and minimum of FY19 established by SECARMY, approved by SECDEF, and within 2% of end-strength limits identified within the National Defense Authorization Act (NDAA).

TABLE 14. Active, National Guard and Reserve Component Retention

	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Actual	FY 2018 Actual	FY 2019 Goal	FY 2019 Actual	Percent Delta
Active Component	51,628	50,083	55,181	58,373	55,881	50,515	51,331	+1.6%
ARNG	43,817	35,713	31,319	31,530	34,913	35,200	36,138	+2.7%
USAR	15,230	16,102	15,886	16,737	19,012	13,434	17,089	+27.2%

* Actual data as of 30 September 2019.

Objective 4.2: *Providing Warrior Care and Transition*



The Warrior Care and Transition Program's (WCTP) congressionally mandated mission remains to provide the Army's wounded, ill, and injured Soldiers, Veterans, and their families with the medical management, access to care, and transition support they need and deserve. The MEDCOM Deputy Chief of Staff, Warrior Care and Transition (DCS-WCT) serves as the U.S. Army proponent to oversee, integrate, and synchronize policy, advocacy, and execution for warrior care initiatives as an integral enabler of Army Readiness. Our priority remains the approximately 4,972 wounded, ill, and injured (WII) that entered the WCTP across 14 Warrior Transition Units (WTUs) in the past 12 months. As the cornerstone of the program, the Comprehensive Transition Plan (CTP) remains a dynamic, domain-focused plan of action that continues to guide Soldiers through the Army's most difficult transition to a Veteran status or a return to the force. The CTP, combined with a Soldier-focused support system to include dedicated military and medical leaders that make up the Triad of Leadership and Triad of Care ensure the enduring success of the WCTP and its Soldiers. Dedicated Recovery Care Coordinators (RCCs) and the interdisciplinary team of the WCTP 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 through a comprehensive transition plan for successful reintegration back into the force or into the community with dignity, respect, and self-determination.*

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

Readiness:

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

Oversight:

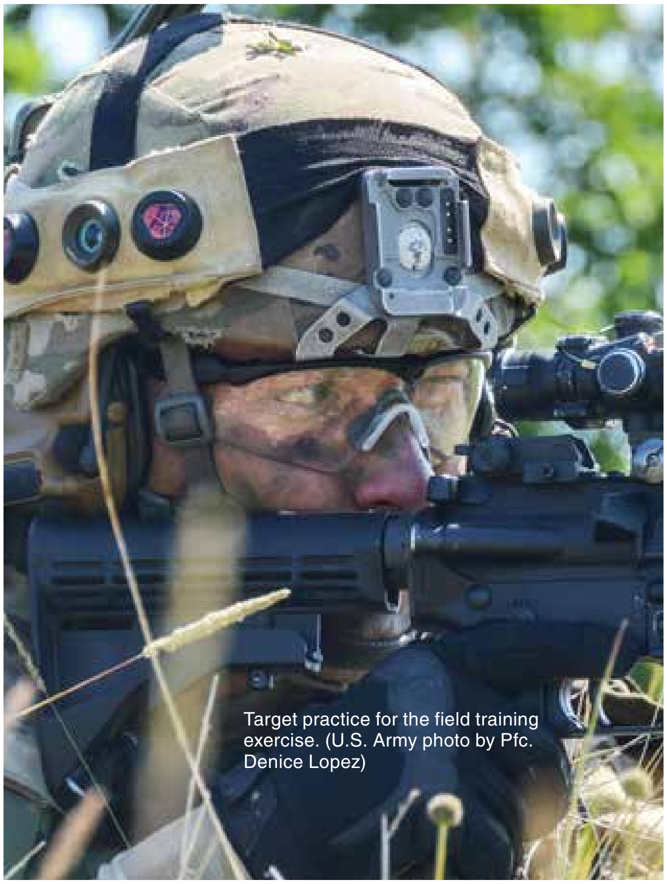
- <u>Measure 4.2.c</u>: Percent of Organizational Inspection Program (OIP) compliance rates.

Reintegration and Transition Support:

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

Performance Results: The focused access to care, training, and management of our Soldiers in transition directly increases total force readiness. Of the more than 81,000 that have completed the program, 42% have returned to duty, a rate maintained through the last three consecutive years. A program focused on efficient transition of the Soldier either to Veteran status or back to the force has continued to reduce Soldier time in the program by an average of almost 70 days over the past three years. The program's ability to provide access to care, education, and support not only ensure premier care for our Army's greatest asset, but a clear platform to increase force readiness. The program's success and goal achievement are dependent upon recurring training, symposiums, and continuing policy and oversight efforts.

Training: As a continuously evolving program, both in scope and policy, the WCT team continues to leverage quarterly and annual events to unify efforts towards the achievement of strategic goals.


Target practice for the field training exercise. (U.S. Army photo by Pfc. Denice Lopez)

Major cyclical training synchronized with OIP results ensure the integration of new personnel, new ideas, and lessons learned from the force. In FY 2019, WCT continued to host quarterly Senior Leaders and Clinician Courses (SLCC) connecting tactical leaders and subject matter experts. The course serves as initial entry training for cadre and clinicians onboarding at a WTU or regional Warrior Transition Office (WTO). Another major effort, the Annual Leaders' Summit serves as a collaborative, discussion driven effort to bring WCTP leaders together. The summit is hosted by the WCT HQ and includes nominated topics from regional HQs and WTUs. Panel discussion, leader breakouts, and presentations by leaders from across the program serve to refine policy, share best practices, and provide innovative solutions to improve Soldier support. These collaborative forums along with the quarterly analysis of OIP results and monthly synchronization meetings with regional HQ aim to adjust policy, improve oversight, and integrate training necessary to decrease the time Soldiers spend in the program and maximize efforts to return combat power to the force.

In FY 2019, the Career and Education Readiness Division (CERD) implemented programs, composed policy, and coordinated with stakeholders to maintain and improve measures of performance throughout the FY. The majority of initiatives and tasks completed derive from the FY 2018 – FY 2020 CERD strategic plan including 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. Utilizing monthly Transition Coordinator training sessions and two formal Transition Coordinator Training Conferences, CERD transforms ideas and best practices into policy, continuing to increase CER participation rates amongst eligible Soldiers.

Policy: In FY 2019 WCT adapted to feedback from subject matter experts from WTUs, military treatment facilities (MTFs), and regional health commands (RHCs) to refine policy and oversight efforts. Just three years removed from initial Army Regulation 40-58 (Warrior Care and Transition Program) publication, changing dynamics to warrior care required regulatory revision. The re-write effort that begin in early 2018 with highlighted changes including cadre selection, recruiting the Army's top tier leaders utilizing the Centralized Selection List to appoint battalion leaders. The regulation also mandates changes to evolving processes and systems providing better critical care management for Soldiers. Career and Education Readiness Program and eligibility, Comprehensive Training Plan quality assurance efforts, and the operation of the Medical Operational Data System-Warrior Transition (MODS-WT) all undergo changes that optimize care management for the Army's greatest asset. Through a deliberate rewriting process founded on feedback from the force, the AR 40-58 and the Soldier Leaders Guide highlighting policy and procedures are slated for publication in early November 2019.

Oversight: A dynamic Oversight team inspect each WTU no less than once each 18 months, ensuring the adherence to changing policies, procedures, and the spread of best practices, with an overall compliance rate of nearly 90%. Continuing overhaul of the OIP checklist ensures an evolving oversight program that captures changing policy. The OIP effort includes four quarterly assessments assisting the inspection team in determining any root-cause analysis and determining where to effect change or provide addition guidance to assist units or adjust policy. A digital standard operating procedure and the quarterly analysis help spread best practices across the enterprise and lead to the continuing improvement of the program and targeted metrics.

TABLE 15. End of Fiscal Year Soldier Average Time in Program[1]

	FY 2017 End of FY Average (days)	FY 2018 End of FY Average (days)	FY 2019 Goal	FY 2019 End of FY Average (days)
Active Component	235	214	<235	250
Army National Guard	285	238	<285	250
U.S. Army Reserve	336	282	<336	282
All Components Average	**266**	**233**	**<266**	**255**

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

TABLE 16. Return to Force

	FY 2017	FY 2018	FY 2019
Active Component	31.26%	30.64%	30.46%
Army National Guard	58.00%	57.91%	58.17%
U.S. Army Reserve	54.37%	54.21%	54.41%
Total Completed Program to Date	74,130	76,717	79,285
Total Returned to Force to Date	31,611	32,366	32,366
Goal	*No historic goal established, objective is to return as many Soldiers to duty as possible.		
All Components Average	**42.64%**	**42.2%**	**42.17%**

Source: MODS-WT

TABLE 17. Organizational Inspection Program (OIP) Averages

FY 2018 Inspection Compliance Rates	FY 2019 Goal	FY 2019 Inspection Compliance Rates (9 of 14 WTUs)
87.11%	88%	88.04%

Source: Army DCS-WCT FY19 OIP Results

TABLE 18. Soldiers CER Participation[2]

	FY 2017	FY 2018	FY 2019
Eligible (Average of each end of month total)	927	826	930
Participation (Average of each end of month total)	712	722	854
Percent Goal	90%	90%	90%
Percent Participation	**77%**	**87%**	**92%**

Source: Army Warrior Care and Transition System (AWCTS)

TABLE 19. Veteran's Administration (VA) Warm Handoff[3, 4]

	FY 2016	FY 2017	FY 2018	FY 2019
Soldiers Eligible for Referral	2,477	1,883	1,855	1,624
Soldiers Referred	2,105	1,698	1,707	1,442
Percent Goal	90%	90%	90%	90%
Percent Referred	85%	90.2%	90.6%	90%

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).
[2] Analysis includes all Army Components.
[3] 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 Veterans Administration (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 (Federal Case Management Tool) and the Soldier is considered as having been referred.
[4] By returning a SFC to active duty instead of separation, the Army saves $988,000 (Source: Wounded Warrior Transition Analysis, Center for Army Analysis, 15 May 2017).

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. The Army continues to receive Congressional support for housing programs in order to improve both family housing (FH) and unaccompanied housing (UH) to enable the Army to fulfill its pledge. The Army continues to eliminate inadequate family housing 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 inventory at 80% or higher facility condition index (FCI). 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.

The Army supports securing adequate and affordable housing on the local economy for the approximately 70% of Soldiers with Families through the Housing Services Offices at the Army garrisons worldwide. The Army maintains about 9,978 Army-owned family housing units and seeks to improve or replace inadequate family residences to achieve an inventory that consists of 90% being quality-rated Q1 or Q2. If necessary, the Army programs for FH construction projects to build inventory in which there are quality and/or quantity deficits.

The Army has also utilized FH and UH privatization options to deliver adequate housing. The Army's Privatized Family Housing - Residential Communities Initiative (RCI) privatized family housing exists at 49 installations in the United States, Alaska and Hawaii for an end-state inventory of 86,348 family homes. The Army RCI program also has five UH privatization projects at Forts Irwin, Drum, Bragg, Stewart, and Meade. The Army's plans to eliminate inventory of inadequate lodging at locations in the United States, 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 2019, the UH, also known as barracks, portfolio is vast. The Deputy Chief of Staff (DCS) G-9 is responsible for over 6,811 UH buildings that encompass over 479,308 spaces.

The types of UH include permanent party, training, and transient; the Army tracks from construction, to occupancy or vacancy, and until demolition or conversion to other uses.

The Army has deliberately focused on improving the quality of the permanent party (PP) and training (T) UH and have established plans to raise the quality ratings to meet and exceed the OSD goal and is tracking that progress. Recently the Army conducted a Program Objective Memorandum Planning Tasker for transient training (TT) UH in order to bring more focus on the improvement. The analysis identified Q3/Q4 housing, and specific repairs necessary for each TT UH to bring it to Q1. Senior Leadership approved additional resourcing to improve the quality of TT UH. Goals and measures for improvement of TT UH have been established to meet the goal of Q1/ Q2 by FY 2026.

Objective 4.3.1: *Family Housing*

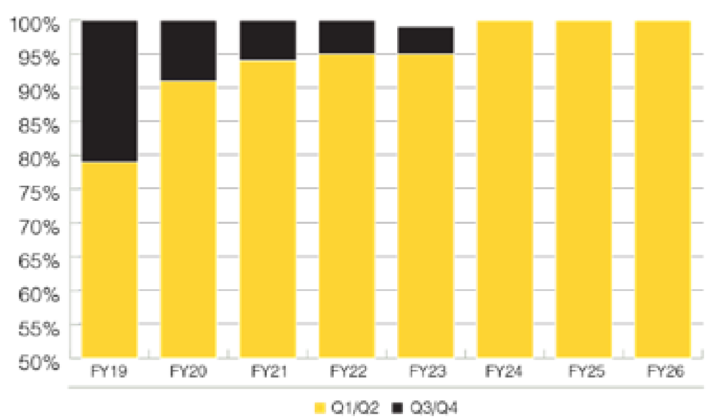
Office of the Assistant Chief of Staff for Installation management (OACSIM) will achieve the OSD 90% goal of Army FH inventory rated Q1 and Q2 by the end of FY 2020. No Soldier will be in housing rated Q4 by 2021.

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/Q2versus Q3/Q4.

Performance Results:

FIGURE 5. Family Housing with Quality Rating 1-4



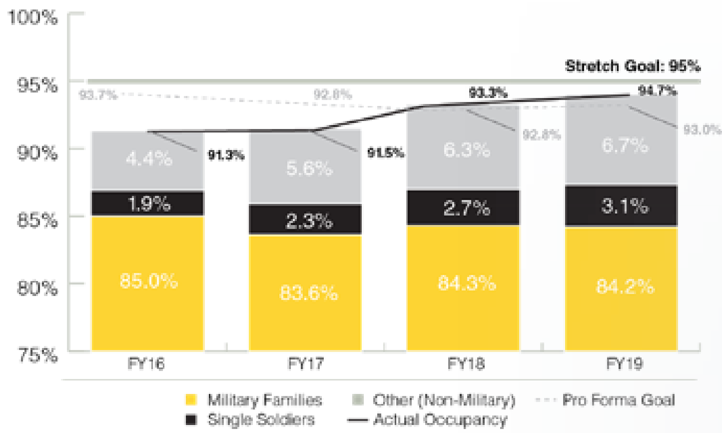
Objective 4.3.2: *Maintain program occupancy rate at or above business plan.*

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: *Soldier Housing*

Army Barracks - Deputy Chief of Staff (DCS) G-9 will achieve the OSD 90% goal of Q1/Q2 inventory for PP UH in FY 2021, T UH in FY 2019 and TT UH in FY 2026. No Soldiers will be in barracks rated Q4.

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 training UH rated Q1/Q2 versus Q3/Q4.
- Measure 4.3.3.c: Percent of transient training UH rated Q1/Q2 versus Q3/Q4.

Performance Results: Overall, Army achieved the OSD goal of 90% Q1/Q2 for Training Barracks in FY 2019. Although there are still Soldiers in Q3/Q4 housing, Army is on track to achieve the OSD goal for Permanent Party by end of FY 2021 and Transient by end of FY 2026.

For permanent party barracks, the Army had 186,031 spaces at the end of 2nd Quarter FY 2019; 87% at Q1/Q2.

For training barracks, the Army had 101,883 spaces at the end of 2nd Quarter FY 2019; 91% at Q1/Q2.

For transient barracks, the Army had 191,394 spaces at the end of 2nd Quarter FY 2019; 67% at Q1/Q2.

FIGURE 7. Permanent Party (PP) UH

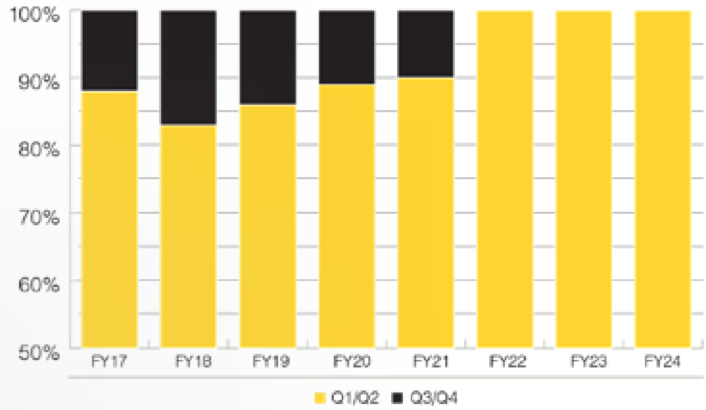


FIGURE 8. Training (T) UH

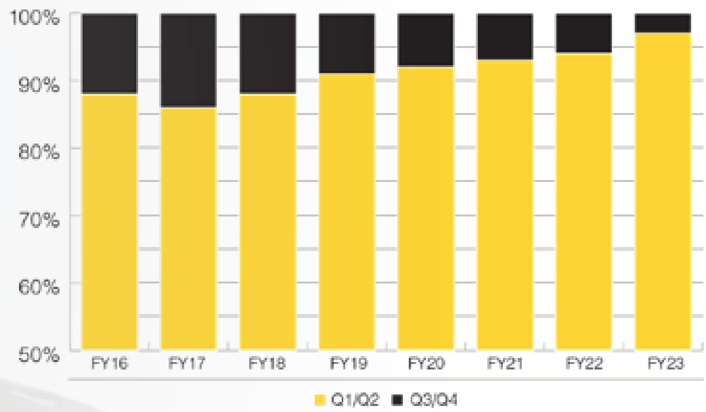
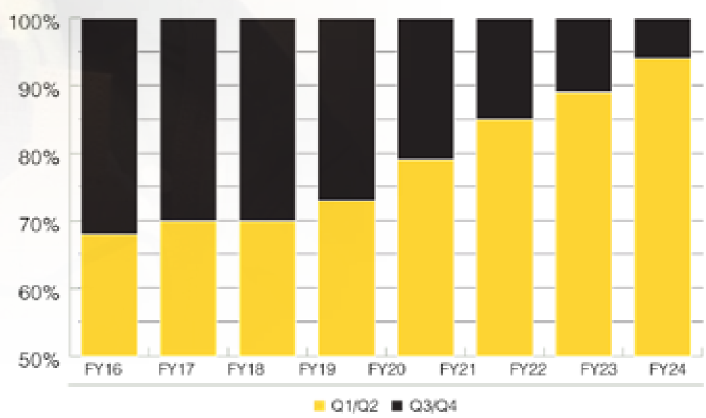


FIGURE 9. Transient Training (TT) UH



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 298,000 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); and Civil Works funded employees. The Army also employs foreign nationals (FNs) in both a direct hire and indirect hire status. As of 4th quarter FY 2019, Civilian strength by category was as follows:

Total: 298,630	
Appropriated Fund:	**246,726**
US Direct Hire:	226,509 (includes 27,246 Army National Guard Techs)
FN Direct Hire:	6,434
FN Indirect Hire:	13,783
NAF:	**26,904**
Civil Works:	**25,000**

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

Executing Civilian positions within budget ensures that the Civilian workforce is staffed to meet mission requirements. Executing above or below budget 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 20 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 quarter on-board versus FY 2019 authorizations in the President's Budget – PB20).

Performance Results: The Army has executed slightly above its FY 2019 PB20 authorizations throughout FY 2019. While over-execution directly impacts 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 easily affect its execution through natural attrition and/or adjusting hiring practices.

TABLE 20. Civilian Execution

Measure	Goal	FY17	FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Civilian Execution Percentage (On-Board vs. FY19 Auths (PB20)	98%-102%	99.4%	101.1%	101.6%	101.5%	101.4%	101.5%

Objective 4.4.2: *Attain less than 20% (10) of 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 21 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 significantly improved the number of MCOs that are not adequately filled since nearly reaching the goal in FY 2017. These improvements have been made partly as a result of greater understanding and use of Direct Hire Authorities (DHA), which are aimed at bringing in quickly 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.

TABLE 21. Army MCO Fill

Measure	Goal	FY17	FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Number of Army MCOs below 90% Fill	Less than 10	17	13	12	11	10	10

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 22 displays measures that are performance indicators 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 some improvement to Civilian time to hire since FY 2017, improving by about 3-4 days on average. These improvements have been in part due to a variety of different policies and programs implemented over the past year. The Army continues to focus our efforts on reducing time to hire below 80 days.

TABLE 22. Average Civilian Fill Time

Measure	Goal	FY17	FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Average Civilian Fill Time	Less than 80 days	100.0	92.2	94.5	98.4	87.0	84.4

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.

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 2018 to FY 2019. 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, 2019 and 2018. Total assets amounted to $304,870 million in FY 2019 and $302,459 million in FY 2018, a 0.80% increase. This increase is mainly attributed to an increase in Fund Balance with Treasury from $121,988 million in FY 2018 to $127,999 million in FY 2019.

FIGURE 10. Assets Comparison

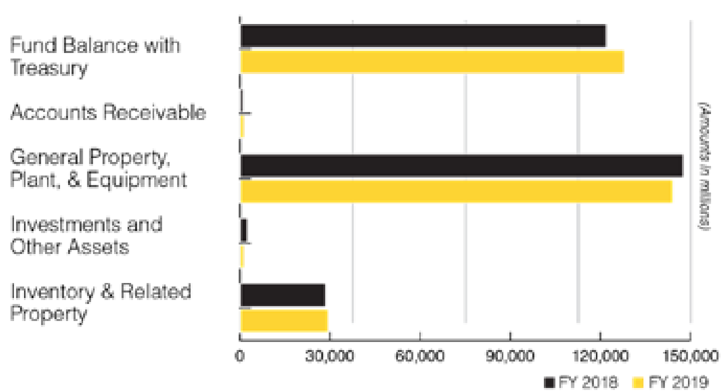
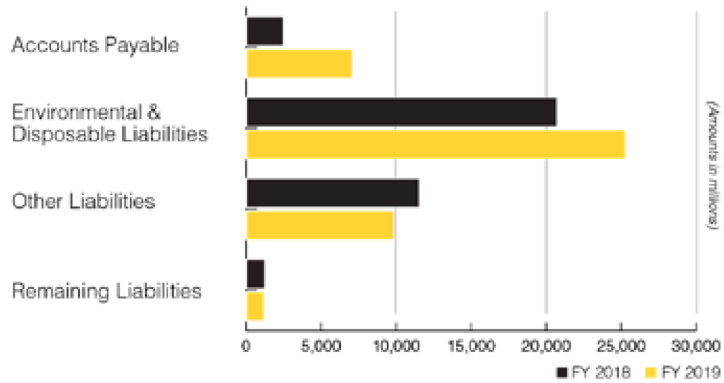


Figure 11 shows the Army Liabilities Comparison as of September 30, 2019 and 2018. Total liabilities amounted to $43,451 million in FY 2019 and $36,037 million in FY 2018, a 20.6% increase.

This increase is primarily attributed to an increase in Environmental and Disposal Liabilities from $20,719 million in FY 2018 to $25,288 million in FY 2019.

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.

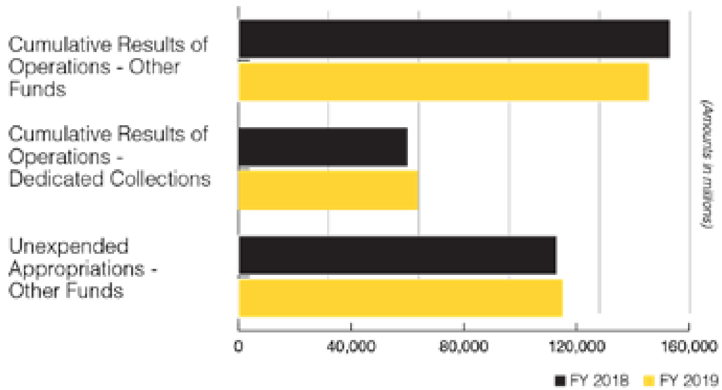
The major elements of the Consolidated Statements of Net Cost include program costs totaling $183,115 million in FY 2019 and $160,042 million in FY 2018, and earned revenues amounting to $7,063 million in FY 2019 and $6,633 million in FY 2018. These amounts are comprised of both intragovernmental and public costs. Total net costs of operations increased by $22,643 million, or 14.8%. This increase is primarily attributed to increases in net costs of $10,055 million, or 15.6%, associated with Operations, Readiness and Support, and of $7,251 million, or 51.2%, associated with Procurement.

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 2019 and FY 2018. Total net position amounted to $261,418 million in FY 2019 and $266,422 million in FY 2018, a 1.9% decrease. The decrease is attributed to a decrease in "Cumulative Results of Operations – Other Funds" from $153,406 million in FY 2018 to $145,828 million in FY 2019.

FIGURE 12. Net Position

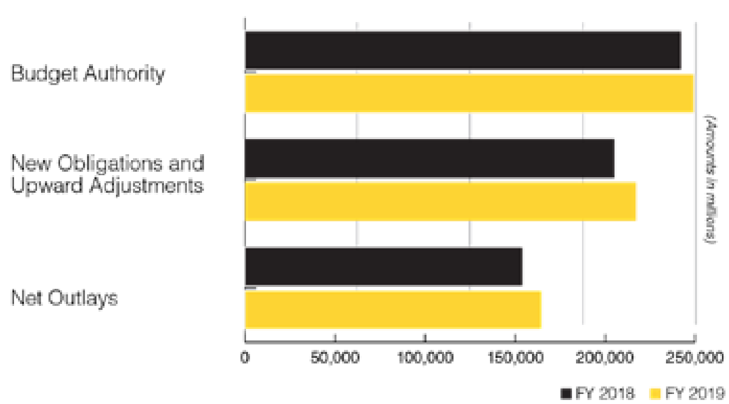


Combined Statements of Budgetary Resources

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, 2019 and 2018, 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 results from an order placed, contract awarded, or similar transaction, 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 2019 and FY 2018. The reported total Army budget authority was $249,473 million and $242,522 million as of September 30, 2019 and 2018, respectively, a 2.9% increase. New obligations and upward adjustments amounted to $217,202 million as of September 30, 2019 and $205,213 million as of September 30, 2018, a 5.8% increase. Net outlays amounted to $164,988 million as of September 30, 2019 and $154,287 million as of September 30, 2018, a 6.9% increase. The increase in budget authority is due primarily to increases in unobligated balance from prior year budget authority and overall Army GF appropriations received.

FIGURE 13. Budgetary Resources




ARMY

A VISION OF CHANGE: ADAPTING FOR SUSTAINABILITY

Preparing a Satellite Transportable Terminal. (U.S. Army photo by Sgt. Dustin D. Biven)

MANAGEMENT'S DISCUSSION AND ANALYSIS – **WORKING CAPITAL FUND**

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 and Industrial Operations. 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 decisionmakers 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 stabilized or fixed 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 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. Army requests appropriated funds from Congress in some circumstances for various reasons. The Army requests 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 2019, the Army WCF received $264.4 million in appropriated funds. The difference relative to total funds was received in FY 2018 is attributable to changing requirements for expenses supported by direct appropriations.

(Dollars in Millions)	FY 2019	FY 2018
Appropriations Received	$264.4	$232.9

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 2019 gross revenue totaling about $16.8 billion. Most of the revenue comes from sales to Army customers. To compare Army WCF revenue to private sector firms, its revenue approximates the revenues of recognizable brands like Sherwin-Williams and GAP *(Fortune 500 list – 2019. Revenues in billions)*:

148	Whirlpool	$	21.0
156	Kohl's	$	20.2
159	PNC Financial Services	$	19.1
177	Sherwin-Williams	$	17.5
186	GAP	$	16.6

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 to break even over the long term. The rates are set to:

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

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 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.

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

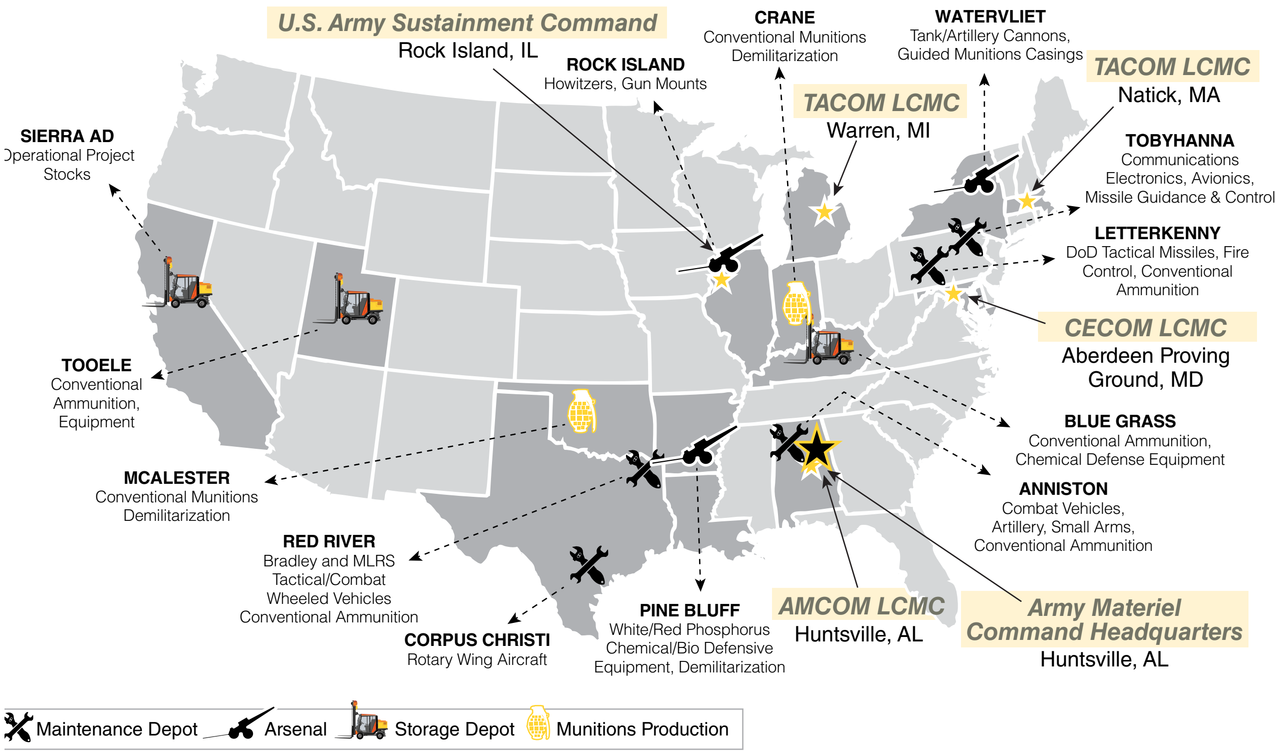
ARMY MATERIEL COMMAND

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: Industrial Operations (IO) and Supply Management (SM). The IO Activity includes the financial activity of the 13 government-owned, government-operated depots, arsenals and ammunition plants. The SM Activity 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.

Soldiers conducted several flights in order to transfer aircraft in preparation for the brigades deployment. (U.S. Army photo by Capt. Roxana Thompson)

The following figure displays the Army WCF activities within AMC:

FIGURE 1. Army Materiel Command Army Working Capital Fund Activities



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, Supply Management and Industrial Operations. The two groups are critical to Army equipment and materiel readiness.

Supply Management, Army

The Supply Management Activity (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 spare parts. 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:

- 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.

SMA is, as its name implies, to manage 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.

Supply Management activities are committed to meeting the readiness needs of Soldiers by ensuring that 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.

(Photo courtesy of the U.S. Army)

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.
- 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 Goals; focusing on three strategic priorities: Strategic Readiness, Future Force, Soldiers and People. These strategic objectives synchronize Army and AMC priorities and establish AMC's organizational strategy to operationalize the command as the Army's materiel integrator. Many of the AMC strategic activity results are reported as part of metrics for the overall Army's accomplishments. The Army WCF results fall mainly into the Strategic Readiness priority. The following two sections discuss Operational and Strategic Plan Measures and results as they relate 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 2017	FY 2018	FY 2019
Industrial Operations NOR	($87.8)	($167.7)	($426.9)
Supply Management NOR	723.6	2,265.0	(1,754.1)
Combined NOR	635.8	2,097.3	(2,181.0)
Industrial Operations AOR	($633.8)	($801.5)	($1,228.4)
Supply Management AOR	15,805.5	18,070.5	16,316.4
Combined AOR	15,171.7	17,269.0	15,088.0

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 I: *Strategic Readiness*

AMC operationalizes its essential functions at the tactical, operational and strategic levels to assure sustainable strategic readiness.

Strategic Priority 2: *Future Focus*

AMC is postured at echelon to synchronize and integrate Science & Technology and Research & Development to defeat any adversary.

Strategic Priority 3: *Soldiers and People*

AMC ensures Logistics Corps Soldiers and the civilian workforce are trained and ready to execute directed missions in support of Army priorities and missions.

Discussing the overhaul and repair processes used by a depot to upgrade the 50-caliber M2 machine gun to its M2A1 variant. (U.S. Army photo by Mark Cleghorn)

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: *Reduce On Hand Excess Inventory*
Performance Indicator (metric): Reduce Excess on Hand (EOH) inventory to reach the Office of Secretary of Defense goal of no more than 8% excess of total on hand.

Excess, Obsolete, and Unserviceable inventory consists of scrap materiel or items that cannot be economically repaired and are awaiting disposal. Excess inventory is inventory that exceeds the calculated horizon requirements to meet the Army WCF mission. Obsolete inventory is inventory that is no longer useful because of obsolescence. Unserviceable inventory is damaged inventory that is non-reparable or more economical to dispose of than repair. Army WCF values EOH inventory at its expected net realizable value using an allowance account. Items on hand considered as excess, obsolete, or unserviceable are financially reported as having no realizable value until final disposition is made either to scrap or sell.

FIGURE 1.

On Hand Excess Inventory (Dollars in Millions)	**FY 2019**	**FY 2018**	**Difference**
EOH Inventory (Note 8. Inventory and Related Property) Gross value (net value is zero)	$228.7	$125.6	$103.1 (Increase)

To achieve Army readiness goals, it is essential to manage proactively the demilitarization and proper disposal of excess inventory. Ensuring that excess stocks are remedied to disposition or offered up to other customers allows the time and space to store materiel needed for Army missions. In support of readiness the focus is industrial base allocation for repair and overhaul activities, versus management of stocks no longer needed. Excess, Obsolete and Unserviceable inventory increased from FY 2018 to FY 2019 mainly due to stock that is beyond repair and was being held for disposition. Due to a lower volume in disposals processed during FY 2019, this resulted in an increase in inventory held at the end of FY 2019.

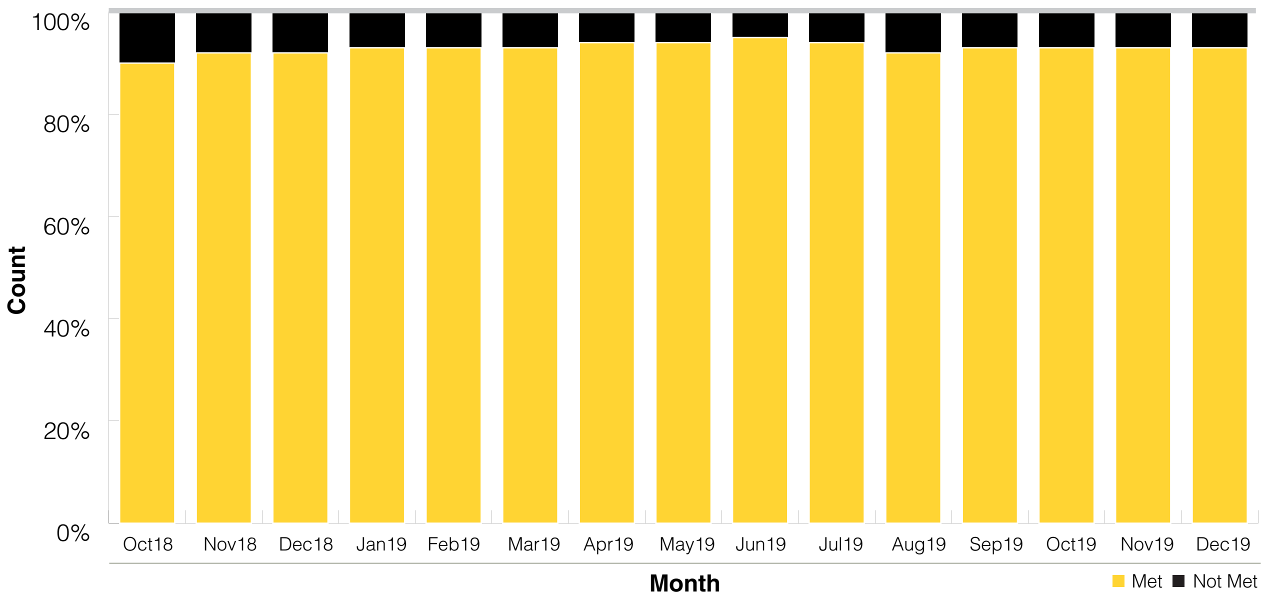
Objective 1.2: *Performance to Promise (P2P)*
Performance to Promise is AMC's commitment to providing Maintenance support throughout the entire life cycle of an item and is required to assure that materiel can be maintained

Checking that vehicles are in the correct staging area during operations before each is sent off by serial type after they receive their convoy brief. (U.S. Army Photo by Sgt. Sarah D Williams) 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 shows the Organic Industrial Base's (OIB) performance throughout the fiscal year. The OIB does not accept the status quo and continues to make improvements through organization culture changes and process improvements.

FIGURE 2. Cumulative Performance to Promise: All Plants



	Oct18	Nov18	Dec18	Jan19	Feb19	Mar19	Apr19	May19	Jun19	Jul19	Aug19	Sep19	Oct19	Nov19	Dec19
Met	547	688	825	1,062	1,271	1,439	1,618	1,800	1,949	2,004	1,848	2,324	2,455	2,548	2,687
Not Met	61	57	67	82	94	104	98	117	111	129	156	188	188	190	194
Sum	608	745	892	1,144	1,365	1,543	1,716	1,917	2,060	2,133	2,004	2,512	2,643	2,738	2,881
Percent	90%	92%	92%	93%	93%	93%	94%	94%	95%	94%	92%	93%	93%	93%	93%

All Command Schedule Changes through: 8/1/19
Depot Schedule and Completions as of: 8/4/19

- The Commanding General of AMC pursues a P2P goal of 100%.
- Requirement not completed within the planned time period
- Requirement completed within the planned time period.

Percent: The percentage of instances when the OIB meets customer requirements for the time period indicated.

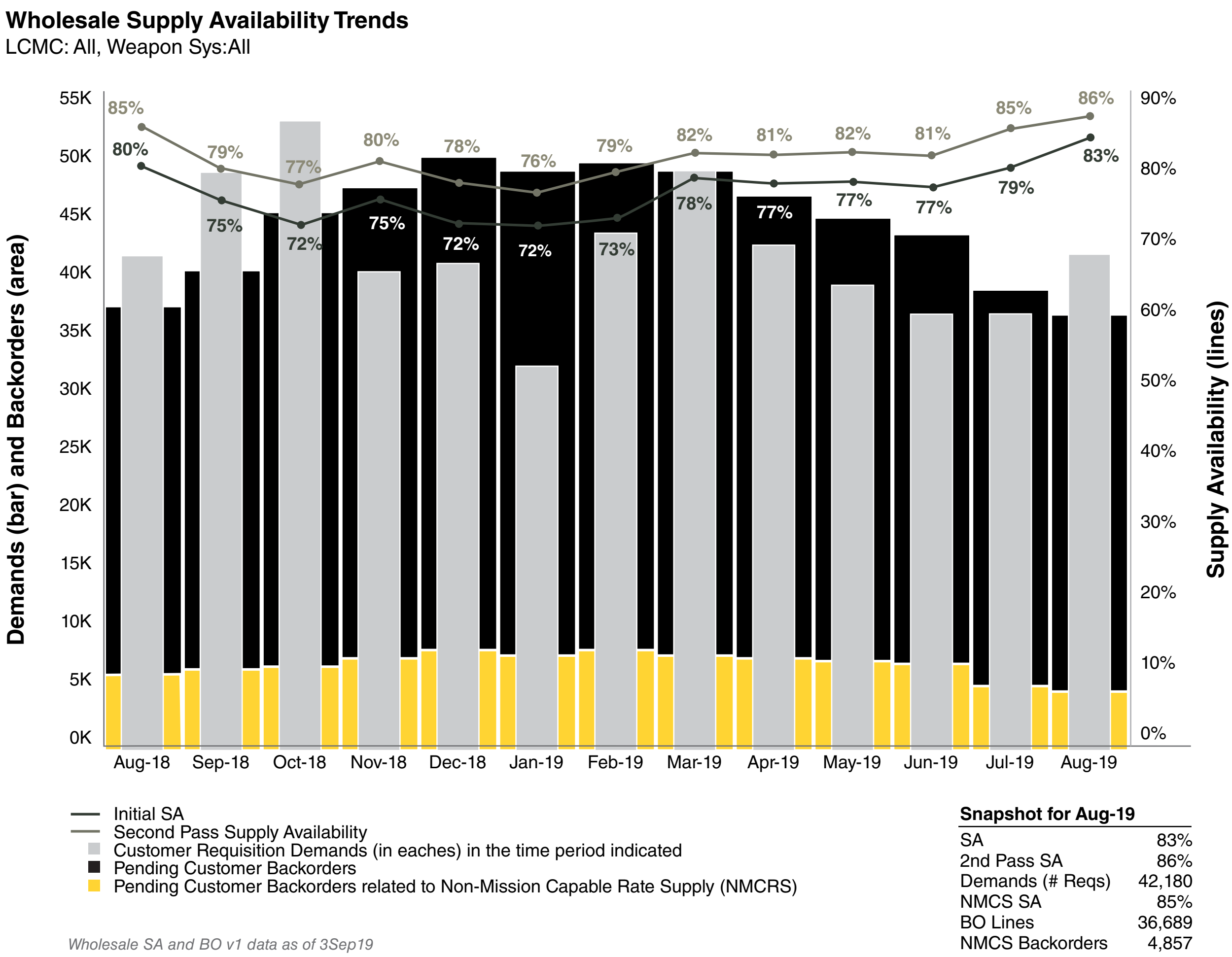
Objective 1.3: *Supply Availability*

Supply Availability (SA) is the ability of The U.S. Army to fill a customer's requisition in support of a full range of military operations. The AMC, through its SMA, ensures necessary supplies are available. The SA objective is to stock and maintain operational supplies for our customers in support of readiness requirements. A key metric of this mission is SA, a primary performance measure relating supply system ability to fill requisitions.

Performance Indicator (metric): Supplying and maintaining the Army's equipment remain key components of readiness. The AMC leadership has challenged life cycle management commands (LCMCs) to fill 85% of their customer's demands immediately. This metric illustrates the Army's ability to meet customer requirements by assessing LCMC's readiness performance goals. LCMCs are responsible for ensuring spare inventory levels have sufficient stock levels for war efforts.

Performance Results: The table below shows SA in relationship with demand during FY 19. Fulfilling demands have been impacted by shifts in mission and training requirements which have not been part of planning and prioritization in the past. AMC is working to make these corrections to planning and execution to ensure that the requirements are managed.

FIGURE 3. Supply Availability (SA) (Percentage)

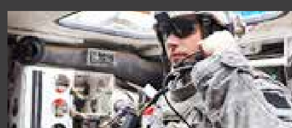


Objective 1.4: *Operationalize Contracting*

Provide expeditionary, installation, and procurement contracting solutions to support operations worldwide and to develop future capabilities for the Army.

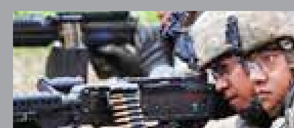
Operationalizing contracting involves focusing on the capabilities and outputs being provided rather than on the process and metrics-like dollars obligated or number of actions awarded. The focus is on synchronizing and integrating contracting capabilities within the activity to achieve the desired outputs. Use of contractor support in the Army has been around since the American Revolutionary War. Besides the organic capability provided by government civilians and the military, contractors have also provided services covering Soldiers' needs. An unofficial quotation heard in the Army Contracting Command (ACC) is "if they ride it, shoot it, eat it or wear it, contracting gets it". Integrating contracting support into operations improves processes, which should translate into enhanced Soldier readiness. The ACC – a subordinate command of the AMC – has more than 6,000 personnel at more than 100 operating locations supporting Army priorities along three major lines of effort which include weapons systems contracting supporting the development, production and sustainment of weapons systems. Their primary customers are the Army Future Command, the Program Executive Officer/ Program Manager community as well as the AMC Life Cycle Management Commands.

ABERDEEN PROVING GROUND



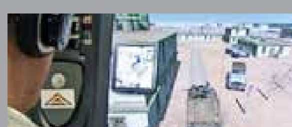
Chemical/biological defense equipment, electronic sensors, night vision equipment, satellite communications, radars, radios

NEW JERSEY



Weapons, armaments, ammunition, information technology

ORLANDO



Simulation, instrumentation, training devices

REDSTONE ARSENAL

Aviation, missiles

ROCK ISLAND

Ammunition, logistics, information technology, chemical demilitarization

WARREN

Combat and tactical vehicles, small arms and targetry, fire control systems, intelligence

Operationalizing contracting focuses on putting the contracting resources in or with the activity. Currently, the ACC had contracting representation in each major life cycle command, most depots and arsenals covering all commodity lines. Operationalizing contracting involves taking the source knowledge of operational support for activities and validating those mission-essential tasks. Knowing how to integrate the contracting support in the operations creates a positive return on investment. It also improves processes and controls that should translate into enhanced readiness for the Soldiers.

AUDIT IMPROVEMENTS

In addition to continuing progress in the AMC's Strategic priority areas, the Army continues its Audit Readiness efforts. The Army WCF activities have spent the past year implementing corrective actions for deficiencies posing the highest risk to a positive audit opinion. In FY 2019, The Independent Public Accountant (IPA) firm auditing the Army Working Capital Fund financial statements closed 52 of 161 (32%) of the FY 2018 Notice of Findings and Recommendations (NFRs) through 8 November 2019, based on reviews of and validation of remediation efforts. This indicates a significant achievement for the Army and its dedication to supporting the annual financial statement audits. Army service providers, especially the Defense Finance and Accounting Service (DFAS) and DLA, have also been implementing corrective action plans to remediate deficiencies in internal controls over financial reporting relevant to the Army WCF financial statements.

The Logistics Modernization Program (LMP) system is the first Army system to close all of its prior year Information Technology (IT) General Control NFRs and has received no findings on the 60+ Application Controls tested during FY 2019. The IPA testing of the Army War Reserve Deployment System (AWRDS), a system which supports the Army Sustainment Command's (ASC) daily stock management has progressed to include IT Application Controls in FY 2019. Remediation efforts for AWRDS has resulted in 6 of the 10 FY 2018 NFRs being closed by the IPA. The Army has also established processes to obtain, on a recurring basis, data from 27 systems including DDRS, the Army's ERPs (General Fund Enterprise Business System, Global Combat Support System-Army, and LMP) and 22 additional source/feeder business systems. This achievement has significantly increased the Army's ability to provide data to the IPA to meet requests to perform audit testing. By adding many of the required feeder system reconciliations in FY 2018, the IPA decreased the scope of the conditions of the NFRs the Army received in FY 2019. As FY 2020 begins, the Army has established procedures to transfer data from the Army ERPs to the Office of the Secretary of Defense's Universe of Transaction database in support of the DoD audits for TI-97.

POSSIBLE FUTURE EFFECTS OF EXISTING CONDITIONS AND FINANCIAL DEMANDS

Today's political environment is one that almost ensures the likelihood of major contingency efforts in multiple areas at a time. Having a global Army presence throughout the last 16 years has taken a serious toll not only on the operability of Army equipment, but has also created additional priorities for available funding in the Army.

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 investments to promote readiness continue, the Army will likely 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 enterprise including its doctrine, organization, training, materiel, leadership and education, personnel, and facilities (DOTMLPF).

Within the discussion of performance goals and results, the three strategic priorities - Strategic Readiness, Future Force, and Soldiers and Civilians - and that its major focus was in the support provided to guarantee operational readiness.

A portion of the Army WCF operational activity also contributes to future force priorities by supporting science, technology, and research and development efforts. Technological advances, the speed of innovation, proactivity and insight into the need for change are vital to transforming the Army, preparing for war, contingency operations, and planning to defeat the adversary.

Strategic readiness also includes a recognition that funding sources may not be available at the required levels; therefore, alternatives which allow the Army WCF to do more with less, to pare down processes to minimize duplication of effort and to use resources efficiently are invariably in the "wheel house" of the Army WCF activities.

Automated brass primer cup production. (Photo courtesy of the U.S. Army)

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). The Army WCF 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 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 2018 to FY 2019. 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 4 shows the Army WCF Assets Comparison as of FYs 2019 and 2018. Total assets amounted to $21,461 million at the end of FY 2019, while $23,334 million in total assets were reported by the end of FY 2018, a $1,873 million (8%) decrease. This decrease is mainly attributed to a decrease in Inventory and Related Property of $1,516 million since the prior year.

FIGURE 4. Assets Comparison

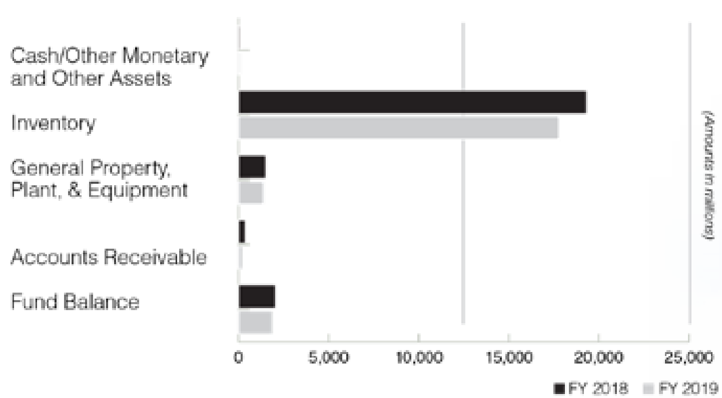
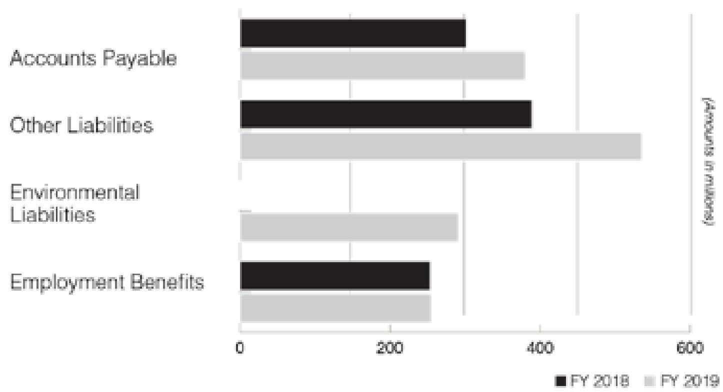


Figure 5 shows the Army WCF's liabilities as of the end of FYs 2019 and 2018. Liabilities totaled $1,462.6 million as of the end of FY 2019, a $517.5 million increase since FY 2018 when

$945.1 million in liabilities were reported. This 55% increase is largely due to the Army WCFs recognition of environmental liabilities associated with its real property assets. These balances were previously carried by the Army GF which would fund any realized liabilities. In addition, there was an increase in other liabilities associated with the Army WCF's depots.

FIGURE 5. Liabilities Comparison



Consolidated Statements of Net Cost

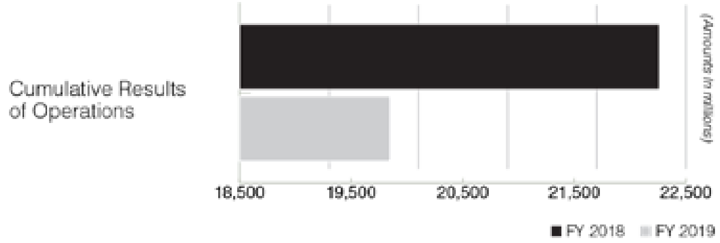
The Consolidated Statements of Net Cost present the gross cost incurred by the Army WCF to conduct its operations less any exchange revenues earned from its activities. The major elements of the Consolidated Statements of Net Cost include program costs totaling $19,511 million in FY 2019. These costs were offset by earned revenues of $16,845 million, resulting in a $2,666 million Net Cost of operations. During FY 2018, earned revenue exceed cost by more than $1,422 million. The $4,089 million increase in net cost is largely due to increased operations within the Army WCF's supply management activity.

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 decreased $2,390 million during FY 2019 and increased $1,673 million during FY 2018. Total net position amounted to $19,999 million in FY 2019 and $22,389 million in FY 2018, a 10.7% decrease. Figure 6 shows the Army WCF's Cumulative Results of Operations, the primary component of its Net Position, for FY 2019 and FY 2018. The decrease is attributed to a decrease in Cumulative Results of Operations from $22,261 million in FY 2018 to $19,858 million in FY 2019.

Firing rocket systems during a joint live-fire exercise. (U.S. Army photo by Sgt. James Lefty Larimer)

FIGURE 6. Cumulative Results of Operations



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 September 30, 2019 and 2018, 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 results from orders placed, contract awarded, or similar transaction. Gross outlays reflect the actual cash disbursed for Army obligations.

Figure 7 shows a comparison of budget authority and new obligations and upward adjustments in FY 2018 and FY 2019. The reported total Army budget authority was $17,756 million and $17,198 million for FYs 2019 and 2018, respectively. The $558 million increase in budget authority is primarily due to an increase in Army WCF's Contract Authority required to cover anticipated supply management activity. Figure 8 shows a year to year comparison of net outlays for FY 2019 and FY 2018, respectively. Net outlays amounted to $379 million in FY 2019. During FY 2018, receipts exceeded disbursements resulting in Net receipts of $305 million.

FIGURE 7. Budgetary Resources

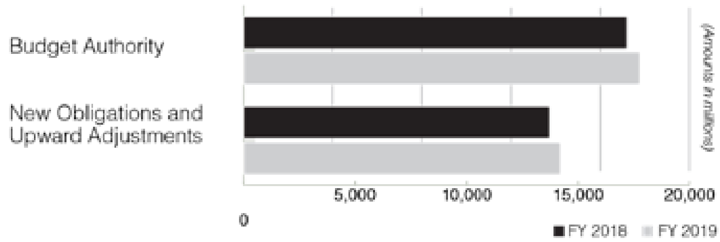
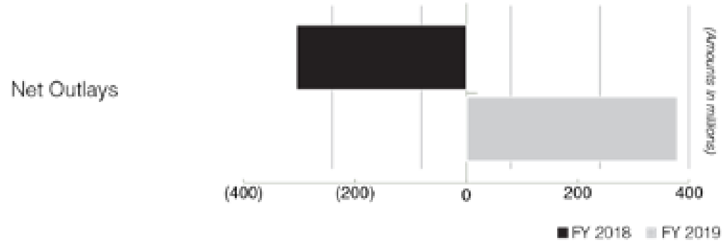


FIGURE 8. Net Outlays



(Photo courtesy of the U.S. Army)

GF & WCF 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 conducted its assessment of risk and internal control in accordance with Appendix A of Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Commanders, the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government," and managers throughout the Army ensure annually the integrity of their reporting systems, programs, and operations. 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 Manager's 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 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 Assistant Secretary of the Army for Financial Management and Comptroller (ASA (FM&C)) staff published an Army Auditability Executive Order (EXORD) in December 2017. This order outlined the roles and responsibilities of Army stakeholders in shaping the environment for the future attainment of unmodified audit opinions. The EXORD expands on the roles and responsibilities of the Army in becoming audit ready, including milestones associated with nine audit priorities, and also outlines the requirements for an appropriate audit governance structure. Each Reporting Organization develops and maintains an Internal Control Evaluation Plan (ICEP) for their organization. The ICEP maps out the key business processes and functional areas to be monitored over the next five years.

Internal Control Evaluation

In strict 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.

As of Fiscal Year (FY) 2019, each reporting organization refreshed its ICEP to align with the risk priority areas. Specifically, higher risk areas are monitored on a more frequent basis than lower risk areas. The ICEP previously reflected regulation testing minimum requirements. 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 was 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, with the exception of the 15 material weaknesses reported in Appendix C, that internal controls over reporting were operating effectively.

In addition to the 15 Internal Control over Financial Reporting material weaknesses for the Army General Fund (GF) and Working Capital Fund (WCF), there are three ICOFS material weaknesses and five operational material weaknesses for a total of 23 material weaknesses.

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

The Army WCF currently has 13 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) General Information

Technology Controls; 8) General Ledger Adjustments; 9) Accruals; 10) Financial Reporting; 11) Fund Balance with Treasury; 12) Completeness; and 13) Entity Level Controls.

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. A total 400 CAPs have been issued 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 five material weaknesses that internal controls over operations were operating effectively.

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

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-123 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.

LIMITATIONS OF THE FINANCIAL STATEMENTS – **GENERAL FUND**

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, 2019

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
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Transmittal of the Independent Auditors' Report on the U.S. Department of the Army General Fund Financial Statements and Related Notes for FY 2019 and FY 2018 (Project No. D2019-D000FI-0072.000, Report No. DODIG-2020-021)

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, 2019, and 2018. The contract required KPMG to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the Army's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The contract required KPMG to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget (OMB) audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018. KPMG's Independent Auditors' 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 2019 and FY 2018 Financial Statements and related notes.

KPMG's report discusses 12 material weaknesses related to the Army's internal controls over financial reporting.* Specifically, KPMG's report describes the following significant matters:

- The Army did not develop and implement processes and internal controls to prepare complete and accurate populations for beginning balances on the consolidated financial statements.
- The Army did not have policies and procedures designed and implemented to address the financial statement risks related to Operating Materials and Supplies, which resulted in improper recording of Operating Materials and Supplies transactions, the inability to provide populations of Operating Materials and Supplies transactions, and insufficient documentation to support the consistent operation of controls and recording of transactions.
- The Army did not design, document, and implement internal controls over General Property, Plant, and Equipment to provide a complete population and accurate valuation of assets to be reported in the General Property, Plant, and Equipment account.
- The Army did not consistently design, document, and implement internal controls and processes to accurately estimate its future environmental and disposal liabilities.
- The Army did not have supporting documentation readily available to demonstrate that revenue, costs, Fund Balance with Treasury, and legal contingencies were accurately reported on the financial statements or that control activities were performed and effective.
- The Army and its service providers did not fully implement sufficient and effective information technology controls to protect the financial systems and related financial data, including access controls, segregation of duties, configuration management, security management, and contingency planning.

---

* 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.

- The Army did not design and implement internal controls over manual journal entries and other adjustments to ensure that adjustments to the general ledger are complete, accurate, and valid.
- The Army did not develop, document, and implement controls over accounts payable and receivable to verify that the balances on the Army General Fund financial statements completely and accurately reflect underlying events.
- The Army did not design and implement controls over financial reporting to prevent or detect and correct misstatements in the Army General Fund financial statements and note disclosures.
- The Army, in coordination with its service provider, did not develop, document, and implement internal controls over Fund Balance with Treasury that allowed Army to reconcile its Fund Balance with Treasury ending balance from the general ledger systems to the U.S. Treasury.
- The Army did not design and implement internal controls to validate that information was transferred completely and accurately between feeder systems and from feeder systems to the accounting system of record.
- The Army did not design and implement entity-level controls that would allow the Army to produce reliable financial reporting.

KPMG's report also discusses two instances of noncompliance with applicable laws and regulations. Specifically, KPMG's report describes instances where the Army's financial management systems did not comply with the requirements of the FFMIA, and the Army General Fund did not substantially comply with the requirements of 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 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 2019 and FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control over financial reporting, or conclusions on whether the Army's financial systems substantially complied with FFMIA requirements, or on compliance with laws and other matters. Our review disclosed no instances where

KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached report, dated November 8, 2019, 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, 2019 and 2018, 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.) 19-03, *Audit Requirements for Federal Financial Statements.* Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were unable 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.

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 Army's *Annual Financial Report* to provide additional information for the users of its 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, the Required Supplementary Information (RSI), and the Required Supplementary Stewardship Information (RSSI) 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 Army GF's basic consolidated financial statements as a whole. The following information is presented in the Army's *Annual Financial Report* for purposes of additional analysis and is not a required part of the Army GF's basic consolidated financial statements: the Message from the Secretary of the Army; the Message from the Senior Official Performing Duties of the Assistant Secretary of the Army (Financial Management and Comptroller); the Army Working Capital Fund Financial Section; and the information in the MD&A related to the Army Working Capital Fund. 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, 2019, we considered the Army GF's internal control over financial reporting (internal control) to determine the audit 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 to be material weaknesses.

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, 2019, 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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards or OMB Bulletin No. 19-03, and which are 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.

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

Management's Responses to Findings

Management's responses to the findings identified in our engagement are described in Exhibits I and II. Management's responses were not subjected to the auditing 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, 2019

A. Beginning Year Balances

The United States Department of the Army (Army) management (management) did not develop and implement processes and internal controls to prepare complete and accurate populations of transactions and adjustments for the fiscal year (FY) 2019 statement of budgetary resources, statement of changes in net position, and balance sheet beginning balances.

The above condition primarily resulted because of system limitations and because management did not maintain sufficient and appropriate detailed transactions and historical supporting documentation and continues to work on corrective actions to remediate the deficiencies.

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

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

Recommendations:

We recommend that management develop and implement processes and internal controls to prepare complete and accurate populations for the beginning balance sheet, statement of changes in net position and statement of budgetary resource balances.

B. Operating Materials and Supplies

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

- Management did not provide sufficient appropriate documentation to demonstrate the valuation of OM&S was properly reported at historical cost on the balance sheet and related note disclosures.
- Management did not design, document, or implement controls to recognize the cost of goods used from OM&S as an operating expense in the reporting period they are issued to the end user. Instead, the operating expense is recorded in the period goods are purchased.
- Management did not design and implement or consistently demonstrate controls over physical observation, record retention, or determining that the quantities and key data elements were accurately recorded into the accountable property systems.
- Management did not design and implement effective controls to determine that excess, obsolete, or unserviceable OM&S were completely and accurately reported within the financial statements and a methodology has not been developed to report excess, obsolete and unserviceable OM&S at the net realizable value.
- Management did not provide a reconciliation to demonstrate the completeness and accuracy of transactions recorded between the period of testing and the balance sheet date.
- Management did not design and implement effective controls to record, monitor, reconcile and report transactions for OM&S assets produced or held at Government Owned Contractor Operated (GOCO) and Contractor Owned Contractor Operated (COCO) locations. Additionally, management did not design or implement policies and procedures to ensure transactions are recorded and reconciled for OM&S assets that were refurbished either internally or at COCO locations.
- Management did not design, document, and implement controls over materials in transit to ensure that all in-transit assets are completely and accurately reported.

The above conditions primarily resulted because management did not identify all key risks associated with OM&S, including all of the relevant financial statement risks. As such, they do not have policies and procedures designed and implemented to address the risks which led to personnel not properly recording or providing populations of OM&S transactions, and not providing documentation to support the consistent operation of controls and transactions recorded.

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*
- GAO, *Standards for Internal Control in the Federal Environment*
- Office of Management and Budget (OMB) Circular *No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*
- The Department of Defense (DoD), *Financial Management Regulation (FMR)*
- Department of the Army Pamphlets (DA PAM) 700-16 *Army Ammunition Management System, Pre-Inventory Procedures* and DA PAM 742-1 *Inspection of Supplies and Equipment, Ammunition Surveillance Procedures*
- U.S. Army Joint Munitions Command (JMC) Standard Operating Procedure (SOP) JM-SOP-01-001, *Operating Materials and Supplies Standard Operating Procedures*

As a result of deficiencies noted above, the potential exists that material misstatements would fail to be prevented, or detected and corrected.

Recommendations:

We recommend that management:

- Design and implement controls so that valuation of OM&S is properly recorded on the balance sheet.
- Design and implement controls to properly record cost of goods used transactions as operating expenses in the period when the OM&S assets are issued to the end user.
- Design, implement, and document controls to determine that asset quantities and key data elements are properly recorded in the accountable property systems, transactions recorded are reconciled to the financial reporting system and retain documentation to demonstrate the consistent operation of controls and support transactions recorded so that it can be readily accessible.
- Provide training to key personnel to ensure the consistent execution of OM&S count procedures across all Army installation.
- Design and implement controls to value excess, obsolete, and unserviceable OM&S and its balance at the net realizable value.
- Design and implement controls over transactions recorded at both COCO and GOCO facilities along with reconciling all OM&S transactions and balances to ensure the completeness and accuracy of the OM&S balance recorded within the financial statements.
- Design and implement controls to report and reconcile all OM&S classified as materials in transit as of the balance sheet date.

C. General Property, Plant and Equipment

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

- Management did not provide sufficient appropriate documentation to demonstrate the valuation of property, plant, and equipment was properly reported at historical cost on the balance sheet and related note disclosures.
- Management did not design and implement or consistently demonstrate controls over physical observation, record retention, and determining that the key data elements were accurately recorded into the accountable property systems.
- Management did not have a process to accumulate and monitor costs associated with construction-in-process (CIP) for non-military construction (Non-MILCON) projects, and Internal-Use Software (IUS).
- Management does not have controls to address completeness and accuracy of reporting government furnished equipment (GFE) within the financial statements.
- Management did not have a process to monitor costs associated with transferring assets in or out within the accountable property system of record. As such, management did not provide details about which asset transfer records comprise the balance of financing sources transferred in or out without reimbursement. Additionally, management did not properly disclose required information as set forth by U.S. generally accepted accounting principles.
- Management did not design and implement or demonstrate a control to determine that the population of capitalized real property assets reconcile to the financial reporting system.
- Management and its service provider did not consistently design and implement controls over validating information in the property systems of record related financial statement disclosures related to operating leases and land acreage.

The above conditions primarily resulted because management did not identify all key risks associated with PP&E, including all of the relevant financial statement risks. As such, they do not have policies and procedures designed and implemented to address the risks, which led to personnel not properly recording or providing populations of PP&E transactions. Additionally, management did not fully implement planned corrective actions for deficiencies identified in prior years.

The criteria are as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- FASAB, SFFAS No. 6 *Accounting for Property, Plant, and Equipment*
- FASAB, SFFAS No. 29 *Heritage Assets and Stewardship Land*
- FASAB, SFFAS No. 50 *Establishing Opening Balances for General Property, Plant, and Equipment*
- FASAB, *Technical Release 14*
- OMB Circular A-136, *Financial Reporting Requirements*
- DoD FMR
- Department of Defense Instruction (DoDI) Number 5000.64 *Accountability and Management of DoD Equipment and Other Accountable Property*
- Army Regulation 405-45, *Real Property Inventory Management*

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

Recommendations:

We recommend that management:

- Update policies to define what constitutes key supporting documentation to support 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.
- Design, implement, and document controls to determine that the key data elements were properly recorded in the property systems, reconcile the capital asset listing to the financial reporting system and retain all relevant supporting documentation to be readily accessible.
- Identify risk points relevant to financial statement assertions for Non-MILCON CIP transactions and accumulating and monitoring IUS transactions and based on those risks, design and implement policies and procedures over accumulating and monitoring Non-MILCON CIP costs and IUS transactions.
- Identify risk points relevant to financial statement assertions for GFE and implement policies and procedures to track this activity.
- Design and implement policies and procedures to address the completeness, ownership/existence, accuracy, valuation, and presentation of asset transfers and the related impact on financing sources on a timely basis and work with the service provider to address completeness and accuracy of disclosures for land and land rights, stewardship land, and heritage assets in accordance with U. S. generally accepted accounting standards.

D. Environmental and Disposal Liabilities

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

- Determine the completeness of the event driven sites and real property assets with an associated estimated future environmental cleanup cost.
- Estimate the future environmental cleanup liability for general equipment.
- Identify and record contingencies for estimation uncertainty related to the estimated future environmental cleanup liability for the event driven estimates, and tanks, piping, landfills, facilities, and open burn and open detonation assets.
- Determine that all obligated contracted costs are excluded from the costs to complete estimate and are included in the unliquidated obligation query.
- Determine that the query from the system of record used to generate the population of asset driven sites is complete and accurate.
- Review the manual compilation of the information and sources used to compile the E&DL quarterly manual journal entry and maintain sufficient documentation to support the entry.
- Review the event driven and Formerly Used Defense Site (FUDS) estimates to ensure the assumptions used are reasonable and the calculations are accurate.
- Identify and record estimates for low-level radioactive waste sites in the correct period.

The above conditions primarily resulted because of financial system limitations and because management did not design and implement necessary controls or document policies and processes to record the liabilities.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Environment*
- GAO, *Cost Estimating and Assessment Guide*
- FASAB, SFFAS 5*: Accounting for Liabilities of The Federal Government*
- FASAB, SFFAS 6*: Accounting for Property, Plant, and Equipment*
- FASAB: Interpretation of Federal Financial Accounting Standards 9: *Cleanup Cost Liabilities Involving Multiple Component Reporting Entities*
- FASAB: Federal Financial Accounting and Auditing Technical Release 2: *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*

Ineffective controls over the compilation of E&DL transactions may increase the risk of inaccurate reporting of liabilities on the financial statements and related notes. Further, the lack of effective process over the preparation and review of estimates may result in misstatements of estimated E&DL cleanup balances on the consolidated financial statements.

Recommendations:

We recommend that management:

- Allocate sufficient resources to design and implement controls and processes to:
  - Accurately estimate future environmental cleanup liability for event driven sites, real property assets, and general equipment assets; and
  - Review the quarterly balance calculation and establish supporting documentation requirements and hold individuals accountable for the review.
- Perform a peer, supervisory, and quality control review of the event-driven and FUDS estimates to determine the assumptions used are reasonable and the estimates are calculated accurately.
- Document an analysis of which event driven sites, real property assets, and general equipment assets have a future environmental cleanup.
- Design and implement controls and processes to identify and record contingencies for estimation uncertainty for all estimated future environmental cleanup liabilities, determine that all obligations incurred to reduce the environmental contamination that are excluded from the estimated future environmental cleanup liability are included in the system query, and to determine the asset driven site population generated from the system of record is complete and accurate.
- Develop policies and procedures to review newly available estimates each year for potential changes that could impact the E&DL liability.

E. Evidential Matter

Management and their service provider did not consistently have sufficient evidential matter (i.e., supporting documentation) readily available to demonstrate that revenue, costs, fund balance with treasury, and legal contingencies 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 and/or transaction(s) 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 relied on information produced by the system 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 of its processes, policies and procedures over record retention.
- Management and/or its service providers did not focus 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*
- DoD FMR

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 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.
- Focus and train the necessary resources to locate and provide supporting documentation in a timely manner.
- Update policies and procedures to define key supporting documentation that is required, reconciles to the general ledger detail, and is readily available.
- Focus resources on implementing corrective actions.
- 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 fully implement sufficient and effective IT controls to protect the Enterprise Resource Planning (ERP) and related feeder systems' financial data. As a result, Army's ability to provide timely financial data that is complete, valid, and accurate could be adversely affected. Our specific findings are summarized by the Government Accountability Office (GAO) Federal Information System Controls Audit Manual (FISCAM) information systems control review areas 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, to include the removal of access for terminated or transferred employees and contractors and the periodic review of user accounts 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 implement operating system, database, and application audit logging and review controls, including the identification, tracking, evaluation, and response procedures. Further, Army and its service providers did not consistently implement periodic reviews of application, database, and operating system user account and password security parameters. In regards to physical access controls, management and its service providers were unable to consistently provide documentation evidencing the individuals with authorized access to data centers or periodic reviews of data center access were performed appropriately.
- **Segregation of Duties**. Management and its service providers did not consistently establish a comprehensive process to identify, define, evaluate, restrict, document, monitor, and/or implement the use of incompatible operating system, database, and/or application privileges. Further, management did not consistently implement an effective process for restricting access to the ERP and feeder system segregation of duties risk rule sets, when applicable, based on least privilege considerations. In cases where incompatible access privileges were required based on business need, management and its service providers did not consistently establish processes to monitor the activities of users granted access to such privileges to ensure unauthorized activities were not performed. Additionally, management and its service providers did not consistently segregate or 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 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 design and 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.
- **Business Process Application Controls.** Management and its service providers did not consistently implement a process to monitor application processing issues, to include the tracking of processing issues through resolution.

The deficiencies above existed primarily because management and its service providers did not consistently develop and/or fully implement policies and procedures to comply with the authoritative criteria as listed below. As a result, the weaknesses posed increased risks to the completeness, accuracy, validity, and availability of the systems and their financial data.

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 Controls,* dated July 2016
- 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 NIST 800-92, *Guide to Computer Security Log Management,* dated September 2006
- Department of Defense, Instruction 8510.01, *Risk Management Framework (RMF) for Department of Defense IT*, dated March 12, 2014
- Accounting system policies and procedures, including: *Internal Provisioning Guide,* Version 3.0, dated March 5, 2019; *Cybersecurity Monitoring Standard Operating Procedure*, Version 2.0, dated January 10, 2019; *Configuration Management Policy*, dated March 7, 2019; *Operating System and Database Patch Management Standard Operating Procedures*, dated March 7, 2019; *SOD Monitoring Standard Operating Procedure*, dated March 7, 2019; *User Provisioning Guide*, Version 6.6, dated April 2017; *SAP Security Monitoring Standard Operating Procedure*, Version 3.0, December 2017
- Army Regulation (AR) 25-2, *Information Management: Army Cybersecurity,* dated April 4, 2019
- United States Property and Fiscal Office (USPFO) *Data Processing Installation (DPI) SOP*, dated June 16, 2016 and Army National Guard USPFO *Memorandum for Guidance on Securing Hewlett-Packard UNIX (HP-UX) and Oracle Database Servers*, dated April 22, 2016

Recommendations

We recommend that management strengthen its systems environments for the operating system, database, and application layers by:

- Establishing and applying or strengthening access, segregation of duties, configuration management, security management, and/or business process application controls;
- Developing, updating, and/or implementing policies and procedures for controls, and;
- Continue to work with its service providers to strengthen controls of service provider environments and monitor that controls are properly designed and effectively operate.

G. Journal Entries General Ledger Adjustments

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

Management did not define the criteria to identify manual journal entries from transactions entered through normal business processes in its main accounting system of record.

Legacy accounting systems are unable to identify and differentiate between manual journal entries and transactions entered through normal business processes. Accounting systems were unable to demonstrate that manual journal entry listings are complete, and that adjustments are complete and accurate.

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 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 was unable to produce reports of manual journal entries and requires resources to process and cross-walk the transactions to be presented in US Standard General Ledger (USSGL) accounts due to legacy system limitations.
- Management did not identify a process risk point for out of balance account relationships or manual journal entries. Further, management did not define standard postings for standard business processes in the accounting systems and did not implement consistent review and documentation requirements for transactions entered outside established standard business processes.
- Management has not completely documented and validated posting logic in the accounting systems.
- The multiple causes noted above create a significant volume of manual journal entries that need to be processed and reviewed within a compressed financial reporting timeline. Additionally, management did not fully remediate prior year deficiencies due to the size and complexity of Army operations.

The criteria is as follows:

- GAO *Standards for Internal Controls in the Federal Government*
- Treasury Financial Manual (TFM), Volume I, *Federal Agencies*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

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:

- Develop, document, and implement policies and procedures to track and minimize the manual journal entries processed in legacy 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 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.
- Perform reconciliations to ensure that manual journal entry logs 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 systems; determine if system updates are necessary from the analysis results.

H. Accounts Payable and Receivable

Management did not fully develop, document and implement controls over accounts payable and receivable to verify that the balances on the consolidated financial statements completely and accurately reflect underlying events. Specifically, management did not have adequate controls in place as follows:

- Management did not develop methodologies to record accruals for expenses received but not yet invoiced at period end, to include travel, grants, permanent changes of station, reimbursable outbound transactions, government purchase cards, supplies, and miscellaneous payments.
- Management implemented accrual methodologies for certain procurement and revenue transactions, however, the methodologies were not sufficient to completely and accurately record accounts payable and receivable estimates. Deficiencies included methodologies that did not capture amounts received but not invoiced at period end, excluding data from the accrual methodology, and a lack of review of the parameters used to generate data used in the accrual.
- Management's accrual methodology for estimating active component payroll expense and a contingent liability for Reserve Officer Training Corps scholarships were not adequately documented or designed and implemented. Management did not provide sufficient documentation for the assumptions and data elements used to make the estimate; establish controls to demonstrate the completeness and accuracy of inputs; document the criteria for identifying outliers that should be addressed; and implement controls validating that the calculation was performed accurately.
- Management did not have comprehensive, finalized, and documented policies and procedures to identify and record a reserve component military payroll accrual or complete an assessment demonstrating the accrual is qualitatively and quantitatively immaterial.
- Management did not properly configure the accounting system to properly classify and present military payroll related payables and receivables such as employer contributions, taxes, deductions, payments, debt, and the retired pay accrual in the correct USSGL accounts.
- Management did not design and implement controls over the receipt and acceptance of goods and services to ensure transactions were valid and recorded in the proper period.
- Management did not have controls in place to properly record liabilities related to contract progress payments as expenses or capitalized assets.

The above conditions primarily resulted because management did not identify all key risks associated with the accounts payable and receivable processes. As such, they do not have policies and procedures designed to address those risks. Further, the accounting system did not always include relevant data and was not configured to record transactions to the correct general ledger accounts and provide sufficient evidence of receipt of goods and services.

For newly developed methodologies, management did not dedicate the time and resources to document and implement the new methodologies. Further, management did not fully implement planned corrective actions related to deficiencies identified in prior years.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Environment*
- FASAB, SFFAS No. 1, *Accounting for Selected Assets and Liabilities*
- FASAB, SFFAS No. 5, *Accounting for Liabilities of the Federal Government*
- FASAB, SFFAS No. 6, *Accounting for Property, Plant, and Equipment*

- FASAB, SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- FASAB, Statement of Federal Financial Accounting Concepts (SFFAC) No. 5, *Definition of Elements and Basic Recognition Criteria for Accrual-Basis Financial Statements*
- TFM *U.S. Standard General Ledger Supplement* and *Intragovernmental Transactions Reporting Guidance*
- DoD FMR

By not recording the necessary accruals and adjustments, the risk exists that balances on the consolidated financial statements and related note disclosures could be misstated or misclassified.

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.
- Dedicate resources to review and update existing accrual methodologies to completely and accurately account for activities received or due as of period end and evaluate that appropriate controls are in place.
- Document an analysis of activities that management determines are clearly inconsequential to current and future periods for which management will not record an accrual.
- Implement policies and procedures to review the accounting system's posting logic for liabilities to evaluate accuracy and compliance with the USSGL and update the accounting system to correct non-compliant postings identified.
- Develop, implement, and enforce policies and procedures to validate the receipt and acceptance of goods and services to include maintaining supporting documentation.
- Continue implementing corrective actions related to previously identified deficiencies.

I. Financial Reporting

Management 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 ensure information is presented in accordance with US generally accepted accounting principles (GAAP). Management did not complete a review of policies and procedures that represent a departure from US 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 potential departures from US GAAP. Additionally, management did not design and implement controls to support specific disclosures for funds from dedicated collections, public-private partnerships, the reconciliation of net cost of operations to net outlays, required property plant and equipment disclosures, and the classification of certain expenditure transfers as exchange or non-exchange.
- Management did not sufficiently design and implement internal controls to support trading partner adjustments and intra-entity eliminations. Management's process does not accurately identify, support, reconcile, or transmit trading partner and intra-entity eliminations at the transactional level.
- Improvements are needed in management's accounting for transactions impacting the statement of budgetary resources (SBR) as follows:
    - Management did not have a control in place to compare the Report on Budget Execution and Budgetary Resources (SF-133) to the amounts per the Statement of Budgetary Resources, and Apportionment and Reapportionment Schedule (SF-132).
    - Management's process for recording adjustments to prior-year obligations was not properly designed and erroneously overstated the upward and downward adjustment balances.
    - Management did not properly record foreign currency fluctuation account disbursements to the same fiscal year as the underlying obligation.
- Management did not effectively implement controls to identify, research, and resolve abnormal USSGL account balances, relationships, transactions that are non-compliant with the USSGL, and the correct use of Treasury Account Fund Symbols (TAFS).
- Management did not consistently perform controls to identify inconsistent or incomplete responses in the quarterly data call responses used to prepare the contingent legal liability disclosure. In addition, management did not evidence review of completing the control.

The above conditions occurred primarily because management did not dedicate sufficient resources to perform risk assessment procedures, and did not obtain and formally document an understanding of relevant processes, risk points, and responses. In addition, system limitations, incorrect configuration in the accounting and financial reporting systems, and unsupported journal entries contributed to out of balance relationships and transactions. Management did not receive responses to all inquiries related to the contingent liabilities data call due to time constraints. Finally, management did not fully implement planned corrective actions.

The criteria for the above include:

- GAO *Standards for Internal Control in the Federal Government*
- FASAB, SFFAS No. 1 *Accounting for Selected Assets and Liabilities*
- FASAB, SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*

- FASAB, SFFAS No. 29, *Heritage Assets and Stewardship Land*
- FASAB, SFFAS No. 43, *Funds from Dedicated Collections*
- FASAB, SFFAS No. 49, *Public-Private Partnerships: Disclosure Requirements*
- FASAB, SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix D*
- OMB Circular No. A-136, *Financial Reporting Requirements*
- TFM, USSGL supplement and Federal Account Symbols and Titles (FAST) Book
- Department of the Army, Office of the Assistant Secretary of the Army, Financial Management and Comptroller, Memorandum dated July 2, 2019, Subject: Data Call for Actual and Contingent Liabilities for Third Quarter, Fiscal Year 2019.

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 work with its service provider, as appropriate, to perform the following:

- Implement policies and procedures to prevent or detect and correct transactions, account mapping, trading partner coding, and other erroneous data elements that results in abnormal balances and align them with the TFM.
- Dedicate sufficient resources to perform risk assessment procedures over relevant processes to obtain and formally document the understanding, including identifying the flow of information, material risk points, and key controls. Policies and procedures should include the need to reconcile, research, and resolve material errors and abnormal balances.
- Perform a comprehensive analysis of non-GAAP policies and practices and the potential impact on the financial statements.
- Design or implement policies and procedures to address correct usage of TAFS and USSGL non-compliant transactions.
- Evaluate whether to update system configuration to make transactional detail and relevant information available.
- Strengthen controls over review of the quarterly contingent liability data call by reinforcing requirements to the reporting commands, and establishing policies and procedures to document review of relevant documentation.
- Complete implementation of planned corrective actions.

J. Fund Balance With Treasury

Management did not fully develop, document, and implement internal controls over Fund Balance with Treasury (FBwT) as follows:

- Management, in coordination with its service provider, did not effectively design and implement controls to address the reconciliation of FBwT to balances reported by the U.S. Department of Treasury. Specifically, management did not provide evidence of supervisory review over various steps in the reconciliation. Additionally, management did not research and investigate the root cause of all variances. Management also recorded adjustments to agree the balances to Treasury at a summary level without including sufficient level of detail to identify whether the related adjustments to other impacted accounts were presented correctly.
- Management, in coordination with its service provider, did not effectively design and implement a control to address the suspense account reconciliation. In addition, management used suspense accounts for transactions that are not in accordance with OMB's Circular No. A-11 and did not consistently resolve suspense transactions timely.
- Management did not effectively design and implement a control to address the Statement of Differences reconciliation. The reconciliation did not include evidence of tracking and aging transactions, evidence of supervisory review or the attributes reviewed, and included aged unresolved differences.
- Management did not research and resolve unmatched unsupported disbursements and collections at period end.
- The year end reconciliation timeline did not require the reconciliation to be completed in time to meet the year-end financial reporting needs in that they are not available until after October 31, 2019.

The above conditions were primarily existed because management did not identify all the relevant risk points with FBwT and did not have policies and procedures that address appropriately evidencing performance of the control or did not follow existing policies.

Further, management has been unable to prioritize resolving deficiencies due to the magnitude and complexity of transactions that may lack appropriate source documentation and are entered across multiple entities and systems. The reconciliation processes involve manual efforts to research large volumes of transactions. The summary level adjustment to match Army General Fund’s FBwT balance to Treasury are made because of the lack of transaction level detail that includes specific attributes.

Management and its service provider did not consistently implement controls over posting accurate and complete accounting information in systems that support the disbursement and collections processes, and identifying and resolving errors.

Additionally, management did not fully implement its corrective action plans for prior year deficiencies.

The criteria is as follows:

- GAO *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*
- TFM – Fund Balance with Treasury Accounts Volume 1, Part 2
- DoD FMR, Volumes 3 and 4

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

Recommendations:

We recommend that management perform the following:

- Develop and maintain documentation of the internal control system to include revising policies and procedures to address underlying control deficiencies.
- Continue to work with its service provider to design and implement controls to expand and enhance the FBwT reconciliation, to include: documenting that inputs are complete and accurate, the specific attributes that are reviewed by management, and the criteria for investigating variances and performing follow up.
- Emphasize to all funding, disbursing, and accounting offices the importance of recording all obligations promptly and accurately in the accounting system.
- Continue to work with its service provider to research suspense and clearing account transactions to determine whether other accounting practices are needed to comply with guidance described in OMB Circular No. A-11.
- Maintain documentation to support reconciliation of variances that is readily available for review.
- Complete implementation of planned corrective actions.

K. Completeness

Management did not design and implement controls to validate that financial transactions are completely and accurately reported in the financial statements as follows:

- Management did not effectively design and implement control activities for validating the completeness, existence and accuracy of year end balances, to include formally documented processes and evidence that controls included all relevant balances and general ledger accounts. Further, management did not perform reconciliations timely such that they could record necessary adjustments for year-end reporting.
- Management did not demonstrate controls were effectively implemented to resolve transactions entered into feeder or accounting systems that were not processed in the accounting system of record. Types of errors included sales order errors, sales order billing errors, missing time reports, invalid transaction reports, reject reports, and military pay impacting personnel changes.
- Management did not properly design controls to reconcile the payroll system to the accounting system of record. Management's reconciliations did not include all relevant transactions and general ledger accounts, defined variance thresholds, evidence of supervisory review, and/or the results of the reconciliation. Further, management did not properly design and implement controls to reconcile personnel information and feeder systems to the payroll system to ensure completeness of information in the payroll systems.

The above conditions existed because management did not perform a risk assessment to determine the tolerable risk associated with processes such as reconciliations and the extent of secondary review controls. Management did not clearly define objectives, the purpose of reconciliations or the process for documenting and resolving variances. Management did not consistently follow or enforce existing policies and procedures that were in place to address identified risks. Further, management relied on ineffective interface controls for the complete and accurate transfer of data between systems. Management is relying on implementation of a new integrated personnel and payroll system to remediate certain deficiencies.

Management did not fully complete implementing corrective actions over prior year deficiencies.

The criteria are the following:

- GAO, *Standards for Internal Controls in the Federal Government*
- Civilian Payroll Standard Operating Procedures for Payroll System Rejects
- Army Regulation 37-104.4, *Financial Administration Military Pay and Allowance Policy*, 8 June 2005
- Department of the Army Pamphlet 600-8 *Personnel-General, Military Human Resources Management Administrative Procedures*, 6 April 2016
- Army policy *Enterprise Resource Planning Systems, Timely Clearing and Recording Interfacing Transactions,* 27 March 2018

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. Evaluate the design of existing control policies and procedures in response to risks identified.
- Continue to design, develop and implement policies and procedures to allow the timely correction of transaction processing errors and other reports for inclusion in the general ledger in the correct period and amount.
- Identify the objective for each reconciliation to include the general ledger accounts included in the control, criteria for investigating variances, and requirements to timely research and resolve variances, and the documentation to support the controls.
- Enforce existing policies and perform periodic monitoring of existing controls to verify control operators are performing the controls in accordance with requirements.
- Evaluate current resources to determine if additional resources are needed to accomplish corrective actions. Continue implementing corrective actions, including integrating the pay and personnel systems.

L. 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 an internal control system that will produce reliable financial reporting. Specifically:

Control Environment: Management did not fully design and implement an effective control environment. For example, management did not:

- Monitor completion of initial ethics trainings/briefings for new employees.
- Consistently develop policies to establish and implement internal controls across its control environment.
- Effectively define roles and responsibilities with its service providers.
- Require reporting organizations to document or implement succession plans.
- Implement monitoring processes over the completion of initial Financial Management certifications and continuing education requirements.
- Evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment: Management did not fully design and implement a risk assessment process, For example, management did not:

- Define risk objectives and risk tolerances for certain financial process areas.
- Complete the development of its risk assessment process, including consideration of risks associated with prior year findings, during FY19.
- Complete its effort to develop a control catalog that details the key controls by process area to demonstrate that management identified and implemented controls respond to financial statement risks.

Information and Communication: Management did not fully design and implement its information and communication processes. For example, management did not:

- Fully design and implement internal controls over the completeness and accuracy of financial data and supporting documentation.
- Effectively communicate financial reporting policy changes to all responsible parties.

Monitoring: Management continued its progress in identifying and remediating control deficiencies in certain areas identified in prior financial statement audits; however, management did not:

- Effectively monitor and evaluate internal controls. As discussed in Exhibit II, Federal Managers' Financial Integrity Act (FMFIA), management did not fully perform, document and demonstrate that they completed their internal control evaluation program covering the entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks.
- Include evaluating 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 service organizations. Additionally, management did not determine that the service organization examinations did not cover all key controls, the description of controls was insufficient, and testing results did not

include information to determine certain controls were sufficiently tested. Finally, management did not implement controls to address control deficiencies at service organizations or perform assessments for service organizations that did not have examinations.

- Consistently develop corrective action plans (CAPs) in accordance with the Office of the Under Secretary of Defense (Comptroller) and internal policies.
- Remediate identified internal control deficiencies from prior financial statement audits in a timely manner.

The above conditions primarily resulted because management did not have an effective internal controls evaluation program as well as the resources, policies and procedures in place to monitor and maintain a control environment that detects and mitigates risk of material misstatements to the financial statements.

The criteria is 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*

Without the proper level of entity-wide controls in place and operating effectively, 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 internal control procedures across its control environment.
- Annually, review and monitor the relevancy of the information and responsibilities in the memorandum of agreements to verify that the agreements were current and all requirements were met.
- Monitor completion of ethics training, succession plans, financial management certifications, and continuing education.
- Complete performance evaluations and hold individuals accountable for their responsibilities.
- Complete the risk assessment process to include define risk objectives and tolerance and consider risks of prior year findings.
- Continue efforts to prepare a control catalog that details the key controls by process area and the risks that the controls address.
- Design and implement information and communication processes to effectively communicate changes to financial reporting policies to all responsible parties.
- Develop, document, and implement internal controls over the completeness and accuracy of financial data and supporting documentation.
- Continue efforts to develop and complete the internal control evaluation program covering the entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks.
- Include service organizations as a part of the OMB Circular No. A-123 Internal Control Assessment and obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports.

- 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 financial systems did not substantially comply with the following FFMIA requirements:
- **Federal Financial Management Systems Requirements**. As discussed in Exhibit **I –** Material Weaknesses **–** F. General Information Technology Controls (GITCs), management did not implement sufficient effective GITCs to protect the financial accounting, reporting and feeder systems data. As a result, Army General Fund did not substantially comply with the financial management systems requirements.
- **Federal Accounting Standards**. As discussed in Exhibit **I –** Material Weaknesses, the Army General Fund's controls were not properly designed, implemented, and operating effectively, which affected the 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 General Fund did not substantially comply with the federal accounting standard 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 consistent with USSGL guidance or document the analysis completed.

The Army General Fund 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 configure the accounting system to produce a complete listing of unique transaction postings.

The criteria are as follows:

- FFMIA
- Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix D*
- OMB Circular No. A-11, *Preparation, Submission, an Execution of the Budget*
- GAO, *Standards for Internal Control in the Federal Government*

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.
- Configure the accounting system to produce a complete listing of unique transaction postings to demonstrate compliance with the USSGL.
- 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 A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB No. A-123) requirements as follows:

- Management did not fully design and implement a framework and process to comply with the requirements, including the requirements to create a data quality plan in order to achieve the objectives of the Digital Accountability and Transparency Act. In addition, management did not document their defined scope and materiality of the significant financial reports and the key processes supporting material line items on the significant financial reports.
- Management did not fully identify or define risk profile objectives that aligned to Army's strategic objectives from the strategic plan and appropriate operational objectives, as required by OMB No. A-123.
- Management did not fully perform, document and demonstrate that they completed their internal control evaluation program, including the entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls. In addition, management did not fully evaluate and consider service organization risks and controls.
- The internal control evaluation program did not demonstrate management review, document assigned resources to complete the work, address financial statement risks, follow sample size and testing techniques provided in OMB No. A-123, follow the testing plan management established, document testing procedures performed and conclusions reached, and document all corrective action plans.

The above conditions resulted because management did not consider all FMFIA and OMB No. A-123 requirements, including new requirements, when designing their evaluation over internal controls. In addition, management's policies did not cover certain requirements, such as, guidance for documenting risks, documenting controls, and management review of testing plans. Furthermore, management did not enforce compliance with their policies and implement corrective actions timely.

The criteria are as follows:

- FMFIA of 1982
- GAO, *Standards for Internal Control in the Federal Government*
- OMB, Circular No. A-123

The Army General Fund 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.

Recommendations:

We recommend that management perform the following:

- Implement an enterprise risk management approach over the evaluation of internal controls as defined by OMB No. A-123.
- Document the defined scope to include the significant financial reports, materiality, and the key processes supporting material line items on the significant financial reports.

- Identify measurable risk profile objectives that align to Army's strategic objectives from the strategic plan and operational objectives.
- Perform and document the internal control evaluation program to include the entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls.
- Work with service providers to assess service organization risks and controls and monitor the service providers to determine that they properly design and effectively operate controls impacting Army's control environment.
- Expand and communicate policies on documenting financial statement risks, identifying controls to address risks, assigning resources, sample size and testing techniques, and documenting testing performed, conclusions reached, and corrective action plans. In addition, enforce and monitor compliance with such policies.

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 2019 Army General Fund Financial Statement Audit Report

1. We appreciate the efforts and professionalism your staff exhibited during Army's General Fund full financial statement audit. Thank you for providing us the opportunity to respond to the draft report provided to us on November 4, 2019.

2. We concur with the findings identified in the Fiscal Year 2019 Army General Fund draft audit report and will ensure our corrective action plans address the findings identified. We will continue to work with Army stakeholders to correct issues related to completeness of populations, evidential matter, information technology controls, beginning balances, general ledger adjustments, accruals for revenues and expenses, receivables and liabilities, fund balance with Treasury, general property, plant and equipment, operating materials and supplies, environmental and disposal liabilities, service provider oversight, and entity level controls.

3. In Fiscal Year 2020, we will continue implementing, tracking, and monitoring actions taken to correct material weaknesses identified in the audit report and within our Annual Statement of Assurance.

4. Despite the observations noted, we continue to make progress in reaching our ultimate goal of achieving a clean audit opinion. 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.

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, 2019 and 2018

(Amounts in Thousands)	2019 Consolidated	2018 Consolidated
Assets (Note 2)		
Intragovernmental:		
Fund balance with Treasury (Note 3)	$ 127,999,484	$ 121,987,931
Investments (Note 5)	1,137	1,430
Accounts receivable (Note 6)	426,503	302,779
Other assets (Note 10)	175,405	337,054
Total intragovernmental	128,602,529	122,629,194
Cash and other monetary assets (Note 4)	565,915	671,946
Accounts receivable, net (Note 6)	985,905	761,131
Inventory and related property, net (Note 8)	29,374,363	28,592,566
General property, plant and equipment, net (Note 9)	144,167,355	147,571,143
Other assets (Note 10)	1,173,601	2,232,667
Total assets	$ 304,869,668	$ 302,458,647
Stewardship property, plant & equipment (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts payable	$ 1,758,747	$ 2,139,119
Other liabilities (Note 15 and 17)	1,126,042	1,644,781
Total intragovernmental	2,884,789	3,783,900
Accounts payable	5,307,136	385,685
Military retirement and other Federal Employment benefits (Note 13)	1,230,162	1,256,792
Environmental and disposal liabilities (Note 14)	25,288,059	20,718,893
Other liabilities (Note 15 and 17)	8,741,322	9,891,757
Total liabilities	$ 43,451,468	$ 36,037,027
Commitments and contingencies (Note 17)		
Net Position		
Unexpended appropriations – other funds	$ 115,526,217	$ 112,955,571
Cumulative results of operations - dedicated collections (Note 18)	63,698	59,860
Cumulative results of operations - other funds	145,828,285	153,406,189
Total net position	261,418,200	266,421,620
Total liabilities and net position	$ 304,869,668	$ 302,458,647

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, 2019 and 2018

(Amounts in Thousands)	2019 Consolidated	2018 Consolidated
Program Costs (Note 19)		
Gross costs	$ 183,114,713	$ 160,041,922
Military personnel	62,436,258	59,887,057
Operations, readiness & support	74,332,837	64,277,667
Procurement	21,415,978	14,164,891
Research, development, test & evaluation	16,860,241	14,028,030
Family housing & military construction	8,069,399	7,684,277
(Less: earned revenue)	$ (7,063,497)	$ (6,633,247)
Net cost before losses/(gains) from actuarial assumption changes for military retirement benefits	176,051,216	153,408,675
Net program costs including assumption changes	176,051,216	153,408,675
Net Cost of Operations	$ 176,051,216	$ 153,408,675

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, 2019

(Amounts in Thousands)	Dedicated Collections (Note 18)	All Other Funds	Consolidated
Unexpended Appropriations			
Beginning balance	$	$ 112,955,572	$ 112,955,572
Budgetary financing sources:			
Appropriations received	-	178,707,434	178,707,434
Appropriations transferred-in/out	-	1,358,723	1,358,723
Other adjustments	-	(9,367,066)	(9,367,066)
Appropriations used	-	(168,128,446)	(168,128,446)
Total budgetary financing sources	-	2,570,645	2,570,645
Total unexpended appropriations	-	115,526,217	115,526,217
Cumulative results of operations			
Beginning balance	59,859	153,406,188	153,466,047
Adjustments:			
Changes in accounting principles	-	(1,449,802)	(1,449,802)
Beginning balance, as adjusted	59,859	151,956,386	152,016,245
Budgetary financing sources:			
Other Adjustments	-	29,142	29,142
Appropriations used	-	168,128,446	168,128,446
Non-exchange revenue	-	(56)	(56)
Donations and forfeitures of cash and cash equivalents	906	84,853	85,759
Transfers-in/out without reimbursement		260,506	260,506
Other budgetary financing sources	-	(2,527,544)	(2,527,544)
Other financing sources:			
Donations and forfeitures of property	-	-	-
Transfers-in/out without reimbursement	-	1,738,851	1,738,851
Imputed financing from costs absorbed by others	-	1,115,177	1,115,177
Other	(1,527)	1,098,200	1,096,673
Total financing sources	(621)	169,927,575	169,926,954
Net cost of operations	(4,404)	176,055,620	176,051,216
Net change	3,783	(6,128,045)	(6,124,262)
Cumulative results of operations	63,642	145,828,341	145,891,983
Net position	$ 63,642	$ 261,354,558	$ 261,418,200

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, 2018

(Amounts in Thousands)	Dedicated Collections (Note 18)	All Other Funds	Consolidated
Unexpended Appropriations			
Beginning balance	$ -	$ 100,009,015	$ 100,009,015
Changes in accounting principles	-	-	-
Beginning balance, as adjusted	-	100,009,015	100,009,015
Budgetary financing sources:			
Appropriations received	-	175,836,295	175,836,295
Appropriations transferred-in/out	-	1,146,730	1,146,730
Other adjustments	-	(8,219,031)	(8,219,031)
Appropriations used	-	(155,817,438)	(155,817,438)
Total budgetary financing sources	-	12,946,556	12,946,556
Total unexpended appropriations	-	112,955,571	112,955,571
Cumulative Results of Operations			
Beginning balance	68,351	147,937,029	148,005,380
Adjustments:			
Changes in accounting principles	-	(559,658)	(559,658)
Beginning balance, as adjusted	68,351	147,377,371	147,445,722
Budgetary financing sources:			
Other adjustments	-	(489,799)	(489,799)
Appropriations used	2,180	155,815,257	155,817,437
Non-exchange revenue	1,984	13,766	15,750
Donations and forfeitures of cash and cash equivalents	26,430	397,269	423,699
Transfers-in/out without reimbursement	-	-	-
Other budgetary financing sources	-	(3,491,368)	(3,491,368)
Other Financing Sources:			
Donations and forfeitures of property	-	12,838	12,838
Transfers-in/out without reimbursement	-	10,294,103	10,294,103
Imputed financing from costs absorbed by others	-	1,016,091	1,016,091
Other	(347)	(4,169,402)	(4,169,749)
Total financing sources	30,247	159,398,755	159,429,002
Net cost of operations	38,738	153,369,937	153,408,675
Net change	(8,491)	6,028,818	6,020,327
Cumulative results of operations	59,860	153,406,189	153,466,049
Net Position	$ 59,860	$ 266,361,760	$ 266,421,620

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

COMBINED STATEMENTS OF BUDGETARY RESOURCES (UNAUDITED)

For the Years Ended September 30, 2019 and 2018

(Amounts in Thousands)	2019 Combined	2018 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 46,546,123	$ 41,902,092
Appropriations (discretionary and mandatory)	179,571,348	176,702,941
Spending authority from offsetting collections (discretionary and mandatory)	23,355,275	23,916,974
Total budgetary resources	$ 249,472,746	$ 242,522,007
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 217,202,293	$ 205,212,854
Unobligated balance, end of year:		
Apportioned, unexpired accounts	23,853,220	26,148,260
Exempt from apportionment, unexpired accounts	25,583	40,086
Unapportioned, unexpired accounts	36,608	42,602
Unexpired unobligated balance, end of year	23,915,411	26,230,948
Expired unobligated balance, end of year	8,355,042	11,078,205
Unobligated balance, end of year (total)	32,270,453	37,309,153
Total budgetary resources	$ 249,472,746	$ 242,522,007
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	164,699,952	154,627,089
Distributed offsetting receipts (-)	288,236	(339,708)
Agency outlays, net (discretionary and mandatory)	$ 164,988,188	$ 154,287,381

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. Reporting Entity

The 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 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 244-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 footnotes 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 in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the 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 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. 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.

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

The Army GF has presented comparative financial statements for the Consolidated Balance Sheets, Statements of Net Cost, Statement 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 General Fund (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 Statement of Net Cost and in Note 24, *Reconciliation of Net Cost of Operations to Budget*. The U.S. has cost-sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

In accordance with 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. 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. Recognition of Expenses

The Army GF requires the recognition of operating expenses in the period incurred. In the case of OM&S, operating expenses are recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expense. Under the consumption method, OM&S would be expensed when consumed. Due to system limitations, in some instances, expenditures for capital and other long-term assets may be recognized as operating expense. The Army GF continues to implement process and system improvements to Enterprise Resource Planning (ERP) systems to address these limitations. However, the Army GF continues to rely partially on some current financial and nonfinancial feeder systems that were not designed to collect and record financial information on the full accrual accounting basis.

1.F. 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 are for probable and measurable contingent legal and other liabilities, and environmental liabilities.

1.G. 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.

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

Financing for the construction of the Army GF facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to the Army GF.

Imputed financing represents the cost paid on behalf of the Army GF by another federal entity. 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 Statement of Federal Financial Accounting Standards (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.H. 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 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.I. 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.J. Fund Balance with Treasury

The Army GF 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, and 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 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 Fund Balance with Treasury (FBWT) account. On a monthly basis, the Army GF FBWT is reconciled and adjusted to agree with the U.S. Treasury accounts.

1.K. 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.

1.L. 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 as fully collectible. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the *Treasury Financial Manual* (TFM) (Chapter 4700, Appendix 10, Section 9.4.4).

1.M. Inventory and Related Property

The Army GF manages only military or government-specific materiel under normal conditions. 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.

Related property includes OM&S. The OM&S are valued at standard purchase price, based upon catalog price. In the case of OM&S, operating expenses are recognized when the items are purchased. Although items that are centrally managed and stored, recorded using the consumption method, and reported on the Balance Sheet as Inventory and Related Property, the Army GF expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user.

The Army GF determined the recurring high-dollar value of OM&S in need of repair is material to the financial statements and requires a separate reporting category.

The Army GF recognizes excess, obsolete, and unserviceable OM&S at a net realizable value of zero pending development of an effective means of valuing such materiel.

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

1.O. General Property, Plant and Equipment

The Army GF uses the historical cost for valuing equipment. 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 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 GF capitalization threshold. The Army GF 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 GF depreciates all General PP&E, other than Construction-in-Process (CIP), on a straight-line basis.

The Army's General 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, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the Army GF capitalization threshold, Army reports such assets on the Army GF balance sheet.

The Army GF developed a reporting process for contractors with government-furnished equipment, which would provide appropriate General PP&E information for financial statement reporting. 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. The Army GF has not fully implemented this due to system limitations.

1.P. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that are not included in General PP&E presented on the Balance Sheet. 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 Sheet.

1.Q. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the Army GF policy is to record advances and prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services should be reported within other assets on the Balance Sheet. 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. The Army GF expenses and/or properly classifies assets when the related goods and services are received.

1.R. 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 at least one of the criteria specified therein 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 and leases entered into by the Army GF are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.S. Other Assets

Other assets include those amounts, such as military and civil service employee pay advances, travel advances, and 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.

1.T. Environmental and Other Contingent Liabilities

The Army GF recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. The risk of loss and resultant contingent liabilities for the Army GF arises from pending or threatened litigation or claims and assessments due to events such as aircraft, vessel, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities also arise as a result of anticipated disposal costs for the Army GF assets. Consistent with SFFAS No. 6, *Accounting for Property, Plant and Equipment*, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Consistent with SFFAS No. 6, the Army GF recognizes non-environmental disposal liabilities when management decides to dispose of an asset. In addition, the Army GF recognizes non-environmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

Environmental and disposal liabilities include future costs to address government-related environmental contamination at the Army GF sites and other sites at which the Army GF is directed by Congress to perform remediation work. The Army GF recognizes a liability for each site as the need for cleanup work becomes probable and costs, based on site-specific engineering estimates, become measurable.

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.

1.V. 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 payments have not been incurred or made for legal liabilities.

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 donations and transfers in and out of assets that were not reimbursed.

1.W. 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 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.X. Funds from Dedicated Collections

Consistent with SFFAS No. 43: *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 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 Statement of Changes in Net Position (SCNP) and the Balance Sheet.

1.Y. Fiduciary Activities

The Army GF fiduciary activities, reported in Note 23, *Fiduciary Activities*, are, as indicated in SFFAS 31: *Accounting for Fiduciary Activities*, relate 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 for additional detail.

1.Z. Military Retirement and Other Federal Employment Benefits

The Army GF's actuarial liability for workers' compensation benefits is developed by the Department of Labor (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 Military Retirement and Other Federal Employment Benefits are detailed in Note 13, *Military Retirement and Other*

Federal Employment Benefits. The Army GF's policy is to recognize its estimated total share of the Army liability reported by the DOL.

The Military Retirement Fund is a defined benefit plan authorized by the NDAA for FY 1984 to provide funds used to pay annuities and pensions to retired military personnel and their survivors. The DoD Board of Actuaries approves the long-term economic assumptions for inflation, salary, and interest. The actuaries calculate the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended Retirement System (BRS) is a new retirement benefit merging aspects of both a defined benefit annuity with a defined contribution account, through the Thrift Savings Plan (TSP). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria may opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution.

1.AA. Subsequent Events

In March 2019, the OUSD issued "OUSD Memo Real Property Financial Reporting Responsibilities Policy Update (FMP 19-05)". The policy is effective as of 1 October 2019 and directs the host location to report real property of such location. Therefore, the Army will transfer some of its real property that is reported on the balance sheet to other Department of Defense installations, and Department of Defense installations will transfer certain real property to the Army. Army has not completed its assessment of this policy that will impact the real property and associated accumulated depreciation balances reported on the balance sheet.

1.AB. 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 Office of Management and Budget (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 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 Department of Transportation for the active Army and Army National Guard.

NOTE 2. NONENTITY ASSETS

As of September 30	2019	2018
(Amounts in thousands)		
Nonentity Assets		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 896,101	$ 780,983
B. Total Intragovernmental Assets	$ 896,101	$ 780,983
2. Nonfederal Assets		
A. Cash and Other Monetary Assets	$ 565,915	$ 671,946
B. Accounts Receivable	3,393	8,640
C. Total Nonfederal Assets	$ 569,308	$ 680,586
3. Total Nonentity Assets	$ 1,465,409	$ 1,461,569
4. Total Entity Assets	$ 303,404,259	$ 300,997,078
5. Total Assets	$ 304,869,668	$ 302,458,647

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, and which is valued using the U.S. Treasury prevailing rate of exchange, in addition to cash held by disbursing officers to carry out their paying and collecting missions.

Nonentity Nonfederal 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.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30	2019	2018
(Amounts in thousands)		
Status of Fund Balance with Treasury		
1. Unobligated Balance		
A. Available	$ 23,878,802	$ 26,188,346
B. Unavailable	8,392,685	11,122,014
C. Total Unobligated Balance	$ 32,271,487	$ 37,310,360
2. Obligated Balance Not Yet Disbursed	$ 120,907,233	$ 110,031,048
3. Non-budgetary FBWT		
A. Deposit Funds	$ 886,017	$ 769,598
B. Non-entity and Other	167,417	566,973
C. Total Non-budgetary FBWT	$ 1,053,434	$ 1,336,571
4. Non-FBWT Budgetary Accounts		
A. Investments - Treasury Securities	$ (1,125)	$ (1,424)
B. Unfilled Customer Orders without Advance	(22,351,936)	(22,583,913)
C. Reimbursements and Other Income Earned – Receivable	(3,879,609)	(4,104,711)
D. Total Non-FBWT Budgetary Accounts	$ (26,232,670)	$ (26,690,048)
5. Total	$ 127,999,484	$ 121,987,931

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. 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 that have been obligated for goods and services not received, and those received but not paid.

Non-budgetary FBWT includes accounts that do not have budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts and nonentity FBWT.

Non-FBWT Budgetary Accounts reduce the Status of FBWT. Examples include: unfilled customer orders without advance, reimbursements and other income earned-receivable, and investment accounts.

Adjustments to FBWT for undistributed disbursements and collections (supported and unsupported) totaled approximately $22.2 billion add $0.3 billion, respectively, as of September 30, 2019.

The U.S. Treasury reported $4.2 million more in FBWT than that reported by the Army GF. This difference primarily reflects $3.8 million in fiduciary activity (contributions less distributions to and on behalf of beneficiaries), included within the FBWT reported by the U.S. Treasury but which is excluded from Army GF's reported FBWT. The remaining $0.4M reflects differences in the U.S. Treasury treatment of allocation transfers resulting from instances in which Army allocates to, or is allocated funds from, various governmental entities. In cases in which Army is allocated funds, the allocated amount is excluded from the reported FBWT per Army but included in the FBWT per the U.S. Treasury.

NOTE 4. CASH AND OTHER MONETARY ASSETS

As of September 30	2019	2018
(Amounts in thousands)		
1. Cash	$ 220,286	$ 210,899
2. Foreign Currency	345,629	461,047
3. Total Cash, Foreign Currency, & Other Monetary Assets	$ 565,915	$ 671,946

Cash and Other Monetary Assets are nonentity assets and by nature the Army GF may not obligate against these assets.

See Note 2, *Nonentity Assets*, for additional information regarding Cash and Other Monetary Assets.

Foreign currency is valued using the U.S. Treasury prevailing rate of exchange. The Army GF cash and foreign currency are restricted.

NOTE 5. INVESTMENTS AND RELATED INTEREST

As of September 30	2019			
(Amounts in thousands)	Cost	Amortized (Premium) / Discount	Investments, Net	Market Value Disclosure
1. Intragovernmental Securities				
A. Nonmarketable, Market-Based				
i. Gift Funds	$ 1,125	$ 8	$ 1,133	$ 1,134
B. Accrued Interest	4		4	4
C. Total Intragovernmental Securities	$ 1,129	$ 8	$ 1,137	$ 1,138

As of September 30	2018							
(Amounts in thousands)	Cost		Amortized (Premium) / Discount		Investments, Net		Market Value Disclosure	
1. Intragovernmental Securities								
A. Nonmarketable, Market-Based								
i. Gift Funds	$	1,424	$	2	$	1,426	$	1,433
B. Accrued Interest		4		-		4		4
C. Total Intragovernmental Securities	$	1,428	$	2	$	1,430	$	1,437

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.

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 6. ACCOUNTS RECEIVABLE

As of September 30	2019					
(Amounts in thousands)	Gross Amount Due		Allowance For Uncollectible Accounts		Accounts Receivable, Net	
1. Intragovernmental Receivables	$	426,503	$	N/A	$	426,503
2. With the Public	$	1,108,073	$	(122,168)	$	985,905
3. Total Accounts Receivable	$	1,534,576	$	(122,168)	$	1,412,408

As of September 30	2018					
(Amounts in thousands)	Gross Amount Due		Allowance For Uncollectible Accounts		Accounts Receivable, Net	
1. Intragovernmental Receivables	$	302,779	$	N/A	$	302,779
2. With the Public	$	882,281	$	(121,150)	$	761,131
3. Total Accounts Receivable	$	1,185,060	$	(121,150)	$	1,063,910

Accounts Receivable

Accounts Receivable represent the Army GF's claim for payment from other entities. The Army GF only recognizes an allowance for uncollectible amounts from the public.

The allowance is 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 quarter-end.

NOTE 7. DIRECT LOAN AND LOAN GUARANTEES

The Army GF operates no direct loan or loan guarantee programs.

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

As of September 30	2019	2018
(Amounts in thousands)		
1. Operating Materiel & Supplies, Net	$ 29,374,363	$ 28,592,566
2. Total	$ 29,374,363	$ 28,592,566

Operating Materiel and Supplies, Net

As of September 30	2019			
(Amounts in thousands)	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 24,934,672	$ -	$ 24,934,672	Standard Price
B. Held in Reserve for Future Use	1,755,558	-	1,755,558	Standard Price
C. Held for Repair	2,684,133	-	2,684,133	Standard Price
D. Excess, Obsolete, and Unserviceable	1,219,863	(1,219,863)	-	Standard Price
E. Total OM&S	$ 30,594,226	$ (1,219,863)	$ 29,374,363	

As of September 30	2018			
(Amounts in thousands)	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
1. OM&S Categories				
A. Held for Use	$ 23,845,404	$ -	$ 23,845,404	Standard Price
B. Held in Reserve for Future Use	1,986,251	-	1,986,251	Standard Price
C. Held for Repair	2,760,911	-	2,760,911	Standard Price
D. Excess, Obsolete, and Unserviceable	1,213,806	(1,213,806)	-	Standard Price
E. Total OM&S	$ 29,806,372	$ (1,213,806)	$ 28,592,566	

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.

The Army GF follows the guidance within the September 2012 Office of the Assistant Secretary of the Army Financial Management & Comptroller Accountability & Audit Readiness Directorate *Financial Reporting Operating Materials & Supplies Desktop Procedures*, as well as the condition of the materiel itself, in assigning OM&S to the respective categories above.

Managers determine which items are more costly to repair than to replace. The value of these items are completely offset by an allowance on items deemed to be excess, obsolete, and unserviceable OM&S. The Army GF established this allowance at 100% of the carrying account. These items, which include ammunition, are reported as excess, obsolete, and unserviceable.

There are no restrictions on OM&S.

NOTE 9. GENERAL PP&E, NET

As of September 30 *(Amounts in thousands)*	2019			
	Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes				
A. Land (see narrative)		N/A	N/A	N/A
B. Buildings, Structures, and Facilities	35, 40 or 45	$ 104,474,115	$ (46,303,221)	$ 58,170,894
C. Leasehold Improvements	Lease term	24,384	(16,134)	8,250
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	Various	208,024,389	(124,376,879)	83,647,510
F. Construction-in-Progress	N/A	2,045,220	N/A	2,045,220
G. Other	N/A	-	-	-
H. Total General PP&E		$ 315,069,826	$ (170,902,471)	$ 144,167,355

As of September 30 *(Amounts in thousands)*	2018			
	Useful Life*	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes				
A. Land (see narrative)		N/A	N/A	N/A
B. Buildings, Structures, and Facilities	35, 40 or 45	$ 102,814,315	$ (44,602,556)	$ 58,211,759
C. Leasehold Improvements	Lease term	24,634	(16,383)	8,251
D. Software	2-5 or 10	501,718	(206,237)	295,481
E. General Equipment	Various	225,987,478	(138,454,436)	87,533,042
F. Construction-in-Progress	N/A	1,522,558	N/A	1,522,558
G. Other	N/A	64	(12)	52
H. Total General PP&E		$ 330,850,767	$ (183,279,624)	$ 147,571,143

* Valuation method (where applicable) = Straight Line

General PP&E

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

In FY 2019, the Army GF, adopted the Office of Undersecretary of Defense (OUSD) March 5, 2019 memorandum, *Application of Capitalization Thresholds for General Property, Plant and Equipment*, applying the current capitalization threshold of $250,000 ($100,000 prior to FY 2014) retroactively to its entire population of General Equipment, comprising an adjustment of $1.4 billion, representing the net book value of Equipment, to the beginning balance of FY 2019 Cumulative Results of Operations. The effects of this adjustment is reflected on line item “General property, plant and equipment, net (Note 9)” of the Balance Sheet.

In FY 2018, the Army GF adopted SFFAS No. 50 paragraph 40.f.i, allowing an exclusion of land and land rights from opening balances with, alternatively, disclosure of acreage information and expensing of future land and land rights acquisitions. This exclusion resulted in recognition of an adjustment of $559.7 million, representing total net book value of Land and Land Rights, to the beginning balance of FY 2018 Cumulative Results of Operations. As of September 30, 2019, the Army GF owned 11,768,663 acres of land and leased 858,496 acres for a total 12,627,159 acres in land rights. As of September 30, 2018, the Army GF owned 11,572,397 acres. The Army GF’s stewardship land consists mainly of mission-essential land and therefore stewardship land is not presented separately. The effect of this adjustment is reflected on line item “General property, plant and equipment, net (Note 9)” of the Balance Sheet.

General PP&E deferred maintenance and repair totals are reported as Required Supplementary Information within the FY 2019 Army GF Annual Financial Report.

Heritage Assets and Stewardship Land Information

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 Sheet 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, 2018	Increase	Decrease	As of Sept 30, 2019
Buildings and Structures	36,422	844	2,721	34,545
Archaeological Sites	10,267	571	4,531	6,307
Museum Collection Items	614,293	-	6,604	607,689

The Army GF is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2019 due to limitations of the Army GF's financial and nonfinancial management processes and systems.

NOTE 10. OTHER ASSETS

As of September 30	2019	2018
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Advances and Prepayments	$ 175,405	$ 337,054
B. Total Intragovernmental Other Assets	$ 175,405	$ 337,054
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 315,419	$ 1,184,127
B. Advances and Prepayments	858,182	1,048,540
C. Total Nonfederal Other Assets	$ 1,173,601	$ 2,232,667
3. Total Other Assets	$ 1,349,006	$ 2,569,721

Advances and Prepayments
Advances and prepayments 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.

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.

In FY 2018 the total reported outstanding contract financing payments included $703.6 million in estimated future payments to contractors, representing outstanding progress payments based on cost, and payable upon delivery and government acceptance of a satisfactory product, and for which a corresponding contingent liability was also recognized at the time (see Note 15). In FY 2019, as these outstanding future payments were no longer deemed contingent but ultimately payable under terms of the respective contract, an account payable rather than contingent liability was alternatively recognized.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2019	2018
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts Payable	$ 1	
B. Debt	-	
C. Other	246,874	$ 276,623
D. Total Intragovernmental Liabilities	$ 246,875	$ 276,623
2. Non-Federal Liabilities		
A. Accounts Payable from Canceled Appropriations	$ 1,302,563	$ 1,253,432
B. Military Retirement and Other Federal Employment Benefits	1,230,162	1,256,792
C. Environmental and Disposal Liabilities	23,752,920	18,988,787
D. Other Liabilities	4,493,046	3,989,406
E. Total Non-Federal Liabilities	$ 30,778,691	$ 25,488,417
3. Total Liabilities Not Covered by Budgetary Resources	$ 31,025,566	$ 25,765,040
4. Total Liabilities Covered by Budgetary Resources	$ 12,425,902	$ 10,271,987
5. Total Liabilities	$ 43,451,468	$ 36,037,027

Intragovernmental Liabilities, Other, primarily consists of the unfunded *Federal Employees' Compensation Act* (FECA) liability $201.2 million and $24.6 million of other unfunded employment-related liabilities, as of September 30, 2019 and of the unfunded FECA liability $211.7 million and $43.9 million of other unfunded employment-related liabilities, as of September 30, 2018.

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.

Military Retirement and Other Federal Employment Benefits consist of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities consist of the actuarial FECA benefits liability of $1.2 billion as of

September 30, 2019 and $1.3 billion as of September 30, 2018. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, 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*).

Nonfederal Other Liabilities consist of $3.5 billion in unfunded annual leave, $0.6 billion in contracted Army cadet scholarship liabilities and $0.4 billion of contingent legal liabilities as of September 30, 2019 and $3.7 billion in unfunded annual leave and $0.3 billion in contingent legal liabilities as of September 30, 2018 (see Note 15, *Other Liabilities*).

Certain Environmental Liabilities as well as Military Retirement and Other Federal Employment Benefits, 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. DEBT

The Army GF has no intragovernmental loan or nonfederal debt.

NOTE 13. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2019		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 1,230,162	$ -	$ 1,230,162
B. Other	-	-	
C. Total Other Benefits	$ 1,230,162	$ -	$ 1,230,162
2. Total Military Retirement and Other Federal Employment Benefits:	$ 1,230,162	$ -	$ 1,230,162

As of September 30	2018		
(Amounts in thousands)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
1. Other Benefits			
A. FECA	$ 1,256,792	$ -	$ 1,256,792
B. Other	-	-	
C. Total Other Benefits	$ 1,256,792	$ -	$ 1,256,792
2. Total Military Retirement and Other Federal Employment Benefits:	$ 1,256,792	$ -	$ 1,256,792

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 Treasury's Yield Curve for 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 CPIM). The actual rates for these factors for charge back year (CBY) 2019 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. Cost-of-living adjustments (COLA) and medical inflation factors (CPIM) provided by the Department of Labor 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:

Discount Rates
For wage benefits:
2.610% in Year 1 and years thereafter.
For medical benefits:
2.350% 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 CPIMs were applied to the calculation of projected future benefits. The actual rates for these factors for the charge-back year (CBY) 2019 were used to adjust the historical payments associated with the methodology to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various CBYs were as follows:

CBY	COLA	CPIM
2019	N/A	N/A
2020	1.47%	2.86%
2021	1.85%	3.05%
2022	2.12%	3.09%
2023	2.17%	3.47%
2024	2.21%	3.88%

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 2019 to the average pattern observed during the most current three CBYs; and (4) a comparison of the estimated liability per case in the CBY 2019 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	2019	2018
(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)	$ 2,675,664	$ 2,518,632
ii. Active Installations—Military Munitions Response Program (MMRP)	872,233	914,142
iii. Formerly Used Defense Sites—IRP and BD/DR	2,736,620	2,942,120
iv. Formerly Used Defense Sites--MMRP	7,735,403	7,683,019
B. Other Accrued Environmental Liabilities—Non-Base Realignment and Closure (BRAC)		
i. Environmental Corrective Action	801,720	554,586
ii. Environmental Closure Requirements	6,919,912	2,126,609
iii. Environmental Response at Operational Ranges	-	92,320
iv. Asbestos	1,927,523	2,451,397
C. Base Realignment and Closure Installations		
i. Installation Restoration Program	628,593	555,414
ii Military Munitions Response Program	659,937	642,959
iv. Environmental Corrective Action / Closure Requirements	330,454	237,695
2. Total Environmental Liabilities	$ 25,288,059	$ 20,718,893

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 (E&DL) cleanup costs. Effective October 1, 2018, the Army General Fund (GF) implemented Interpretation No. 9 and transferred $290 million (Facility Closure $45 million and Asbestos $245 million) to the Army Working Capital Fund. This is recognized as a change in accounting principle for E&DL previously reported by the Army GF.

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

The Army's report for 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's current Note 14 *E&DL* are reported in three general categories:

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

The Army General Fund (GF) addresses event-driven liabilities for the Defense Environmental Restoration Program (DERP) requirements at Active Installations, BRAC, and Formerly Used Defense Sites (FUDS) (Lines 1.A and 1.C) as well as environmental restoration or corrective action not covered by DERP (Line 1.B). Other Environmental Liabilities that are also included on Line 1.B are disposal liabilities for operational assets such as buildings (asbestos, lead-based paint, other environmental issues), underground storage tanks (USTs), above ground storage tanks (ASTs), piping associated with storage tanks, Open Burning/Open Detonation (OB/OD) areas, landfills, low level radioactive waste (LLRW), and the decommissioning of deactivated nuclear reactors, all assets incurring environmental costs at closure.

For each category, the E&DL reflects the future work required to address legal and environmental requirements. The Army also does not report a balance for line items where another Department of Defense (DoD) entity serves as the DoD Executive Agent. Executive agents are responsible for identifying funding requirements and disclosing financial information regarding the progress of these programs. The Army is the Lead Agent for the FUDS Program, which is reported on Note 14 Lines 1.A.iii and 1.A.iv.

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 associated with facility closures.

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. 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. 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.

The 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*, which clarifies reporting of liabilities arising from the asbestos-related cleanup.

SFFAS 6, and FASAB Technical Release 11, *Implementation Guidance on Cleanup Costs Associated with Equipment, June 2, 2010*, provides that cleanup costs for when equipment operations cease shall be estimated when the associated asset is placed in service, and a portion of estimated total cleanup costs shall be recognized as expense during each period that the asset is in operation. The Army GF is in its initial stages of determining completeness for general equipment with an associated clean-up cost and defining a liability valuation method for such clean-up costs.

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)
- Clean Water Act (CWA)
- Safe Drinking Water Act (SDWA)
- Clean Air Act (CAA)
- Resource Conversation and Recovery Act (RCRA)
- Toxic Substances Control Act (TSCA)
- Medical Waste Tracking Act (MWTA)
- Atomic Energy Act
- Nuclear Waste Policy Act
- Low-Level Radioactive Waste Act
- National Defense Authorization Acts (NDAA)
- DoDI 4715.08, Remediation of Environmental Contamination Outside the United States
- DoDI 4715.14, Operational Range Assessments
- 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)

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. The RACER system is the Army's preferred model for DERP and non-DERP event-driven liabilities that are still in the study phase (i.e., preliminary assessment, site inspection, or remedial investigation). The Army GF relies upon the Air Force, which is the DoD RACER executive agent, to validate the model in accordance with DoDI 5000.61, *DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation (VV&A).* The Army generally uses FS or CMS costing to estimate environmental cleanup projects. The FS-level estimates include reviews by federal or state regulatory agencies. For recurring actions, such as sites in a remedial operation or long-term maintenance (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.

The Army includes future program management requirements associated with DERP cleanup sites. Program management costs are determined by each of the technical leads for DERP execution. Program management costs beyond the Future Years Defense Program (FYDP) are determined by applying the average percentage of program management costs through the FYDP to the site-level requirements remaining after the FYDP. The procedure is based on the 19 Jan 2016 Deputy Assistant Secretary of Defense (Environment, Safety, and Occupational Health) memo entitled, *"Revisions to the Knowledge-Based Corporate Reporting System (KBCRS) Defense Environmental Restoration Program (DERP)"*.

Asset-driven liabilities for facility closures 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 survey 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. Environmental closure liabilities for individual building demolition will vary significantly depending on location, so environmental related building closure liabilities for other regulated materials (ORM) are reported in aggregate and adjusted for location and useful life determinations. The historical costs to support the estimating model is taken from various sites around CONUS and updated annually. The costs for the historical contracted demolitions are then averaged and a Unit Cost Factor (UCF) developed for asbestos and ORM. UCF are derived using industry standards or historical costs, along with the assets inventory data to develop environmental closure liabilities. The UCF is multiplied by the total FEE (government-owned) building square footage inventory to generate the environmental liabilities for building closure for ORM and asbestos survey.

Asbestos disposal costs are based on historical cost data from recent building demolitions and pre-demolition building survey to develop cost factors for asbestos survey and abatement. The methodology is based on the 30 Sep 2015 Assistant Secretary of Defense (Energy, Installation and Environment) memo entitled, "*Strategy for Environmental & Disposal Liabilities Audit Readiness*". In 1990, the U.S. Environmental Protection Agency provided the final regulatory ban on the use of asbestos-containing materials in construction. Therefore, E&DL for asbestos abatement only includes facilities put into service prior to 1990. The liability is determined using the square footage of buildings put into service prior to 1990 multiplied by the asbestos abatement cost factor.

In 1990, the US Environmental Protection Agency (USEPA) provided the final regulatory ban on the use of asbestos-containing materials in construction. Therefore, Environmental and Disposal Liability for asbestos abatement only includes facilities put into service before 1990. The asbestos abatement environmental liability which is reported as part of Line 1.B.iii.

The Army also has some highly specialized facilities that require unique closure requirements that do not fit the 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 Nuclear Regulatory Commission (NRC), the Army adheres to the substantive requirements of NRC regulations. The estimation process requires a detailed engineering study and financial analysis that will be required to conduct the decommissioning and disposal.

The estimates are based on numerous industry standards and fundamental assumptions that consider current regulations, radioactive waste disposal options, site restoration practices, and project contingencies. The closure liability for reactors is reported on Line 1.B.ii.

The Army uses independently validated models to estimate environmental disposal liabilities for aboveground and underground storage tanks. The model is contained within the RACER. Cost estimates for storage tank closure were developed using three major categories (based on tank volume): Small - Category 1 (0-999 gallons), Medium - Category 2 (1,000 – 9,999 gallons), and Large - Category 3 (greater than 10,000 gallons). There are several subcategories for tanks with volume greater than 10,000 gallons and RACER cost estimates using local cost factors were used along with the inventory of tanks in each category to develop the reported E&DL.

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) and acreage. The reported environmental liability also includes post-closure requirements (i.e. 30 years of long-term monitoring). The Army uses independently validated models to estimate environmental closure liabilities for landfills.

Sunflower Army Ammunition Plant (SAAP) is a Non-BRAC Excess facility that has both DERP cleanup requirements and facility closure requirements, which includes explosives decontamination of existing structures. The explosives decontamination costs are based on contract costs and include removal of potentially explosive building foundation slabs, walls when present, and sumps; removal and decontamination of potentially explosive sewers and underground infrastructure. The environmental investigations and cleanup to address contamination beneath the foundations and sewers are being executed under DERP and are included in line 1.A.i of Note 14, and the explosives decontamination work associated with facility closure is reported on line 1.B.ii.

Open Burning Open Detonation (OB/OD) are environmentally permitted disposal facilities and another of the Army's highly specialized facilities that require unique closure requirements. The Army utilizes RACER modeling software to capture closure requirements and determine the environmental liabilities. OB/OD areas/facilities are used as a common disposal method for munition stockpiles. These activities are necessary to destroy unserviceable, unstable, or unusable munitions and explosives. Environmental Closure Requirements are reported on line 1.B.ii of Note 14.

The Army reports Low-Level Radioactive Waste (LLRW) on Line 1.B.ii of Note 14 of the financial statement as a part of the asset driven liabilities. LLRW are regulated under the *Low-Level Radioactive Waste Act*, and LLRW disposal is conducted in accordance with U.S. NRC regulations (i.e., *Sections 61.2, 20.1003 and 20.2008 of Title 10, Code of Federal Regulations* (CFR)). The DoD program also adheres to *DoDI 4715.27, DoD Low-Level Radioactive Waste (LLRW) Program, 7 July 2017*. Engineering estimates, leveraging this regulation, are used to develop the LLRW estimates. The scope of LLRW asset estimates is limited to all Army NRC license holders.

The Army GF estimates include future storage costs associated with recovered chemical warfare munitions (RCWM) before the assessment/destruction occurs, and it does not include RCWM Program Support functions associated with the assessment/destruction of RCWM. E&DL associated with RCWM are included in the Army GF event-driven liabilities. The RCWM Program Support functions, which are supported by a separate appropriation, are used during the implementation of RCWM investigations or removal/remedial actions. The environmental liabilities for the actual destruction of the rounds are carried on the OSD financial statement as of FY18 Q2.

The Army does not recognize environmental and disposal liabilities for operational ranges because the liability is not measurable, due to the munitions rule. The Army has not assessed its operational ranges for hazardous constituents. The munitions rule provides that munitions used for their intended purpose are not a solid waste, thus because the munitions on the operational ranges are not solid waste they cannot be by statute be a hazardous waste. The liability is also not recognized because it is not probable since the Army does not intend to ever close its current inventory of operational ranges. In the event where the decision is made to close a current operational range, the Army will provide a full environmental assessment and initiate a strategy and plan for the cleanup.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General PP&E

For General PP&E placed in service on or after October 1, 1997, costs are allocated to the periods benefiting from the operations of the General PP&E. Cleanup costs allocated to future periods and not included in the liability amounted to $262.5 million at September 30, 2019, and $231 million as of September 30, 2018. The recognized amounts are included in the Environmental Closure Requirements on Note 14 (Line 1.B.ii) 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 GF estimates are updated annually to reflect changes in previously unknown information, better site characterization, 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 advances in technology.

Uncertainty Regarding the Accounting Estimates used to Calculate the Reported Environmental Liabilities
E&DL for the Army GF 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 for the liabilities. The actual results may vary materially from the accounting estimates if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Environmental Liabilities 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 recognize on the balance sheet. Friable asbestos mitigation estimates are based on historical costs of asbestos abatement during facility demolition.

The cleanup costs associated with general and military equipment is uncertain. The Army is unable to determine general equipment disposal liabilities because the determination for completeness for general equipment and defining valuation methods are still ongoing. The Army GF is also currently unable to provide a reasonable estimate due to fact that a large portion of Army's general equipment is disposed of as a routine part of current operations, while other general equipment is recycled. Still other general equipment does not present a liability for the Army since they are disposed of through various governmental sales programs (e.g. foreign military sales, Defense Logistics Agency equipment sales, etc.).

E&DL for the Army's asset driven liabilities are based on estimates, which are dependent on data from 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 methodology for asset driven liabilities assumes that the APSRs are accurate and the data used from the Accountable Property System of Record 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.

All environmental liabilities as of September 30, 2019 and 2018 are stated in FY 2019 and 2018 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.

NOTE 15. OTHER LIABILITIES

As of September 30 (Amounts in thousands)	2019 Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Advances from Others	$ 6,048	$ -	$ 6,048
B. Deposit Funds and Suspense Account Liabilities	157,348	-	157,348
C. Disbursing Officer Cash	565,921	-	565,921
D. Judgment Fund Liabilities	21,091	-	21,091
E. FECA Reimbursement to the Department of Labor	91,194	110,032	201,226
F. Custodial Liabilities	3,147	216	3,363
G. Employer Contribution and Payroll Taxes Payable	146,439	-	146,439
H. Other Liabilities	24,606	-	24,606
I. Total Intragovernmental Other Liabilities	$ 1,015,794	$ 110,248	$ 1,126,042
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 2,299,446	$ -	$ 2,299,446
B. Advances from Others	619,381	-	619,381
C. Deposit Funds and Suspense Accounts	896,198	-	896,198
D. Non-environmental Disposal Liabilities		-	
i. Conventional Munitions Disposal	-	5,974	5,974
E. Accrued Unfunded Annual Leave	3,513,307	-	3,513,307
F. Contract Holdbacks	174,231	-	174,231
G. Employer Contribution and Payroll Taxes Payable	269,106	-	269,106
H. Contingent Liabilities	101,689	253,677	355,366
I. Other Liabilities	(10,086)	618,399	608,313
J. Total Nonfederal Other Liabilities	$ 7,863,272	$ 878,050	$ 8,741,322
3. Total Other Liabilities	$ 8,879,066	$ 988,298	$ 9,867,364

As of September 30 (Amounts in thousands)	2018 Current Liabilities	Noncurrent Liabilities	Total
1. Intragovernmental			
A. Advances from Others	$ 70	$ -	$ 70
B. Deposit Funds and Suspense Account Liabilities	555,587	-	555,587
C. Disbursing Officer Cash	680,076	-	680,076
D. Judgment Fund Liabilities	21,074	-	21,074
E. FECA Reimbursement to the Department of Labor	94,945	116,721	211,666
F. Custodial Liabilities	3,147	(1,331)	1,816
G. Employer Contribution and Payroll Taxes Payable	130,556	-	130,556
H. Other Liabilities	43,936	-	43,936
I. Total Intragovernmental Other Liabilities	$ 1,529,391	$ 115,390	$ 1,644,781
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 2,566,204	$ -	$ 2,566,204
B. Advances from Others	1,271,006	-	1,271,006
C. Deposit Funds and Suspense Accounts	762,283	-	762,283
D. Non-environmental Disposal Liabilities			
i. Conventional Munitions Disposal	-	5,974	5,974
E. Accrued Unfunded Annual Leave	3,645,124	-	3,645,124
F. Contract Holdbacks	230,548	-	230,548
G. Employer Contribution and Payroll Taxes Payable	152,638	-	152,638
H. Contingent Liabilities	309,107	947,809	1,256,916
I. Other Liabilities	1,064	-	1,064
J. Total Nonfederal Other Liabilities	$ 8,937,974	$ 953,783	$ 9,891,757
3. Total Other Liabilities	$ 10,467,365	$ 1,069,173	$ 11,536,538

Intragovernmental Other Liabilities

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

Intragovernmental 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 Officers 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 Officers Cash is non-entity, restricted cash.

For information on Judgment Fund Liabilities, see Note 17, *Commitments and Contingencies*.

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, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

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

Employer Contributions and Payroll Taxes Payable, a portion of which may also be classified as nonfederal, represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Other Liabilities primarily consists of unemployment compensation liabilities.

Nonfederal Other Liabilities

Accrued funded payroll and benefits represents 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.

Accrued unfunded annual leave represents the amount recorded by the Army GF for unpaid Annual Leave entered that the employee is entitled to upon separation and that will be funded by future years' budgetary resources.

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 ROTC cadet scholarships, as well as other miscellaneous intragovernmental accruals.

NOTE 16. LEASES

Entity as Lessee	2019 Asset Category		
As of September 30	Land and Buildings	Other	Total
(Amounts in thousands)			
1. Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2020	$ 35,805	$ -	$ 35,805
2021	36,413	-	36,413
2022	37,032	-	37,032
2023	37,662	-	37,662
2024	38,302	-	38,302
After 5 Years	201,503	-	201,503
Total Intragovernmental Future Lease Payments Due	$ 386,717	$ -	$ 386,717
2. Operating Leases with the Public			
Future Payments Due			
Fiscal Year			
2020	$ 159,249	$ 867	$ 160,116
2021	124,213	696	124,909
2022	91,945	506	92,451
2023	59,682	501	60,183
2024	29,280	437	29,717
After 5 Years	24,687	555	25,242
Total Future Lease Payments Due	$ 489,056	$ 3,562	$ 492,618
3. Total Future Lease Payments Due	$ 875,773	$ 3,562	$ 879,335

As of September 30, 2019, the Army GF has various non-cancelable operating leases. Many of these leases contain clauses to reflect inflation and renewal options. The Army GF has no assets under capital lease.

Entity as Lessor	
Operating Leases with the Public	
(Amounts in thousands)	
Fiscal Year	
2020	$ 12,646
2021	9,461
2022	6,913
2023	5,176
2024	4,234
After 5 Years	19,562
Total Future Lease Payments	$ 57,992

Entity as Lessee	2018 Asset Category		
As of September 30	Land and Buildings	Other	Total
(Amounts in thousands)			
1. Intragovernmental Operating Leases			
Future Payments Due			
Fiscal Year			
2019	$ 21,150	$ -	$ 21,150
2020	21,721	-	21,721
2021	22,307	-	22,307
2022	22,909	-	22,909
2023	23,528	-	23,528
After 5 Years	127,518	-	127,518
Total Intragovernmental Future Lease Payments Due	$ 239,133	$ -	$ 239,133

Entity as Lessee	2018 Asset Category		
As of September 30	Land and Buildings	Other	Total
2. Operating Leases with the Public			
Future Payments Due			
Fiscal Year			
2019	$ 165,185	$ 819	$ 166,004
2020	130,380	773	131,153
2021	95,039	605	95,644
2022	60,822	416	61,238
2023	28,196	416	28,612
After 5 Years	40,182	938	41,120
Total Future Lease Payments Due	$ 519,804	$ 3,967	$ 523,771
3. Total Future Lease Payments Due	$ 758,937	$ 3,967	$ 762,904

As of September 30, 2018, the Army GF had various non-cancelable operating leases. Many of these leases contain clauses to reflect inflation and renewal options. The Army GF has no assets under capital lease.

Entity as Lessor	
Operating Leases with the Public	
(Amounts in thousands)	
Fiscal Year	
2019	$ 11,671
2020	9,277
2021	6,365
2022	3,913
2023	2,967
After 5 Years	13,943
Total Future Lease Payments	$ 48,136

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, 2019			
		Estimated Range of Loss	
(Amounts in thousands)	Accrued Liabilities	Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 355,366	$ 226,165	$ 299,140

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 Liabilitie*s.

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, 2019, the Army GF had $1.9 billion in claims considered reasonably possible. Estimates for litigations, claims, and assessments are required to be fully supported. As of September 30, 2018, the Army GF had $0.7 billion in claims considered reasonably possible.

As of September 30, 2019, the Army has cases with claim amounts totaling approximately $1.05 billion for which the outcome is undetermined, however there is a reasonably possible outcome for a loss. Army determined that the historical payout percentage for these cases is less than 0.01%. As of September 30, 2018, the Army has cases with claim amounts totaling approximately $2.6 trillion for which the outcome is undetermined.

The Army GF is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of budgetary resources. Currently the Army GF automated system processes have limited capability to capture these potential liabilities; therefore, the amounts reported may not fairly present the Army GF's commitments and contingencies.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

As of September 30	2019		2018	
(Amounts in thousands)	Total Funds From Dedicated Collections		Total Funds From Dedicated Collections	
Balance Sheet				
1. Assets				
A. Fund balance with Treasury	$	68,934	$	62,421
B. Investments		1,137		1,430
C. Accounts and interest receivable		3		-
D. Other assets		(1)		(2)
E. Total assets	$	70,073	$	63,849
2. Liabilities and Net Position				
A. Accounts payable and other liabilities		6,375		3,989
B. Total liabilities	$	6,375	$	3,989
C. Cumulative results of operations		63,698		59,860
D. Total Liabilities and Net Position	$	70,073	$	63,849

For the years ended September 30				
(Amounts in thousands)				
Statement of Net Cost				
1. Program costs	$	1,083	$	39,086
2. Less earned revenue		(5,487)		(348)
3. Net program costs	$	(4,404)	$	38,738
4. Less earned revenues not attributable to programs		-		-
5. Net Cost of Operations	$	(4,404)	$	38,738
Statement of Changes In Net Position				
1. Net position beginning of the period	$	59,859	$	68,351
2. Budgetary financing sources		906		30,594
3. Other financing sources		(1,527)		(347)
4. Less: net cost of operations		(4,404)		38,738
5. Change in net position	$	3,783	$	(8,491)
6. Net position end of period	$	63,642	$	59,860

In accordance with SFFAS No. 43: F*unds 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.

Funds from dedicated collections are financed by specifically identified revenues, required by statute to be used for designated activities or purposes, and remain available over time. The Army GF has identified the following such funds and their related statutory citations:

<u>Department of the Army General Gift Fund</u>. 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.

<u>Restoration of Rocky Mountain Arsenal</u>. 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.

<u>Royalties for Use of DoD-Military Insignia</u>. Funds are received from the sale of commemorative memorabilia, trademarks, and licensing activities. The funds are used to replenish inventory stock for such items and other related commemorative program expenses. The authority to create expenditures originates from PL 102 484, Section 378.

Forest and Wildlife Conservation, Military Reservations. 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 10 U.S.C. 2665 provides authority for this fund and for payments to the states.

National Science Center. 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.

National Military Cemeteries Concessions. "All franchise fees (and other monetary consideration) collected by the United States under [(10 U.S.C 4727, *Cemetery Concessions Contracts*] subsection (c) shall be deposited into a special account established in the Treasury of the United States. The funds deposited in such account shall be available for expenditure by the Secretary of the Army, to the extent authorized and in such amounts as are provided in advance in appropriations Acts, to support activities at the Cemeteries."

Department of Defense Korean War Commemoration Fund, Army. Assets of the Fund "…for the purpose of conducting the commemorative program (of the 60th anniversary of the Korean War)…"(PL 111-383, Section 574)

Department of Defense Tomb of the Unknown Soldier Commemoration Fund, Army. "Upon the establishment of the commemorative program….known as the 'Tomb of the Unknown Soldier Commemoration Fund'…..the Fund shall be administered by the Secretary of Defense …(who) shall use the assets of the Fund only for the purpose of conducting the commemorative program." (PL 114-328, Section 1093)

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.

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

Other Information Regarding Costs

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government 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	2019	2018
(Amounts in thousands)	Consolidated	Consolidated
Strategic Goals		
1. Readiness		
A. Gross costs	$ 147,709,974	$ 135,024,296
B. Less: earned revenue	(13,349,007)	(13,043,892)
C. Total net readiness costs	$ 134,360,967	$ 121,980,404
2. Modernization		
A. Gross costs	$ 39,251,117	$ 29,113,018
B. Less: earned revenue	(8,771,671)	(7,631,707)
C. Total net modernization costs	$ 30,479,446	$ 21,481,311
3. Alliance and partnership		
A. Gross costs	$ 5,954,647	$ 5,274,232
B. Less: earned revenue	(204,257)	(226,625)
C. Total net alliance and partnership costs	$ 5,750,390	$ 5,047,607
4. People and families		
A. Gross costs	$ 4,604,530	$ 4,722,587
B. Less: earned revenue	(852,535)	(659,538)
C. Total net people and families costs	$ 3,751,995	$ 4,063,049

For the year ended September 30	2019		2018	
(Amounts in thousands)	Consolidated		Consolidated	
Other Goals				
A. Gross costs	$	1,708,418	$	860,550
B. Less: earned revenue		-		(24,246)
C. Total net costs	$	1,708,418	$	836,304
Intra-entity elimination costs		16,113,973		14,952,760
Less: intra-entity elimination earned revenue		(16,113,973)		(14,952,760)
Consolidated Goals				
A. Gross costs	$	183,114,713	$	160,041,923
B. Less: earned revenue		(7,063,497)		(6,633,248)
C. Total net costs	$	176,051,216	$	153,408,675
(Gain)/loss on pension, ORB, or OPEB assumption changes (Note 15)				
Net strategic goals, including assumption changes		176,051,216		153,408,675
Net cost of operations	$	176,051,216	$	153,408,675

Costs and earned revenues not assigned or attributed to goals relate to intragovernmental, intra-entity activity.

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

Information Related to the Consolidated Statements of Changes in Net Position

Other Financing Sources, Other

Other Financing Sources, Other primarily consist of gains and losses that resulted from adjustments recognized to address differences between the Army GF's nonintegrated feeder systems with DoD's financial reporting system.

Appropriations Received

The FY 2019 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 $863.9 million difference is due to additional resources included in the Appropriations line item on the SBR.

For the year ended September 30, 2019 *(Amounts in thousands)*		
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	$	179,571,348
2. Appropriations received, Statement of Changes in Net Position	$	178,707,434
3. Total reconciling amount	$	864
4. Items reported as reductions to appropriations, Statement of Budgetary Resources		
A. Permanent reductions	$	(874)
5. Items reported as additions to appropriations, Statement of Budgetary Resources		1,732
6. Items not reported as appropriations received on the Statement of Changes in Net Position		
A. Dedicated appropriations and earmarked receipts	$	6
7. Total reconciling items	$	864

NOTE 21. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Net Adjustments to the Statement of Budgetary Resources

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, previously reported separately in FY 2018 as a memorandum line within the Combined Statements of Budgetary Resources, and together impacting the obligated balance, end of the prior year and brought forward, October 1, as reported.

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	2019	2018
(Amounts in thousands)		
1. Intragovernmental:		
A. Unpaid	$ 36,360,050	$ 55,586,516
B. Prepaid/advanced	502,029	868,738
C. Total intragovernmental	$ 36,862,079	$ 56,455,254
2. Nonfederal:		
A. Unpaid	$ 73,062,723	$ 45,882,482
B. Prepaid/advanced	1,173,601	1,476,454
C. Total nonfederal	$ 74,236,324	$ 47,358,936
3. Total budgetary resources obligated for undelivered orders at the end of the period	$ 111,098,403	$ 103,814,190

Apportionment Categories for New Obligations and Upward Adjustments: Direct vs. Reimbursable Obligations

The amount of direct and reimbursable obligations and upward adjustments incurred against amounts apportioned under Category A (apportioned by fiscal quarter), Category B (apportioned by project or activity), and Exempt from Apportionment is as follows:

(Amounts in thousands)	FY 2019 Apportionment Categories	
Type	Direct	Reimbursable
1. Category A	$ 136,661,310	$ 3,850,516
2. Category B	56,109,810	20,562,577
3. Exempt from apportionment	18,080	-
4. Total	$ 192,789,200	$ 24,413,093

(Amounts in thousands)	FY 2018 Apportionment Categories	
Type	Direct	Reimbursable
1. Category A	$ 133,460,357	$ 3,765,105
2. Category B	47,923,667	20,051,566
3. Exempt from apportionment	12,232	(73)
4. Total	$ 181,396,256	$ 23,816,598

The above disclosure agrees (1) with the aggregate of the related information as reported on the SF-133, *Report on Budget Execution*, and (2) with New Obligations and Upward Adjustments as reported on the SBR.

Explanation of Differences between the 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	$ 242,522	$ 205,213	($340)	$ 154,627	
Reconciling difference	(8,413)	-	-	-	Less: schedule P, obligations “upward adjustments,” expired accounts (included within SBR line 2190, New obligations and upward adjustments (Note 1)
Reconciling difference	(11,078)	-	-	-	Less: SF 133 line 2413 - Expired unobligated balance, end of year (Note 2)
Reconciling difference	-	-	(340)	-	Less: distributed offsetting receipts (Note 3)
Reconciling difference (unidentified)	(12)	8	-	(3)	
Total	$223,019	205,221	-	154,624	
Budget of the U.S. Government	223,019	205,221	-	154,624	
Difference	$-	$-	$-	$-	

The corresponding *Budget of the U.S. Government* with the actual amounts for FY 2019 will be available at a later date at https://www.whitehouse.gov/omb/budget.

Note 1: Per FY 2017 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 FY 2017 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 2018 Appendix to the Budget of the U.S. Government, Detailed Budget Estimates*, does not report distributed offsetting receipts at the Army GF level.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The Army GF does not collect incidental custodial revenues.

NOTE 23. FIDUCIARY ACTIVITIES

For the years ended September 30	2019	2018
(Amounts in thousands)		
Schedule of fiduciary activity		
1. Fiduciary net assets, beginning of year	$ 13,216	$ 5,536
2. Contributions	42,568	22,365
3. Distributions to and on behalf of beneficiaries	(51,962)	(14,685)
4. Increase/(decrease) in fiduciary net assets	$ (9,394)	$ 7,680
5. Fiduciary net assets, end of period	$ 3,822	$ 13,216
Schedule of Fiduciary Net Assets		
Fiduciary assets		
1. Fund with balance Treasury	$ 3,822	$ 13,216
2. Total fiduciary Net Assets	$ 3,822	$ 13,216

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 Navy GF, the program's executive agent. These fiduciary assets are not assets of the Army GF and are not recognized on its Balance Sheet. 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 OF OPERATIONS TO NET OUTLAYS

For the year ended September 30	2019		
(Amounts in thousands)	Intragovernmental	With the Public	Total
1. Net Cost of Operations (SNC)	$ 36,826,006	$ 139,225,210	$ 176,051,216
Components of net cost that are not part of net outlays:			
2. Property, plant, and equipment depreciation	$ -	$ (20,935,775)	$ (20,935,775)
3. Property, plant, and equipment disposal & revaluation	-	266	266
4. Year-end credit reform subsidy re-estimates	-	-	-
5. Unrealized valuation loss/(gain) on investments	-	-	-
6. Other	(178,240)	51,124	(127,116)
7. Increase/(decrease) in assets:			
A. Account Receivable	(1,009,458)	224,775	(784,683)
B. Loans Receivable	-	-	-
C. Investments	1	-	1
D. Other assets	(366,707)	(1,165,096)	(1,531,803)
8. (Increase)/decrease in liabilities:			
A. Accounts payable	1,712,633	(4,164,379)	(2,451,746)
B. Salaries and benefits	(15,877)	150,290	134,413
C. Insurance guarantee program liabilities	-	-	-
D. Environmental and disposal liabilities	-	(4,569,166)	(4,569,166)
E. Other Liabilities (unfunded leave, unfunded FECA, actuarial FECA)	142,354	801,858	944,212
9. Other financing sources:			
A. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(1,022,983)	-	(1,022,983)
B. Transfers out (in) without reimbursement	(1,738,851)	-	(1,738,851)
C. Other imputed financing (Judgment Fund)	(92,194)	-	(92,194)
10. Total components of net cost that are not part of net outlays	$ (2,569,322)	$ (29,606,103)	$ (32,175,425)
Components of net outlays that are not part of Net Cost:			
11. Effect of prior year agencies credit reform subsidy re-estimates	-	-	-
12. Acquisition of capital assets	-	21,391,112	21,391,112
13. Acquisition of inventory	-	-	-
14. Acquisition of other assets	-	-	-
15. Other	(108,083)	2,074	(106,009)
16. Total components of net outlays that are not part of net cost	$ (108,083)	$ 21,393,186	$ 21,285,103
17. Other temporary timing differences	-	(172,706)	(172,706)
18. Net outlays	$ 34,148,601	$ 130,839,587	$ 164,988,188
19. Agency outlays, net, Statement of Budgetary Resources			$ 164,988,188
20. Reconciling difference			$

Other Imputed Financing (Judgment Fund) represents the amount of imputed financial sources received by Army GF to cover imputed costs under the Judgment Fund.

Other Components of Net Cost That Are Not Part of Net Outlays include, for Intragovernmental, Cost of Goods Sold; and for With the Public, primarily exchange related losses.

Other Components of Net Outlays that are Not Part of Net Cost include miscellaneous interest and donated revenue.

NOTE 25. PUBLIC-PRIVATE PARTNERSHIPS

Military Housing Privatization Initiative (MHPI)

The *National Defense Authorization Act* for FY 1996, contains the authorities for the Military Housing Privatization Initiative (MHPI). This Act includes a series of authorities that allow Army to work with the private sector to build, renovate and sustain military housing. The goals of the program are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers. Other statutory authorities for this initiative include 10 U.S.C. 2873, 10 U.S.C. 2875, and 10 U.S.C. 2878.

Within the MHPI program, the lease hold interest of local family housing portfolios at 44 Army installations were transferred to a unique Limited Liability Company (LLC) (34 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 MHPI agreements required an initial investment of cash and assets valued at $1.9 billion and $2.1 billion respectively, and reported within the DoD Family Housing Improvement (97X0834) and DoD Military Unaccompanied Housing Improvement (97X0836) Funds. There were also three loan guarantees granted for three of the projects in the amount of $30.4 million that are managed by DoD. The total risk associated with these agreements are the total initial investment (funding and net book value of the assets at the time of transfer) of these projects plus the three commercial loan guarantees associated with three of the MHPI agreements. The LLC operates as its own entity, outside of Army, so there are no other known risks. All assets revert back to the Army upon termination of the leasehold interest at no-cost to either party (Army and partner).

Utility Privatization

Under 10 U.S.C. 2688, Army is able to convey a utility system to a private entity to encourage energy and cost savings. Army has entered into utilities services contracts with private utility companies on some of its installations. These agreements act as standard service contracts, although Army retains land and water rights. The expected life of these agreements are 50 years. Assets and utilities systems utilized on the basis of these contracts were sold to the private entity by Army. No financial risk are associated with these agreements. There are operational risk, to the extent that failure of the private entity could adversely affect installation operations.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

The Army's NAFIs are fiscal entities supported in whole or in part by NAFs. For the most part, NAFs are generated from sales and user fees. The Army's NAFIs is 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. However, 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 Outlay*s, 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, 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.

FISCAL YEAR 2019 REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION – GENERAL FUND

The following summarizes nonfederal physical property. Investments in nonfederal physical property refer to those expenses incurred by the Army for the purchase, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase of improvement to other physical assets. A schedule of estimated investment values of state and local government-owned properties that are used by the federal government is shown below.

Nonfederal Physical Property: Yearly Investments in State and Local Governments
for Fiscal Years 2015 through 2019
(Amounts in millions)

Categories	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Transferred Assets:					
1. National Defense Mission-Related	$21.5	$21.4	$21.4	$21.3	$21.2
Funded Assets:					
2. National Defense Mission-Related	0	0	0	0	0
Totals	$21.5	$21.4	$21.4	$21.3	$21.2

The Army GF incurs investments in nonfederal physical property for the purchase, construction, or major renovation of physical property owned by state and local governments, including major additions, alterations, and replacements; the purchase of major equipment; and the purchase or improvement of other nonfederal assets. In addition, nonfederal physical property investments include federally-owned physical property transferred to state and local governments.

Investment values included in this report are based on nonfederal physical property outlays (expenditures). Outlays are used because current DoD accounting systems are unable to capture and summarize costs in accordance with federal accounting standards.

The following table summarizes basic research, applied research, and development investments and provides examples of each.

Yearly Investments in Research and Development for Fiscal Years 2015 through 2019
(Amounts in millions)

Categories	FY 2019	FY 2018	FY 2017	FY 2016	FY 2015
Basic Research	$251.7	$463.8	$462.9	$453.0	$444.3
Applied Research	1,342.9	1,130.7	578.1	1,045.7	935.2
Development					
Advanced Technology Development	1,539.7	1,286.4	1,182.4	1,175.6	1,128.0
Advanced Component Development and Prototypes	1,389.0	723.3	465.1	460.4	421.3
Systems Development and Demonstration	2,920.7	2,446.5	2,112.8	1,870.0	1,924.1
Research, Development, Test and Evaluation Management Support	1,574.5	1,403.0	1,246.9	1,196.0	1,268.4
Operational Systems Development	1,562.5	1,285.3	866.9	1,283.2	1,270.9
Total	$10,581.0	$8,739.0	$6,915.1	$7,483.9	$7,392.2

Narrative Statement

Research and development(R&D) programs are classified in the following seven Budget Activities (BAs): Basic Research (BA1), Applied Research (BA2), Advanced Technology Development (BA3), Advanced Component Development and Prototypes (BA4), Systems Development and Validation (BA5), RDTE Management Support (BA6), and Operational Systems Development (BA7). The definition of each type of RDTE Budget Activity and representative examples of the research being conducted in each BA is explained below.

Basic Research (BA1) is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and observable facts without specific applications, processes, or products in mind. Basic research includes all scientific study and experimentation directed toward increasing fundamental knowledge and understanding in those fields of the physical, engineering, environmental, and life sciences related to long-term national security needs. It is farsighted, high payoff research that provides the basis for technological progress. Major outputs are scientific studies and research papers.

The following are two representative program examples for this BA:

Defense Research Sciences (PE 0601102A): This Program Element (PE) builds fundamental scientific knowledge contributing to the sustainment of U.S. Army scientific and technological superiority in land warfighting capability and solving military problems related to long-term national security needs, investigates new concepts and technologies for the Army's future force, and provides the means to exploit scientific breakthroughs and avoid technological surprises. This PE fosters innovation in Army niche areas (e.g., lightweight armor, energetic materials, and night vision capability) and areas where there is no commercial investment due to limited markets (e.g., vaccines for tropical diseases). It also focuses university single investigator research on areas of high interest to the Army (e.g., high-density compact power and novel sensor phenomenologies). The in-house portion of the program capitalizes on the Army's scientific talent and specialized facilities to transition knowledge and technology into appropriate developmental activities. The extramural program leverages the research efforts of other government agencies, academia, and industry.

University and Industry Research Centers (PE 0601104A): This PE fosters university- and industry-based research to provide a scientific foundation for enabling technologies for future force capabilities. Broadly, the work in this PE falls into three categories: Collaborative Technology Alliances/Collaborative Research Alliances (CTAs/CRAs), University Centers of Excellence (COE), and University Affiliated Research Centers (UARCs). The Army formed CTAs to leverage large investments by the commercial sector in basic research areas that are of great interest to the Army. CTAs are industry-led partnerships between industry, academia, and the Army Research Laboratory (ARL) to incorporate the practicality of industry, the expansion of the boundaries of knowledge from universities, and Army scientists to shape, mature, and transition technology relevant to the Army mission. CTAs have been competitively established in the areas of Micro Autonomous Systems Technology (MAST), Network Sciences, Robotics, and Cognition and Neuroergonomics. CRAs are academia-led partnerships, which leverage the cutting-edge innovation found in the academic environment. CRAs have been established in the areas of Multi-Scale Materials Modeling (electronic materials and materials in extreme environments) and in cyber security. The COEs focus on expanding the frontiers of knowledge in research areas where the Army has enduring needs, and couples state-of-the-art research programs at academic institutions with broad-based graduate education programs to increase the supply of scientists and engineers in automotive and rotary wing technology.

Also included in PE 0601104A are Army Educational Outreach Program (AEOP) and activities to stimulate interest in science, math, and technology among middle and high school students. This PE includes support for basic research at three Army UARCs, which have been created to exploit opportunities to advance new capabilities through a sustained long-term multidisciplinary effort. The Institute for Soldier Nanotechnologies focuses on Soldier protection by emphasizing revolutionary materials research for advanced Soldier protection and survivability. The Institute for Collaborative Biotechnologies focuses on enabling network centric-technologies, and broadening the Army's use of biotechnology for the development of bio-inspired materials, sensors, and information processing. The Institute for Creative Technologies is a partnership with academia and the entertainment and gaming industries to leverage innovative research and concepts for training and simulation. Examples of specific research of mutual interest to the entertainment industry and the Army are technologies for realistic immersion in synthetic environments, networked simulation, standards for interoperability, and tools for creating simulated environments. This PE also includes the Historically Black Colleges and Universities and Minority Institution (HBCU/MI) Centers of Excellence that address critical research areas for Army Transformation.

Applied Research (BA2) is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include non-system specific development efforts.

The following are two representative program examples for this BA:

Combat Vehicle and Automotive Technology (PE 0602601A): This PE researches, designs, and evaluates combat and tactical vehicle automotive technologies that enable the Army to have a lighter, more survivable, more mobile, and more deployable force. Project C05 investigates, researches, and evaluates advanced ground vehicle design and occupant protection technologies in such areas as armor concepts, ballistic defeat mechanisms, blast mitigation, survivability modeling and simulation (M&S), hit avoidance, kill avoidance, safety, sensors, counter-measures, instrumentation, and survivability packaging concepts to achieve superior survivability/protection for Soldiers and military ground vehicles. Survivability technologies will be designed for integration into the Modular Active Protection System (MAPS). Project H77 funds the National Automotive Center (NAC), which was chartered by the Secretary of the Army to conduct shared government and industry, or "dual use," technology programs to leverage commercial investments in automotive technology research and development for Army ground combat and tactical vehicle applications. Project H91 designs, matures, and evaluates a variety of innovative and enabling technologies in the areas of electrical power, thermal management, propulsion, mobility, power for advanced survivability, vehicle diagnostics, fuels, lubricants, water purification, intelligent systems, autonomy-enabled systems, and other component technologies to enhance the mobility, power and energy and reduce the logistic chain of combat and tactical vehicles. This PE executes the Army's Combat Vehicle Prototyping (CVP) program to mature, integrate, and demonstrate ground vehicle leap-ahead technologies in support of future combat vehicles.

Ballistics Technology (PE 0602618A): This Program Element (PE) investigates and evaluates materials and technologies, and designs and develops methodologies and models required to enable enhanced lethality and survivability. Project H80 focuses on applied research of lightweight armors and protective structures for the Soldier and vehicles; kinetic energy active protection; crew and components protection from ballistic shock and mine-blast; insensitive propellants/munitions formulations; novel multi-function warhead concepts; affordable precision munitions design; and techniques, methodologies, and models to analyze combat effectiveness, and identify vulnerabilities of current and emerging technologies; and developing a demonstrator with associated methods and tools for injury prediction of vehicle occupants during under-body blast events.

Advanced Technology Development (BA3) is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operations and producibility rather than the development of hardware for service use. It employs demonstration activities intended to prove or test a technology or method and projects within this Budget Activity have a direct relevance to identified military needs.

The following are two representative examples for this BA:

Advanced Tactical Computer Science and Sensor Technology (PE 0603772A): This program element (PE) matures and demonstrates technologies that allow the Warfighter to effectively collect, analyze, transfer, and display situational awareness information in a network-centric battlefield environment. It matures and demonstrates architectures, hardware, software and techniques that enable Synchronized mission command (MC) during rapid, mobile, dispersed, and Joint operations. Project 101 matures software, algorithms, services, and devices to more effectively integrate MC across all echelons and enable more effective utilization of Warfighter resources including intelligent power management and distribution through accelerated information to decisions and rapid MC on the move. Project 243 matures and demonstrates signal processing and information/intelligence fusion software, algorithms, services, and systems for Army sensors; radio frequency (RF) systems to track and identify enemy forces and personnel; and multi-sensor control and correlation software and algorithms to improve reconnaissance, surveillance, tracking, and target acquisition.

Medical Advanced Technology (PE 0603002A): This Program Element (PE) matures and demonstrates advanced medical technologies including drugs, vaccines, medical diagnostic devises, measures for identification and vector control, and developing medical practices and procedures to effectively protect and improve the survivability of United States Forces across the entire spectrum of military operations. Tri-Service coordination and cooperative efforts are focused in four principal medical areas: Combat Casualty Care, Military Operational Medicine, Militarily Relevant Infectious Diseases, and Clinical and Rehabilitative Medicine. Promising medical technologies are refined and validated through extensive testing, which is closely monitored by the U.S. Food and Drug Administration (FDA) and Environmental Protection Agency (EPA), as part of their processes for licensing and/or approving new medical products. The FDA requires medical products to undergo extensive preclinical testing in animals and/or other models to obtain preliminary effectiveness and safety information before they can be tested in human clinical trials. Clinical trials are conducted in three phases to prove the safety of a drug, vaccine, or device for the targeted disease or medical condition, starting in Phase 1 with a small number of healthy volunteers. Following Phase 1, Phase 2 clinical trials will provide expanded safety data and evaluate the effectiveness of a drug, vaccine, or medical device in a larger population of patients having the targeted disease or medical condition. Each successive phase includes larger numbers of human subjects and requires FDA cognizance prior to proceeding. Work conducted in this PE primarily focuses on late stages of technology maturation activities required to conduct Phases 1 and 2 clinical trials. Some high-risk technologies may require additional maturation with FDA guidance prior to initiating these clinical trials. Such things as proof of product stability and purity are necessary to meet FDA standards before entering later stages of testing and prior to transitioning into a formal acquisition program where large Phase 3 pivotal trials will be conducted for licensure. Activities in this PE may include completion of preclinical animal studies and Phase 1 and 2 clinical studies involving human subjects according to FDA and EPA requirements. Promising medical technologies that are not regulated by the FDA are modeled, prototyped, and tested in relevant environments.

Advanced Component Development and Prototypes (ACD&P, BA 4) evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of ACD&P are hardware and software components, or complete weapon systems ready for operational and developmental testing and field use.

The following is a representative example for this BA:

Aviation - Advanced Development (PE 0603801A): This program provides advanced development aviation support of tactical programs associated with air mobility, advanced maintenance concepts and equipment, and Aircrew Integrated Systems. This program demonstrates the feasibility and maturity of new technology and gains understanding in order to evaluate utility of this technology to expedite delivery of new capabilities for Army aviation rotary-wing assets. Additionally, the aviation ground support equipment assets enhance the functionality of current and future aircraft by (1) improving the effectiveness of maintenance and servicing operations through validating new maintenance concepts to improve man and machine interfaces; (2) improving aircraft maintenance processes; (3) reducing operation and support costs; and (4) inserting diagnostic technologies to replace obsolete and unsupportable equipment.

System Development and Demonstration (BA5) involves programs that have passed Milestone B approval and are conducting engineering and manufacturing development tasks aimed at meeting validated requirements prior to full-rate production. It consists primarily of pre-production efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

The following is a representative example for this BA:

Patriot/Medium Extended Air Defense System Combined Aggregate Program (CAP) (PE 0604869A): The Medium Extended Air Defense System (MEADS) program is a tri-national, co-development program among the United States, Germany, and Italy to replace the U.S. Patriot air defense systems, Patriot and Hawk systems in Germany, and Nike Hercules systems in Italy. The North Atlantic Treaty Organization (NATO) MEADS Management Agency (NAMEADSMA) is the NATO contracting authority that manages the system acquisition, and the MEADS program, itself, on behalf of participating nations. Within the Patriot/MEADS CAP, there are two synergistic efforts: (1) an international MEADS development effort managed by NAMEADSMA; and (2) a U.S. effort to inject U.S.-specific capability requirements into the MEADS major end items.
The MEADS will provide joint and coalition forces with critical asset and defended area protection against multiple and simultaneous attacks by short- to medium-range ballistic missiles, cruise missiles, unmanned aerial vehicles and tactical air-to-surface missiles. The Missile Segment Enhancement (MSE) missile has been accepted as the baseline missile for MEADS. It is being developed for the Patriot system to meet U.S. operational requirements. The MSE will provide a more agile and lethal interceptor that increases the engagement envelope/defended area of the Patriot and the MEADS systems. The PAC-3 MSE improves upon the current PAC-3 missile capability by providing a higher performance solid

rocket motor, modified lethality enhancer, more responsive control surfaces, upgraded guidance software, and insensitive munitions improvements.

RDTE Management Support (BA6) is support for installations and operations for general R&D use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.

The following is a representative example for this BA:

Army Test Ranges and Facilities (0605601A): This program funds the indirect test costs associated with rapidly-testing field systems and equipment needed in support of the War on Terror, such as individual Soldier protection equipment and countermeasures for improvised explosive devices (IEDs) and up-armoring the Army's wheeled vehicle fleet. This project sustains the developmental test and evaluation capability required to support Army as well as joint service or other service systems' hardware and technologies. Unclassified systems scheduled for developmental testing encompass the entire spectrum of weapons systems. Capabilities are also required to support system-of-systems and network-centric systems to include future combat system testing.

This project provides the institutional funding required to operate the developmental test activities required by DoD program executive officers; program and product managers; and research, development, and engineering centers. This project resources four DoD major range and test facility bases: White Sands Missile Range, New Mexico; Aberdeen Test Center, Maryland; Electronic Proving Ground, Arizona; and Yuma Proving Ground, Arizona, and includes management of natural environmental testing at Cold Regions Test Center, Fort Greely and Fort Wainwright, Alaska, and the Tropic Regions Test Center at various locations. This project also funds the Army's developmental test capability at Aviation Technical Test Center and Redstone Technical Test Center, Alabama. Test planning and safety verification at Headquarters, U.S. Army Developmental Test Command, Maryland, is also supported by this program.

Operational Systems Development (BA7) includes development efforts to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in the current or subsequent fiscal year. All items are major line item projects that appear as RDT&E Costs of Weapon System Elements in other programs.

The following is a representative example for this BA:

Information Systems Security Program (0303140A): The Communications Security Equipment Program develops information systems security (ISS) equipment and techniques required to combat threat signal intelligence capabilities and to ensure the integrity of data networks. The Army's Research, Development, Test, and Evaluation ISS program objective is to implement National Security Agency-developed security technology in Army information systems. Communications security equipment technology ensures total signal and data security for all Army information systems to include any operational enhancement and specialized configurations.

FISCAL YEAR 2019 REQUIRED SUPPLEMENTARY INFORMATION – **GENERAL FUND**

Real Property Deferred Maintenance and Repairs
For Fiscal Years Ended September 30, 2019 & September 30, 2018
(Excludes Military Family Housing)

(Amounts in millions)	Current Fiscal Year (CFY) 2019			Prior Fiscal Year (PFY) 2018		
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	$265,888	$35,565	13%	$259,401	$36,298	14%
Category 2	$41,551	$8,393	20%	$41,780	$8,558	20%
Category 3	$13,715	$3,865	28%	$13,321	$3,687	28%

Military Family Housing - Real Property Deferred Maintenance and Repairs
For Fiscal Years Ended September 30, 2019 & September 30, 2018
(Military Family Housing Only)

(Amounts in millions)	Current Fiscal Year (CFY) 2019			Prior Fiscal Year (PFY) 2018		
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	$7,046	$625	9%	$6,462	$625	10%
Category 2	$495	$158	32%	$447	$119	27%
Category 3	$268	$88	33%	$128	$53	41%

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 2019 and FY 2018 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. 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 2019 and 2018 or Q-ratings obtained by application of business rules described below. For FY 2019 and 2018, 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. 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 (DM&R)
for Fiscal Year Ended September 30, 2019
(Amounts in thousands)

Major Categories	PFY 2018 DM&R	CFY OP-30/PB-45/ PB-61 Amounts	Adjustments	FY 2019 Totals
Aircraft	-	-	-	-
Combat Vehicles	305,842	284,614	-	284,614
Construction Equipment	713	-	-	-
Electronics and Communications Systems	102,867	106,436	-	106,436
General Purpose Equipment	62,604	60,393	-	60,393
Missiles	24,632	25,286	-	25,286
Ordnance Weapons and Munitions	18,566	21,629	-	21,629
Other	33,271	9,155	-	9,155
Ships	348	-	-	-
Grand Total	**$548,843**	**$507,513**	**-**	**$507,513**

The OP-30 from the FY 2019 president’s budget 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 subactivity group 123, all active components.

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 Condition Information for Fiscal Year Ended September 30, 2019

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.

Department of Defense – Department of the Army

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2019 and 2018

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)	$ 6,053,293	$ 15,330,943	$ 5,429,030	$ 5,809,305
Appropriations (discretionary and mandatory)	11,180,148	26,732,251	61,326,168	2,001,219
Spending Authority from offsetting collections (discretionary and mandatory)	6,558,802	1,858,244	651,140	6,215,031
Total Budgetary Resources	$ 23,792,243	$ 43,921,438	$ 67,406,338	$ 14,025,555
Status of Budgetary Resources:				
New obligations and upward adjustments (total)	$ 19,412,829	$ 32,864,511	$ 65,976,487	$ 8,082,554
Unobligated balance, end of year:				
Apportioned, unexpired accounts	3,826,368	10,329,323	183,741	5,589,139
Exempt from apportionment, unexpired accounts	-	-	-	-
Unapportioned, unexpired accounts	-	-	-	(203)
Unexpired unobligated balance, end of year	3,826,368	10,329,323	183,741	5,588,936
Expired unobligated balance, end of year	553,046	727,604	1,246,110	354,065
Unobligated balance, end of year (total)	4,379,414	11,056,927	1,429,851	5,943,001
Total Budgetary Resources	$ 23,792,243	$ 43,921,438	$ 67,406,338	$ 14,025,555
Outlays, net:				
Outlays, net (total) (discretionary and mandatory)	9,458,757	20,840,845	60,969,067	1,868,252
Distributed offsetting receipts (-)	-	-	-	-
Agency Outlays, net (discretionary and mandatory)	$ 9,458,757	$ 20,840,845	$ 60,969,067	$ 1,868,252

Department of Defense – Department of the Army

STATEMENT OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2019 and 2018

Amounts in thousands	Operations, Readiness & Support	2019 Combined	2018 Combined
Budgetary Resources:			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 13,923,552	$ 46,546,123	$ 41,902,093
Appropriations (discretionary and mandatory)	78,331,562	179,571,348	176,702,941
Spending Authority from offsetting collections (discretionary and mandatory)	8,072,058	23,355,275	23,916,976
Total Budgetary Resources	$ 100,327,172	$ 249,472,746	$ 242,522,010
Status of Budgetary Resources:			
New obligations and upward adjustments (total)	$ 90,865,912	$ 217,202,293	$ 205,212,856
Unobligated balance, end of year:			
Apportioned, unexpired accounts	3,924,649	23,853,220	26,148,260
Exempt from apportionment, unexpired accounts	25,583	25,583	40,086
Unapportioned, unexpired accounts	36,811	36,608	42,602
Unexpired unobligated balance, end of year	3,987,043	23,915,411	26,230,948
Expired unobligated balance, end of year	5,474,217	8,355,042	11,078,205
Unobligated balance, end of year (total)	9,461,260	32,270,453	37,309,153
Total Budgetary Resources	$ 100,327,172	$ 249,472,746	$ 242,522,009
Outlays, net:			
Outlays, net (total) (discretionary and mandatory)	71,563,031	164,699,952	154,627,089
Distributed offsetting receipts (-)	288,236	288,236	(339,708)
Agency Outlays, net (discretionary and mandatory)	$ 71,851,267	$ 164,988,188	$ 154,287,381

LIMITATIONS OF THE FINANCIAL STATEMENTS – **WORKING CAPITAL FUND**

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, 2019

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
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Transmittal of the Independent Auditors' Report on the U.S. Department of the Army Working Capital Fund Financial Statements and Related Notes for FY 2019 and FY 2018 (Project No. D2019-D000FI-0071.000, Report No. DODIG-2020-020)

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, 2019, and 2018. The contract required KPMG to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the Army's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). 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. KPMG's Independent Auditors' 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 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 2019 and FY 2018 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 describes the following material weaknesses:

- The Army did not develop and implement processes and internal controls to prepare complete and accurate populations for beginning balances on the consolidated financial statements.

- The Army did not design, document, and implement internal controls over inventory valuation, existence and completeness of inventory, proper movement of completed inventory work in process, and accurate recording of inventory costs, losses, and gains.

- The Army did not design, document, and implement internal controls over General Property, Plant, and Equipment to provide a complete population and accurate valuation of assets to be reported in the General Property, Plant, and Equipment account.

- The Army did not consistently design, document, and implement internal controls and processes to accurately estimate its environmental and disposal liabilities.

- The Army and its service providers did not design or operate internal controls to verify that earned revenue, accounts receivable, collections, and unfilled customer order balances recorded in the financial statements were complete, accurate, valid, and supported by appropriate documentation.

- The Army and its service provider did not have sufficient supporting documentation readily available to demonstrate that revenue; costs; Fund Balance with Treasury; inventory; and General Property, Plant, and Equipment transactions; legal contingencies; and beginning balances were accurately reported on the consolidated financial statements.

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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.

- The Army and its service providers did not fully implement sufficient and effective information technology controls, including access controls, segregation of duties, configuration management, security management, and contingency planning, to protect financial systems and related financial data.

- The Army did not properly design and implement internal controls over manual journal entries and other adjustments to ensure that adjustments to the general ledger were complete, accurate, valid, and approved.

- The Army did not fully develop, document, and implement accrual estimation methodologies to verify that the balances on the Army Working Capital Fund financial statements reflected accrual transactions, and did not record all estimates or validate existing estimation methodologies.

- The Army did not design and implement internal controls over financial reporting to prevent or detect and correct misstatements in the Army Working Capital Fund financial statements and note disclosures.

- The Army, in coordination with its service provider, did not develop, document, and implement internal controls over Fund Balance with Treasury that allowed the Army to reconcile its Fund Balance with Treasury ending balance from the general ledger systems to the U.S. Treasury.

- The Army did not implement a reconciliation process to validate that information was transferred completely and accurately between feeder systems and from feeder systems to the accounting system of record.

- The Army did not design and implement entity-level controls that would allow the Army to produce reliable financial statements.

KPMG's report also discusses two instances of noncompliance with applicable laws and regulations. Specifically, KPMG's report describes instances where the Army's financial management systems did not comply with the requirements of the FFMIA, and the Army Working Capital Fund did not substantially comply with the requirements of 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 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 FY 2019 and FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control over financial reporting, or conclusions on whether the Army's financial systems substantially complied with FFMIA requirements, or on compliance with laws and other matters. Our review disclosed no instances where KPMG did not comply, in all material respects, with GAGAS. KPMG is responsible for the attached report, dated November 8, 2019, 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) Working Capital Fund (WCF), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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.) 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were unable 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 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 the consolidated financial statements.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Army's *Annual Financial Report* to provide additional information for the users of its 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 WCF and the Required Supplementary Information (RSI) 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 Army WCF's basic consolidated financial statements as a whole. The following information is presented in the Army's *Annual Financial Report* for purposes of additional analysis and is not a required part of the Army WCF's basic consolidated financial statements: the Message from the Secretary of the Army; the Message from the Senior Official Performing Duties of the Assistant Secretary of the Army (Financial Management and Comptroller); the Army General Fund Financial Section; and the information in the MD&A related to the Army General Fund. 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, 2019, we considered the Army WCF's internal control over financial reporting (internal control) to determine the audit 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 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 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, 2019, 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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03, and which are 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.

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

Management's Responses to Findings

Management's responses to the findings identified in our engagement are described in Exhibits I and II. Management's responses were not subjected to the auditing 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, DC
November 8, 2019

A. Beginning Year Balances

Management has undergone significant efforts to become auditable; however, management did not develop and implement processes and internal controls to prepare complete and accurate populations for the beginning balances on the consolidated financial statements.

The above condition primarily resulted because management did not maintain sufficient and appropriate detailed transactions and historical supporting documentation and did not fully implement corrective actions to remediate the deficiencies.

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 internal controls would fail to prevent or detect and correct misstatements in the consolidated financial statements.

Recommendations:

We recommend that management:

- Develop and implement processes and internal controls to prepare complete and accurate populations at the transaction-level for beginning balance sheets and statements of budgetary resource balances.
- Maintain sufficient and appropriate detailed transactions and supporting documentation for the beginning balance sheets and statements of budgetary resource balances.
- Focus resources on implementing corrective actions.

B. Inventory

Management did not consistently design, document, and implement internal 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. In addition, management did not design and implement controls to consistently apply deemed cost adjustments.
- Management did not consistently operate controls to verify that sufficient, appropriate supporting documentation for the valuation of inventory was properly maintained and readily available for inspection.
- Management did not fully design and implement controls over moving average cost to identify and correct adjustments from incorrect unit of measure transactions, inventory movements that should not result in adjustments, and other incorrect adjustments to moving average cost. In addition, management did not properly design its accounting system to assign appropriate values to certain inventory items.
- Management did not properly design, document, and implement controls to identify all excess, obsolete or unserviceable inventory and recognize such at the proper net realizable value. For example, management did not fully establish policies and controls over its methodologies, assumptions, data, and reports used to identify excess, obsolete or unserviceable inventory or consistently maintain documentation to support its analysis and controls.

Existence and Completeness of Inventory

- Management did not properly design and implement reconciliations between the warehouse management and accounting systems and resolve the significant quantity of discrepancies between such systems. In addition, management did not consistently execute controls over recording inventory receipt, issuance, and disposal transactions as inventory quantities and attributes (identification number, condition, and description) in the warehouse management systems and accounting system did not always agree to the inventory quantities and attributes of the inventory in the warehouse.
- Management did not properly design and consistently operate controls over open stock transport orders (i.e., inter-plant transfers) to document the controls performed and timely identify and correct stock transport orders that were no longer valid.
- Management did not design, document, and implement controls to maintain current warehouse location and warehouse system information for all inventory balances. In addition, management did not consistently document performance of monitoring controls over the accuracy of inventory ownership data to verify that inventory excludes inventory held for other entities.
- Management did not consistently design and implement inventory cycle count controls across all warehouse locations. Additionally, the cycle count controls did not include certain elements of an effective cycle count program, such as frequency of counts, generation of count sheets, blind counts, floor to book counts, resolving differences between warehouse management and accounting systems, segregation of responsibilities, and monitoring of cycle count execution and results performed by each location.
- Management did not have a documented understanding of contractors' information, processes and controls over inventory held at all contractor sites. In addition, management did not design, document, and implement monitoring and reconciliation controls over inventory held at contractors as inventory

quantities in Army's records did not always agree to the contractors' records and Army reported inventory for contracts that had closed.

- Management and its service provider (Defense Logistics Agency) did not properly design and effectively operate data transmissions, receipt, storage, stock readiness, issuances, shipment, and inventory count controls over inventory held at the service provider.

Inventory Work In Process

- Management did not design or implement controls to identify completed work in process projects that should be moved to inventory held for sale and aged projects that need to be disposed of or adjusted to net realizable value. In addition, management did not timely design and implement policies and controls to prepare a population of work in process by project.

Inventory Costs, Losses, and Gains

- Management did not design and implement controls to monitor cost of goods sold accounts to determine that the transactions were appropriate, accurate, and recognized in the correct accounting period based on the underlying business event. In addition, management did not properly design or effectively operate controls to prevent inventory movement transactions from incorrectly recognizing gains and losses.
- Management did not provide evidence of controls to monitor work orders to identify unused materials that should be returned in accordance with Army policy and verify that costs of goods sold is properly recorded.

The following causes contributed to the conditions described above:

- Management did not perform a complete risk assessment over inventory, cost of goods sold, gain, and loss transactions to identify financial statement risks and establish controls to address such risks. In addition, management did not prioritize and timely implement planned corrective actions.
- Management configured the accounting system to value certain inventory at standard price to enable customers to pay standard price for inventory and incorrectly recorded cost of goods sold when adjusting inventory from standard price to moving average cost.
- Management did not update its cycle count policies for changes to inventory systems and to support financial reporting.
- Management has relied on contract terms and conditions and did not prioritize the need to document processes or controls over inventory held by contractors. In addition, management did not identify the requirements and appropriately assign responsibilities for inventory held by contractors.
- Management did not consistently develop and document the policies related to inventory, cost of goods sold, gain, and loss processes and controls, assign responsibilities to individuals, and communicate the policies and assigned responsibilities.
- Management did not perform appropriate enforcement and monitoring of Army's and its service providers' controls over inventory, cost of goods sold, gain, and loss transactions to verify that the balances are complete, accurate, and supported by appropriate supporting documentation that is readily available for inspection.

The criteria are as follows:

- Statement of Federal Financial Accounting Standards (SFFAS) 3*: Accounting for Inventory and Related Property*
- SFFAS 7: *Accounting for Revenue and Other Financing Sources*

- SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*
- GAO *Standards for Internal Control in the Federal Government*
- GAO *Department of Defense (DoD) Supply Chain Management Procedures: Inventory Accountability and Special Management and Handling,* dated November 2017
- DoD Financial Management Regulation (FMR)
- Army Regulation 735-5 *Policies and Procedures for Property Accountability*
- Army Regulation 740-26 *Storage and Supply Activities, Physical Inventory Control*
- Army Materiel Command (AMC) Standard Operating Procedures Guide *Materiality Based Physical Inventory, Counts for Industrial Operations Depots*
- AMC Standard Operating Procedure *Ownership Discrepancy Reporting*, dated March 2018
- AMC Policy Letter 18-04-AMCOL *Correct Material Ownership Data within the Logistics Modernization Program (LMP)*
- Army Command Policy Memorandum CPM 750-2

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

Recommendations

We recommend that management:

- Complete risk assessments to identify financial statement risks and design, document, and implement policies and controls to verify that inventory, open stock transport orders, cost of goods sold, gain, and loss transactions are properly and timely recorded in the accounting system. In addition, communicate the policies and assigned responsibilities for such transactions. Furthermore, perform appropriate enforcement and monitoring of controls to verify that such transactions are properly recorded and related 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 the accounting system to prevent inappropriate moving average cost valuation adjustments and implement monitoring controls to detect and correct inventory transactions that incorrectly adjust moving average cost, revenues, and costs.
- Design, document, and implement policies and controls over methodologies, assumptions, data, and reports used to identify and recognize excess, obsolete or unserviceable inventory at net realizable value.
- Update inventory records and enforce proper and timely execution of controls over recording inventory receipt, issuance, and disposal transactions in the warehouse management and accounting systems. In addition, properly design and perform reconciliations between the warehouse management and accounting systems and controls over the data used in the reconciliations.
- Continue to implement policies and controls to maintain current inventory location, warehouse system, and ownership information for all inventory balances.

- Implement consistent cycle count policies and controls across all locations that reflect current systems and include criteria used to set frequency of counts, generate count sheets, perform blind and floor to book counts, segregate responsibilities, and monitor of cycle count execution and results.
- Work with contractors to understand and document contractors' information, processes and controls over inventory held at all contractor sites. In addition, design, document, and implement monitoring and reconciliation controls over inventory held at contractors.
- Monitor the service provider (Defense Logistics Agency) to determine that they properly design and effectively operate data transmissions, receipt, storage, stock readiness, issuances, shipment, and inventory count controls over inventory held at the service provider.
- Design, document, and implement policies and controls to identify completed work in process projects to close and move to inventory held for sale, monitor aged projects, and produce a population by project.
- Continue to implement policies and controls to monitor cost of goods sold accounts to determine that transactions are appropriate and train warehouse personnel on Army policies and internal controls over recording transactions and their impact on the financial statements.
- Design, document, and implement policies and controls to prevent inventory movement transactions from incorrectly recognizing gains and losses and monitor work orders to identify unused materials that should be returned.

C. General Property Plant & Equipment

Management did not consistently design, document and implement internal controls over general property, plant and equipment as follows:

- Management is in the process of developing 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 consistently design and implement controls over physical observation, record retention, depreciation, and key data elements (i.e., asset identification information, ownership, cost, operational status, and activation date) to verify that they were authorized, supported and completely and accurately recorded into the property systems. In addition, management did not design the real property physical inventory process to include performing floor-to-book procedures to verify that real property balances were complete.
- Management did not consistently operate controls to determine that costs below the capitalization threshold were expensed.
- Management did not consistently operate controls to determine that assets were classified in the proper property, plant and equipment categories.
- Management did not properly assign reconciliation responsibilities and fully research and resolve reconciliation differences between the property system and the accounting system.
- Management did not consistently design, document, and implement controls over completely and accurately recording construction-in-progress projects and timely resolution of the costs accumulated in the related clearing accounts.

The above conditions primarily resulted because management did not identify all relevant financial reporting risks to enable management to establish controls and procedures to respond to the financial reporting risks and objectives. 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 communicate and monitor compliance with record retention and property, plant and equipment policies. Furthermore, management did not implement corrective actions timely.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- FASAB, *SFFAS 6: Accounting for Property, Plant, and Equipment*
- FASAB, *Technical Release 14: Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*
- DoD FMR
- DoD, *Financial Statement Reporting for Real Property Assets Policy Memorandum, September 2015*
- Defense Finance and Accounting Services – Indianapolis (DFAS-IN) Regulation 37-1, *Finance and Accounting*
- Army Regulation 735-5, *Policies and Procedures for Property Accountability*

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

Recommendations:

We recommend that management:

- 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 over physical observation, record retention, depreciation, and key data elements to determine that property, plant and equipment financial information is authorized, and completely and accurately recorded in the property systems.
- Enforce and monitor compliance with the capitalization threshold policy and the classification of assets in the appropriate property, plant and equipment category.
- Design and implement training programs to educate personnel of events affecting key data elements of property, plant, and equipment assets and the financial impact of those events.
- Assign reconciliation responsibilities and research and resolve differences between the property system and the accounting system.
- Design, document, and implement controls to determine the appropriate accounting treatment and accountability of assets related to construction-in-progress projects and timely resolve costs accumulated in the related clearing accounts.
- Focus resources on implementing corrective actions.

D. Environmental and Disposal Liabilities

Management did not consistently design, document and implement internal controls and processes to estimate environmental and disposal liabilities consistent with the accounting standards as follows:

- Management did not design and implement controls to verify the completeness of the real property assets with an estimated future environmental cleanup cost.
- Management did not design and implement controls to define methodologies, assumptions, and inputs to identify and record the future environmental cleanup liability for general equipment.
- Management did not identify and record contingencies for estimation uncertainty related to the estimated future environmental cleanup liability for tanks, piping, landfills and open burn and open detonation assets.
- Management did not design and implement controls to exclude all cleanup unliquidated obligations incurred from the estimated future environmental cleanup liability.

The above conditions primarily resulted because management did not fully perform a risk assessment of the complex nature of the environmental and disposal liabilities processes and financial system limitations. In addition, management did not dedicate sufficient resources to design and implement necessary controls and processes for the environmental and disposal liabilities and did not effectively communicate environmental and disposal liabilities policies and information to the responsible individuals.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Environment*
- GAO, *Cost Estimating and Assessment Guide*
- FASAB, *SFFAS 5: Accounting for Liabilities of The Federal Government*
- FASAB, *SFFAS 6: Accounting for Property, Plant, and Equipment*
- FASAB, *SFFAS 9: Cleanup Cost Liabilities Involving Multiple Component Reporting Entities: An Interpretation SFFAS 5 & 6*

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

Recommendations:

We recommend that management:

- Allocate sufficient resources to design and implement controls and processes to completely and accurately estimate future environmental cleanup liability for real property and general equipment assets.
- Document an analysis of which real property and general equipment assets have a future environmental cleanup liability and why all other real property and general equipment assets do not have a future environmental cleanup liability.
- Design and implement controls to define methodologies, assumptions, and inputs to identify and record the future environmental cleanup liability for general equipment.
- Design and implement controls and processes to identify and record contingencies for estimation uncertainty for all estimated future environmental cleanup liabilities and determine that all cleanup unliquidated obligations are excluded from the estimated future environmental cleanup liability.

E. Revenue

Management and its service providers did not properly design or consistently operate internal controls to verify that earned revenue, accounts receivable, collections, and unfilled customer order balances recorded in the financial statements are complete, accurate, valid, and supported by appropriate documentation as follows:

- Management did not have appropriate controls over the inputs used in the revenue recognition formula. Controls either did not exist or were inconsistently operated to verify that labor rates, labor hours, material price, material quantity, planned costs, cost recovery rates, and other costs used to determine revenue were complete and accurate.
- Management did not effectively operate controls to verify that supporting documentation for funded amount and actual cost (i.e., support for quantity shipped, price of material, labor rates and overhead cost) to support revenue, accounts receivable and unfilled customer order transactions 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 financial statements a revenue allowance for potential returns, allowances, price redeterminations, or other reasons in accordance with the accounting standards.
- Management did not consistently develop, document, implement, and operate controls to determine that unfilled customer order, collection, supply turn-in, and revenue transactions were recorded in the proper account, in the proper accounting period, and at the correct amount. In addition, management did not implement a process and controls to consistently adjust customer orders for price changes and communicate the related order changes to customers.
- Management did not fully design and operate the joint reconciliation program review to timely identify and adjust aged, closed, and invalid unfilled customer order and account receivable balances. Furthermore, management did not adhere to Army's internal policies and procedures for performing the joint reconciliation program.
- Management did not properly design the accounting system posting logic for revenue transactions related to customer orders with an advance, price updates for unfilled customer orders, and certain credit memos. In addition, management did not properly design and document the revenue billings and collections reconciliation between financial systems to determine that collections 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 risk points relevant to meeting the financial reporting requirements.
- Management did not properly design and document Army's accounting policies, procedures, and posting logic to respond to Army's financial reporting risks and objectives.
- Management did not perform appropriate enforcement and monitoring of Army's and its service providers' 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 did not timely implement planned corrective actions.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- U.S. Treasury Financial Manual U.S. Standard General Ledger (USSGL) Part 2 Section II: *Accounts and Definitions for Fiscal Year 2019 Reporting*
- DoD FMR
- FASAB, *SFFAS 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Office of Management and Budget (OMB), *Federal Financial Management Improvement Act* (FFMIA)
- OMB, Circular Number A-11, *Preparation, Submission and Execution of the Budget*

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

Recommendations:

We recommend that management and its service providers:

- Design, document, and implement policies and controls to address risks and verify that labor rates, labor hours, material price, material quantity, planned costs, cost recovery rates, and other costs used to determine revenue are consistently approved and accurately and timely recorded in the accounting system.
- Perform appropriate enforcement and monitoring of controls to verify that transactions are properly recorded and supporting documentation for revenue, accounts receivable, collections and unfilled customer orders transactions are consistently maintained and readily available for inspection.
- Develop, document and implement policies and controls to properly record and present, in the 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 unfilled customer orders and revenue transactions are recorded in the correct accounting period, at the correct amount, and adjusted for price changes that cross fiscal years.
- Ask the Office of the Under Secretary of Defense (Comptroller) to provide guidance regarding appropriate proprietary and budgetary accounting for supply turn-in transactions based on OMB guidance; and develop, document and implement policies and posting logic controls to be consistent with OMB guidance and accounting standards.
- Enhance the joint reconciliation program policies and timeline to timely record adjustments to accounts receivable and unfilled customer orders for inclusion in the year-end financial statements; and perform enforcement and monitoring to verify compliance with the joint reconciliation program policies and controls.
- Design the accounting system posting logic controls for transactions related to customer orders with advance, customer orders with price updates, and credit memos to be consistent with the accounting standards, U.S. Standard General Ledger, and Department of Defense policies.
- Enhance the design and document the revenue billings and collections reconciliation between financial systems to verify that collections 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 revenue, costs, fund balance with treasury, inventory and general property, plant and equipment transactions, legal contingencies and beginning balances 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 and/or transaction(s) 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 relied on information produced by the system 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 (See condition G-General Information Technology Controls discussed below) 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 of its processes, policies and procedures over record retention.
- Management and/or its service providers did not focus 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 Number A-123, Management's Responsibility for Enterprise Risk Management and Internal Control
- DoD FMR

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 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.
- Focus and train the necessary resources to locate and provide supporting documentation in a timely manner.
- Update policies and procedures to define key supporting documentation that is required, reconciles to the general ledger detail, and is readily available for inspection upon request.

- Focus resources on implementing corrective actions, including actions to establish or strengthen access, segregation of duties, configuration management, security management, and contingency planning controls.

G. General Information Technology Controls

Management continued to make progress in addressing prior year GITC deficiencies within their systems. While the Army made progress from the prior year, the Army and its service providers did not fully implement sufficient and effective GITCs to protect the financial systems and related financial data. The conditions could affect the Army'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 design and implement operating system, database, and application access controls around the authorization, provisioning, monitoring, and deactivation of end users, super users, and system administrative users. Management and its service providers did not consistently conduct periodic review of user accounts, to include maintaining sufficient evidence of the review, to determine the need for continued and appropriate access based on least privilege provisions and/or remove access for terminated or transferred employees and contractors. Additionally, management and its service providers did not design and implement a formal process to restrict, manage, and monitor privileged user access, to include consistent operating system, database, and application audit logging, audit log review controls, and user access to audit logs, including the identification, tracking, evaluation, and response procedures for identified discrepancies. Further, management and its service providers did not consistently implement a periodic review of application, database, and operating system user account and password security parameters.
- **Segregation of Duties**. Management and its service providers did not consistently establish a comprehensive process to identify, define, evaluate, restrict, document, and/or implement the use of incompatible operating system, database, and/or application privileges. Management and its service providers did not consistently implement an effective process for restricting and reviewing privileged access to the financial system segregation of duties risk rule set, when applicable, based on least privilege considerations. As a result of the aforementioned matter, 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 the production environment.
- **Configuration Management**. Management and its service providers did not consistently document and implement a comprehensive operating system, database, and application configuration change management process, to include timely installation of critical patch updates and proper configuration of settings to prevent unauthorized changes from being made in the production environment. For implemented processes, management and its service providers did not consistently 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 design and implement controls to report, capture, maintain, and retrieve evidence of vulnerability scans performed, analysis performed over the scans, or remediation activity performed. Additionally, management and its service providers did not perform periodic monitoring of password security and configuration settings at the application, operating system, and database layers.
- **Contingency Planning.** Management and its service providers did not consistently implement a process to monitor application processing issues, to include backups and the tracking of processing issues through resolution.

The above conditions primarily resulted because management and its service providers did not fully identify and address risks, provide sufficient oversight and monitoring of the control environment, implement corrective actions timely, and have the necessary resources due to competing priorities.

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
- NIST 800-92, *Guide to Computer Security Log Management*
- DoD, Instruction 8510.01 *Risk Management Framework for DOD Information Technology*
- Defense Information Systems Agency (DISA) Application Security and Development STIG
- Oracle Database 12c Security Technical Implementation Guide (STIG)
- Army Regulation 25-2, *Army Cybersecurity*, April 2019
- Army Systems Policies

As a result of the deficiencies noted above, the weaknesses posed increased risks to the accuracy, integrity, validity, and availability of the systems and their financial data.

Recommendations

We recommend that management strengthen its GITC systems environments for the operating system, database, and application layers as follows:

- Identify risks and implement controls to address the risks to protect the accuracy, integrity, validity, and availability of the systems and financial data.
- Prioritize corrective actions to establish or strengthen access, segregation of duties, configuration management, security management, and/or contingency planning controls.
- Identify the necessary resources to implement the corrective actions and perform the GITCs.
- Require management to provide oversight and monitor the GITC control environment.
- Direct its service providers to strengthen controls of service provider GITC environments or implement compensating controls at Army.

H. General Ledger Adjustments

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

- Management did not fully develop, design and implement appropriate segregation of duties controls within the accounting system as it was not configured to require a separate preparer and reviewer for each manual journal entry processed in the accounting system.
- Management did not consistently research and investigate the root cause of variances that management recorded to resolve differences between Treasury's records and Army's records, budgetary to proprietary relationship imbalances, financial statement relationship differences, trading partner differences, account mapping differences, and other variances.
- Management did not design the monthly financial reporting to accounting system journal entry reconciliation control to include users with journal entry reversal permissions.
- Management did not configure journal entry support spreadsheets to prevent unauthorized changes.

The above conditions primarily resulted because of the following:

- When the accounting system was set up, management did not configure the accounting system to require separate preparer and reviewer roles when recording a journal entry and was working with its service provider to establish an automated workflow approval process within the accounting systems.
- Management and its service provider have not completed but are in the process of implementing corrective action plans to reduce the total number and dollar value of journal entries recorded in the financial reporting system, and to research and resolve the root cause of the variances that are adjusted with a journal entry.
- Management and its service provider did not recognize the risks to include users with journal entry reversal permissions and prevent unauthorized changes to the journal entry support spreadsheets.

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, or incomplete manual journal entries are executed in the accounting system, potentially causing a misstatement in the consolidated financial statements.

Recommendations

We recommend that management and its service provider:

- Develop, establish and implement policies and procedures to require segregation of preparer and reviewer duties and configure the accounting system to require separate preparer and reviewer roles when recording a journal entry.
- Complete the process of implementing corrective action plans to reduce the total number and dollar value of journal entries, effectively perform the management review control over journal entries, and research and resolve the root causes of the need for a journal entries to obtain sufficient documentation to support the journal entries.
- Design and implement an automated workflow approval process to eliminate the need for the manual reconciliation of journal entries between financial reporting system and account systems and until the automated workflow is complete, design the reconciliation control to include users with journal entry reversal permissions.

- Configure journal entry support spreadsheets to prevent unauthorized changes.

I. Accruals

Management did not fully develop, document, and implement accrual estimation methodologies to verify that the balances on the consolidated financial statements reflect accrual transactions. Specifically, management did not record all estimates or validate that existing estimation methodologies are reasonable as follows:

- Goods and services **–** Management did not fully define methodologies, assumptions, or inputs to identify and record accruals for certain goods or services as of year-end. Additionally, management did not appropriately classify accruals as intragovernmental versus the public and accounts payable versus other liabilities. Management did not perform a look-back analysis to determine that the methodology and assumptions provide a reasonable estimate. Finally, management did not design and implement controls to determine that goods and service transactions were valid and recorded in the proper period.
- Civilian payroll **–** Management did not 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 look-back analysis of its labor accrual to assess the accuracy of the payroll accrual amount at year end or provide leave liability reports to support the accrued leave liability balance at year end.

The above conditions primarily resulted because:

- Management did not dedicate the necessary resources to implement corrective actions timely and did not document and/or implement the methodologies and procedures to identify and record accruals and perform a look-back analysis over the completeness, validity and accuracy of transactions.
- Management did not effectively monitor the execution of the quarterly accrued leave reconciliation.

The criteria are as follows:

- FASAB, *SFFAS 1: Accounting for Selected Assets and Liabilities*
- FASAB, *SFFAS 5: Accounting for Liabilities of the Federal Government*
- GAO, *Standards for Internal Control in the Federal Environment*
- DoD FMR

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

Recommendations:

We recommend that management:

- Develop, document, and implement the methodologies, assumptions, policies, and procedures to identify and record accruals, properly classify accruals, and implement corrective actions timely.
- Perform a look-back analysis to determine that the methodologies and assumptions are valid, complete, and accurate.
- Design and implement controls to determine that goods and service transactions are supported and recorded at the proper amount and in the proper period.
- Design and implement the quarterly reconciliation process to account for accrued leave through the end of the accounting period and monitor execution of the reconciliation.

J. Financial Reporting

Management did not effectively design and implement internal controls over financial reporting related to the following:

- Management did not effectively operate the financial report review controls as the reconciliation of net costs of operations to net outlays was not fully reconciled and supported. In addition, management did not properly present the environmental and disposal liability increase as a change in accounting principle in the statement of changes in net position. Furthermore, management did not include all of the required disclosures for land and land rights as well as deferred maintenance and repairs; however, management subsequently corrected the land and land rights disclosure.
- Management and its service provider 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 did not configure certain financial systems and processes to comply with the United States Standard General Ledger requirements at the transaction level. In addition, management did not analyze all financial processes to determine that transactions were recorded consistent with USSGL guidance or document the analysis completed.
- Management and its service provider did not fully research and determine the root cause of budgetary to proprietary reconciling differences and out of balance tie-point account relationships to determine the appropriate adjustments to the consolidated financial statements.
- Management did not fully design and operate the joint reconciliation program review to timely identify and adjust aged, closed, and invalid undelivered orders and accounts payable balances. Furthermore, management did not adhere to Army's internal policies and procedures for performing the joint reconciliation program.
- Management did not effectively implement its process and related controls over properly recording or supporting new obligations and upward/downward adjustment transactions.
- Management did not effectively perform its management review control over the contingent liability data reports used to prepare the financial statements and note disclosures as the related reports were not complete and accurate.

The above conditions primarily resulted because of the following:

- Management had not fully established a risk assessment process to understand and document all financial reporting processes and associated risks. As such, management had not fully developed policies and controls to verify that the financial statements and note disclosures are properly prepared.
- Management was unable to disaggregate deferred maintenance and repairs between the Army General Fund and the Army Working Capital Fund.
- The financial systems and processes were not designed to capture all relevant data elements at the detailed transaction level for identifying trading partner activity. Additionally, due to accelerated reporting deadlines, management and its service provider did not have time to research all trading partner differences.
- Management did not configure the accounting system to produce a complete listing of unique transaction postings.
- Management did not implement corrective actions timely.

- Management and its service provider did not complete the review and resolution of the budgetary to proprietary and tie-point relationship reconciling differences because the supporting information was not readily available.
- Management did not train and/or dedicate resources to record transactions in the accounting system.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- OMB, Circular Number A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- OMB, Circular Number A-136, *Financial Reporting Requirements*
- Treasury, *Treasury Financial Manual*
- Office of the Under Secretary of Defense (OUSD) Memorandum, *Accurate and Reliable DoD Component-level Financial Management Trial Balances (Tie Points)*
- Office of the Under Secretary of Defense (OUSD) Memorandum, *Data Call for Actual and Contingent Liabilities for Third Quarter, Fiscal Year 2019*
- DoD FMR
- OMB, Circular Number A-11, *Preparation, Submission and Execution of the Budget*
- FFMIA
- FASAB, *SFFAS Number 1*, *Accounting for Selected Assets and Liabilities*
- FASAB, *SFFAS Number 7*, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- FASAB, *SFFAS 42*: *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*
- FASAB, *SFFAS 50: Establishing Opening Balances for General Property, Plant, and Equipment*
- U.S. Army Accounting System Posting Logic **–** Standard Operating Procedures
- Army Working Capital Fund (AWCF) Updates to the Fiscal Year 2019 Joint Reconciliation Program, Effective October 1, 2018

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

Recommendations:

We recommend that management and its service provider:

- Design, document, and implement policies and controls to address financial reporting processes and associated risks to verify that the financial statements and note disclosures are properly prepared.
- Design and implement policies and procedures including controls to distinguish deferred maintenance between the Army General Fund and the Army Working Capital Fund consolidated financial statements.

Exhibit I – Material Weaknesses, continued

- Configure the accounting system to require individual transactions to include the trading partner information to enable management and its service provider to correctly report, reconcile, and eliminate intragovernmental balances. Establish a risk assessment process and develop, document, and implement policies and controls over the trading partner reconciliations.
- Design and implement controls to determine that the posting logic library is complete and review system posting logic to verify it meets the USSGL guidance and the accounting standards.
- Continue implementing corrective actions and developing methodologies to identify and correct the root causes of the budgetary to proprietary and tie-point account relationship differences.
- Communicate policies and procedures specifying the documents required to support journal entries for budgetary to proprietary and tie-point account relationship differences.
- Enhance the joint reconciliation program policies and timeline to timely record adjustments to accounts payable and undelivered orders for inclusion in the year end financial statements; and perform enforcement and monitoring to verify compliance with the joint reconciliation program policies and controls.
- Monitor controls over properly recording and supporting new obligations and upward/downward adjustment transactions and the management review control over the contingent liability data reports.

K. Fund Balance with Treasury (FBwT)

Management and its service provider did not fully develop, document, and implement internal controls in a timely manner over the FBwT reconciliation with the Department of the Treasury as follows:

- Management and its service provider did not fully research the root cause of disbursement and collection reconciling differences, including historic reconciling differences. Army's service provider, in coordination with Army, recorded unsupported journal entries so that Army's general ledger equals the balance reported by the Department of the Treasury. In addition, the unsupported journal entries did not include the attributes to identify intragovernmental versus nonfederal trading partners.
- Management and its service provider did not consistently clear disbursement and collection differences with the Department of the Treasury by management's required due dates.
- Management and its service provider did not provide sufficient supporting documentation for transactions and did not fully evidence resolution of reconciliation differences and the controls over the completeness and accuracy of the FBwT data.
- Management and its service provider did not fully reconcile the suspense amounts in certain clearing accounts and had Army suspense transactions co-mingled with other Department of Defense organizations.
- Management did not timely implement its control to match lateral redistribution collections from the general ledger to the negative disbursements reported by the Department of the Treasury, based on processing by Army's trading partner.

The above conditions primarily resulted because management and its service provider processes a large volume of FBwT transactions through various financial systems, did not identify all of the relevant risk points, did not implement necessary business rules, did not effectively communicate and monitor compliance with policies, did not fully address all risk points, and did not implement all planned corrective actions over the FBwT reconciliation process.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- Treasury, *Treasury Financial Manual*
- OMB, Circular Number A-11, *Preparation, Submission and Execution of the Budget*
- DoD FMR
- FASAB Standard 1: *Accounting for Selected Assets and Liabilities General Standards 39*

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

Recommendations:

We recommend that management and its service provider:

- Dedicate the necessary resources to timely research the root cause and resolve FBwT reconciliation differences (including pre-implementation of the FBwT reconciliation tool) and enhance reconciliation policies and procedures to minimize the number of reconciliation differences.
- Design and implement controls and procedures to address all risks including properly supporting journal entries and assigning intragovernmental versus nonfederal trading partners.

- Maintain supporting documentation for disbursement, collection, and reconciliation transactions and to evidence resolution of reconciliation differences and the controls over the completeness and accuracy of the FBwT data.
- Develop and implement procedures and internal controls to timely research and resolve suspense transactions, including working with Army General Fund and other defense organizations to research and resolve the commingled suspense amounts.
- Improve communication and monitoring compliance with FBwT reconciliation policies and timely implement all planned corrective actions.
- Develop and implement business rules with its trading partner and/or controls to match lateral redistribution collections from the general ledger to the negative disbursements reported by the Department of the Treasury.

L. Completeness

Management continued to make progress in implementing processes and internal controls to validate that financial transactions are completely and accurately reported in the consolidated financial statements; however, management needs to improve the processes and internal controls as follows:

- Management did not fully implement a reconciliation process to validate that information is transferred completely and accurately between feeder systems and from feeder systems to the accounting system.
- Management did not research and resolve reconciling differences in a timely manner and retain supporting documentation.

The above conditions primarily resulted because of the following:

- Management and its service provider did not perform a risk assessment process for certain reconciliations and did not fully establish and monitor the execution of policies and procedures over certain feeder system reconciliations.
- Management did not allocate the necessary resources to perform all reconciliations, did not prioritize certain feeder system reconciliations, and did not fully implement corrective actions over systems reconciliations.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- Standard Operating Procedure for Payroll System Rejects

Without adequate controls over the entry of information at the point of initiation and the reconciliation of information between systems, the risk exists that the consolidated financial statements are potentially incomplete or inaccurate.

Recommendations:

We recommend that management and its service provider:

- Perform and document a risk assessment for all reconciliations and enhance the policies and procedures, to include internal controls, over the manual system reconciliation process to monitor and confirm that all transactions recorded in the feeder systems are completely and accurately recorded in the accounting system.
- Research and resolve reconciling differences and retain supporting documentation.
- Assign the necessary resources to perform all reconciliations and implement corrective action plans to reconcile transactional data between systems.
- Define responsible parties for the various reconciliations and criteria for which reconciliation variances are to be researched and resolved.

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 an internal control system that will produce reliable financial reporting. Specifically:

Control Environment: Management did not fully design and implement an effective control environment. For example, management did not:

- Monitor completion of initial ethics trainings/briefings for new employees.
- Consistently develop policies to establish and implement internal controls across its control environment.
- Effectively define roles and responsibilities with its service providers.
- Require reporting organizations to document or implement succession plans.
- Implement monitoring processes over the completion of initial Financial Management certifications and continuing education requirements.
- Evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment: Management did not fully design and implement a risk assessment process. For example, management did not:

- Define risk objectives and risk tolerances for certain financial process areas.
- Complete the development of its risk assessment process, including consideration of risks associated with prior year findings.
- Complete its effort to develop a control catalog that details the key controls by process area to demonstrate that management identified and implemented controls that respond to financial statement risks.

Information and Communication: Management did not fully design and implement its information and communication processes. For example, management did not:

- Fully design and implement internal controls over the completeness and accuracy of financial data and supporting documentation.
- Effectively communicate financial reporting policy changes to all responsible parties.

Monitoring: Management continued its progress in identifying and remediating control deficiencies in certain areas identified in prior financial statement audits; however, management did not:

- Effectively monitor and evaluate internal controls. As discussed in Exhibit II, Federal Managers' Financial Integrity Act (FMFIA), management did not fully perform, document and demonstrate that they completed their internal control evaluation program covering the entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks.
- Include evaluating service organizations' controls as a part of the OMB Circular Number A-123 Internal Control Assessment. In addition, management did not identify and evaluate all key service provider controls and Army controls to address the complementary user entity controls noted by service organizations. Additionally, management did not determine that the service organization examinations did not cover all key controls, the description of controls was insufficient, and testing results did not include information to determine certain controls were sufficiently tested. Finally, management did not implement controls to address control deficiencies at service organizations or perform assessments for service organizations that did not have examinations.

- Consistently develop Corrective Action Plans (CAPs) in accordance with the Office of the Under Secretary of Defense (Comptroller) and internal policies.
- Remediate identified internal control deficiencies from prior financial statement audits in a timely manner.

The above conditions primarily resulted because management did not have an effective internal controls evaluation program as well as the resources, policies and procedures in place to monitor and maintain a control environment that detects and mitigates risk of material misstatements to the financial statements.

The criteria is as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- OMB, Circular Number A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Without the proper level of entity-wide controls in place and operating effectively, 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 internal control procedures across its control environment.
- Annually, review and monitor the relevancy of the information and responsibilities in the memorandum of agreements with its service organizations to verify that the agreements are current and all requirements are met.
- Monitor completion of ethics training, succession plans, financial management certifications, and continuing education.
- Complete performance evaluations and hold individuals accountable for their responsibilities.
- Complete the risk assessment process to include defining risk objectives and tolerance and consider risks of prior year findings.
- Continue efforts to prepare a control catalog that details the key controls by process area and the risks that the controls address.
- Design and implement information and communication processes to effectively communicate changes in financial reporting policies to all responsible parties.
- Develop, document, and implement internal controls over the completeness and accuracy of financial data and supporting documentation.
- Continue efforts to develop and complete the internal control evaluation program covering the entity level controls, manual controls, general information technology controls, and system application controls for key financial statement line items and risks.
- Include service organizations as a part of the OMB Circular Number A-123 Internal Control Assessment and obtain and fully evaluate all service organization control reports or perform assessments for controls at service organizations without such reports.
- Continue efforts to develop and implement corrective action plans related to control deficiencies.

Exhibit II – Compliance and Other Matters

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 – F. General Information Technology Controls (GITCs), management did not implement sufficient effective GITCs to protect the financial accounting, reporting and feeder systems data. As a result, Army WCF did not substantially comply with the financial management systems requirements.
- **Federal Accounting Standards.** As discussed in Exhibit I – Material Weaknesses, the Army WCF'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 WCF did not substantially comply with the federal accounting standard 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 consistent with USSGL guidance 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 configure the accounting system to produce a complete listing of unique transaction postings.

The criteria are as follows:

- FFMIA
- OMB Circular Number A-123 Appendix D, Compliance with the Federal Financial Management Improvement Act
- OMB Circular Number A-11
- GAO, *Standards for Internal Control in the Federal Government*

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.
- Configure the accounting system to produce a complete listing of unique transaction postings to demonstrate compliance with the USSGL.
- 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 A-123, Management's Responsibility for Enterprise Risk Management and Internal Control (OMB A-123) requirements as follows:

- Management did not fully design and implement a framework and process to comply with the requirements, including the requirements to create a data quality plan in order to achieve the objectives of the Digital Accountability and Transparency Act. In addition, management did not document their defined scope and materiality of the significant financial reports and the key processes supporting material line items on the significant financial reports.
- Management did not fully identify or define risk profile objectives that aligned to Army's strategic objectives from the strategic plan and appropriate operational objectives, as required by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.
- Management did not fully perform, document and demonstrate that they completed their internal control evaluation program, including the entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls. In addition, management did not fully evaluate and consider service organization risks and controls.
- The internal control evaluation program did not demonstrate management review, document assigned resources to complete the work, address financial statement risks, follow sample size and testing techniques provided in OMB A-123, follow the testing plan management established, document testing procedures performed and conclusions reached, and document all corrective action plans.

The above conditions resulted because management did not consider all FMFIA and OMB A-123 requirements, including new requirements, when designing their evaluation over internal controls. In addition, management's policies did not cover certain requirements, such as, guidance for documenting risks, documenting controls, and management review of testing plans. Furthermore, management did not enforce compliance with their policies and implement corrective actions timely.

The criteria are as follows:

- FMFIA
- GAO, *Standards for Internal Control in the Federal Government*
- OMB A-123

The Army WCF did not substantially comply with FMFIA and the related OMB 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.

Recommendations:

We recommend that management perform the following:

- Implement an enterprise risk management approach over the evaluation of internal controls as defined by OMB A-123.
- Prepare a data quality plan to meet the objectives of the Digital Accountability and Transparency Act.

Exhibit II – Compliance and Other Matters, continued

- Document the defined scope to include the significant financial reports, materiality, and the key processes supporting material line items on the significant financial reports.
- Identify measurable risk profile objectives that align to Army's strategic objectives from the strategic plan and operational objectives.
- Perform and document the internal control evaluation program to include the entity level controls, manual controls covering key financial statement line items and risks, general information technology controls, and system application controls.
- Work with service providers to assess service organization risks and controls and monitor the service providers to determine that they properly design and effectively operate controls impacting Army's control environment.
- Expand and communicate policies on documenting financial statement risks, identifying controls to address risks, assigning resources, sample size and testing techniques, and documenting testing performed, conclusions reached, and corrective action plans. In addition, enforce and monitor compliance with such policies.

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 2019 Army Working Capital Fund Financial Statement Audit Report

1. We appreciate the opportunity to comment on the draft report provided to us on November 4, 2019.

2. We concur with the findings identified in the draft report on financial statements. Our audit remediation corrective action plans will continue to address the findings identified. We will continue working with our stakeholders to correct issues related to our general ledger, journal vouchers and adjustments, posting logic, abnormal balances and completeness of populations. Our audit readiness support contractor will continue efforts to review field-level operational data, internal controls, and system controls necessary to ensure accuracy of the financial statements. Our service provider, the Defense Finance and Accounting Service, is continuing corrective actions to remediate audit findings for the Fund Balance with Treasury reconciliation. We will continue efforts to improve the reasonableness of our beginning balances and the undistributed adjustments recorded to match Treasury.

3. In Fiscal Year 2020, we will continue implementing, tracking, and monitoring actions taken to correct material weaknesses identified in the audit report and within our Annual Statement of Assurance.

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

Department of Defense – Army Working Capital Fund

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As of September 30, 2019 and 2018

(Amounts in Thousands)	2019 Consolidated	2018 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 1,894,594	$ 2,059,198
Accounts Receivable (Note 6)	210,940	338,874
Total Intragovernmental Assets	2,105,534	2,398,072
Cash and Other Monetary Assets (Note 4)	10,811	6,937
Accounts Receivable, Net (Note 6)	19,704	23,492
Inventory and Related Property, Net (Note 8)	17,801,203	19,317,237
General Property, Plant and Equipment, Net (Note 9)	1,414,896	1,518,960
Other Assets (Note 10)	109,344	69,369
TOTAL ASSETS	$ 21,461,492	$ 23,334,067
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable	37,955	189,710
Other Liabilities (Note 15 & 17)	163,443	68,680
Total Intragovernmental Liabilities	201,398	258,390
Accounts Payable	342,929	112,078
Military Retirement and Other Federal Employment Benefits (Note 13)	254,670	254,158
Environmental and Disposal Liabilities (Note 14)	291,098	-
Other Liabilities (Note 15 & 17)	372,479	320,528
TOTAL LIABILITIES	$ 1,462,574	$ 945,154
COMMITMENTS AND CONTINGENCIES (Note 17)		
NET POSITION		
Unexpended Appropriations - Other Funds	$ 140,421	$ 128,378
Cumulative Results of Operations - Other Funds	19,858,497	22,260,535
TOTAL NET POSITION	$ 19,998,918	$ 22,388,913
TOTAL LIABILITIES AND NET POSITION	$ 21,461,492	$ 23,334,067

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

Department of Defense – Army Working Capital Fund

CONSOLIDATED STATEMENTS OF NET COST (UNAUDITED)

For the Years Ended September 30, 2019 and 2018

(Amounts in Thousands)	2019 Consolidated	2018 Consolidated
Program Costs		
Gross Costs	$ 19,511,277	$ 17,412,323
Operations, Readiness & Support	19,511,277	17,412,323
(Less: Earned Revenue)	(16,844,994)	(18,834,820)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	2,666,283	(1,422,497)
Net Program Costs Including Assumption Changes	$ 2,666,283	$ (1,422,497)
Net Cost of Operations (Note 19)	$ 2,666,283	$ (1,422,497)

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, 2019 and 2018

(Amounts in Thousands)	2019 Consolidated	2018 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 128,378	$ 165,085
Budgetary Financing Sources:		
Appropriations transferred-in/out	264,365	232,887
Appropriations used	(252,322)	(269,594)
Total Budgetary Financing Sources	12,043	(36,707)
Total Unexpended Appropriations	140,421	128,378
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	22,260,534	20,550,755
Budgetary Financing Sources:		
Appropriations used	252,322	269,594
Nonexchange revenue	(1)	-
Transfers-in/out without reimbursement (+/-)	(50,000)	-
Other Financing Sources:		
Transfers-in/out without reimbursement (+/-)	(53,538)	(88,205)
Imputed financing from costs absorbed by others	167,688	156,316
Other (+/-) (Note 20)	(52,225)	(50,422)
Total Financing Sources	264,246	287,283
Net Cost of Operations (+/-)	2,666,283	(1,422,497)
Net Change	(2,402,037)	1,709,780
Cumulative Results of Operations	19,858,497	22,260,535
Net Position	$ 19,998,918	$ 22,388,913

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

Department of Defense – Army Working Capital Fund

COMBINED STATEMENTS OF BUDGETARY RESOURCES (UNAUDITED)

For the Years Ended September 30, 2019 and 2018

(Amounts in Thousands)	2019 Combined	2018 Combined
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 3,933,498	$ 4,253,304
Appropriations (discretionary and mandatory)	264,365	232,887
Contract Authority (discretionary and mandatory)	8,854,632	8,265,120
Spending Authority from offsetting collections (discretionary and mandatory)	4,703,517	4,446,309
Total Budgetary Resources	$ 17,756,012	$ 17,197,620
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 14,223,499	$ 13,733,041
Unobligated balance, end of year:		
Apportioned, unexpired accounts	3,532,513	3,464,579
Unexpired unobligated balance, end of year	3,532,513	3,464,579
Unobligated balance, end of year (total)	3,532,513	3,464,579
Total Budgetary Resources	$ 17,756,012	$ 17,197,620
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	378,969	(305,406)
Agency Outlays, net (discretionary and mandatory)	$ 378,969	$ (305,406)

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 Mission of the Reporting Entity

The United States 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.

1.B. Basis of Presentation

The Army WCF's financial statements have been prepared to report the financial position and results of operations of the United States (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 books and records of the Army WCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board and the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. However, the Army WCF is not yet fully compliant with all elements of U.S. GAAP and OMB Circular No. A-136 required for full accrual accounting due to limitations related to both financial and nonfinancial management processes and systems that support the financial statements. This is because many of the Army WCF's financial and nonfinancial systems and processes were designed prior to the legislative mandate to produce financial statements in accordance with U.S. GAAP.

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.

The Army WCF is continuing the actions required to bring its financial and nonfinancial feeder systems, processes, and the resulting financial statements into compliance with U.S. GAAP. The Army WCF has implemented process and system improvements addressing these limitations within its Enterprise Resource Planning (ERP) system, Logistics Modernization Program (LMP), which allows the sharing of standardized and real-time financial, cost, and accounting data across the Army WCF. The ERP system also contains a chart of accounts based on the United States Standard General Ledger (USSGL) and includes additional subsidiary accounts to track Army WCF financial activities at a detailed level. These systems are improving financial performance, standardizing business processes, ensuring that capability exists to meet future financial management needs, and providing management with relevant, reliable, and timely financial information. However, until all of the Army WCF's financial and nonfinancial feeder systems and related processes are able to collect and report financial information as required by U.S. GAAP, there will be instances when the Army WCF's financial data will be derived from non-financial feeder systems. Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent disclosure of classified information.

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 subsequently received budget authority (contract authority, spending authority from offsetting collections, and appropriations) from the Office of Management and Budget, through the Office of the Under Secretary of Defense (Comptroller) to sell goods and provide services to customers on a reimbursable basis and maintain the cash corpus (i.e. Fund Balance with Treasury).

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 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 take 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 liabilities, payroll and benefit accruals, goods and services accruals, and useful lives of property plant and equipment. Actual results may differ from those estimates, therefore estimates are adjusted (trued-up) 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 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*.

Army WCF is primarily comprised of exchange revenue, which arises when the Army WCF provides goods and services to the public or to another government entity for a price. The Industrial Operations business area recognizes revenue according to the percentage-of-completion method. The Supply Management 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 Activities

The *Treasury Financial Manual, 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 WCF cannot accurately identify intragovernmental transactions by customer because the 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 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.

1.I. 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 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.J. 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, and 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 reviewed and adjusted to agree with the U.S. Treasury accounts.

1.K. 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.

1.L. 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. The Army WCF does not recognize an allowance for estimated uncollectible amounts from other federal agencies, as receivables from other federal agencies are considered to be inherently collectible. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the *Treasury Financial Manual* (Chapter 4700, Section 4706)

1.M. Direct Loans and Loan Guarantees

The Army WCF has no direct loans or loan guarantees.

1.N. Inventories and Related Property

On October 1, 2018, the Army WCF increased 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. generally accepted accounting principles. 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 into the following categories:

Inventory Held for Sale – This includes both consumable, non-reparable as well as repairable spare parts owned and managed by the Army WCF. Inventory purchased for sale is valued using the moving average cost method for inventory recorded after considering the deemed cost increase 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. 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. Inventory held for repair is valued using the moving average cost method.

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 useful because of obsolescence. 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 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. Prior to FY 2019, these items were expensed upon goods receipt and not reported on the balance sheet. There are no restrictions on the use of OM&S.

1.O. Investments in U.S. Treasury Securities

The Army WCF has no investments or related interest.

1.P. General 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-Process, 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. The Army WCF is not reporting any values for land, rather, acreages are reported for land. The Army WCF is currently using known acquisition costs for acquisitions.

The Army's General PP&E capitalization threshold is $250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. General PP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels, $100 thousand except for real property, which is $20 thousand, and are carried at their remaining net book value.

1.Q. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the Army WCF records advances and prepayments in accordance with U.S. GAAP. As such, 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.

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 essentially 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.

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 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.

1.T. Contingencies and Other Liabilities

The SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigatio*n, 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.

Other liabilities also arise as a result of anticipated disposal costs for Army WCF assets. Consistent with SFFAS No. 6, *Accounting for Property, Plant and Equipment*, recognition of an anticipated environmental disposal liability begins when the asset is placed into service.

1.U. Accrued Leave

The Army WCF reports liabilities for accrued compensatory and annual leave for civilians when earned by the employee. The liabilities are based on current pay rates. Sick leave is expensed when used and no liability is recognized because employees do not vest in these benefits.

1.V. 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.W. Treaties for Use of Foreign Bases

The Army WCF has no treaties for use of foreign bases.

1.X. Fiduciary Activities

The Army WCF has no fiduciary activities.

1.Y. Military Retirement and Other Federal Employment 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. Assumptions related to Military Retirement and Other Federal Employment Benefits are detailed in Note 13, *Military Retirement and Other Federal Employment Benefits*.

1.Z. Subsequent Events

In March 2019, the OUSD issued "OUSD Memo Real Property Financial Reporting Responsibilities Policy Update (FMP 19-05)". The policy is effective as of October 1, 2019 and, when implemented, may create an impact on the balance reported for Army WCF and real property assets. The new policy directs real property assets to be reported by the host location. Therefore, the Army WCF will likely transfer some of its real property assets to other Department of Defense installations, and those Department of Defense installations may also transfer real property to the Army. The materiality of such transfers in and out of Army WCF is not known at this time, but the financial impacts will affect the real property balance and associated accumulated depreciation.

NOTE 2. NONENTITY ASSETS

As of September 30	2019	2018
(Amounts in thousands)		
1. Nonfederal Assets		
A. Accounts Receivable	$ 4	$ 4
B. Total Nonfederal Assets	4	4
2. Total Nonentity Assets	4	4
3. Total Entity Assets	21,461,488	23,334,063
4. Total Assets	$ 21,461,492	$ 23,334,067

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.

Information Related to Nonentity Assets

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 Nonfederal Accounts Receivable are interest receivables. Collections related to these receivables will be returned to the U.S. Treasury as miscellaneous receipts.

NOTE 3. FUND BALANCE WITH TREASURY

Status of Fund Balance with Treasury

As of September 30	2019	2018
(Amounts in thousands)		
1. Unobligated Balance		
A. Available	$ 3,532,513	$ 3,464,579
2. Obligated Balance not yet Disbursed	9,059,278	7,973,642
3. Non-FBWT Budgetary Accounts		
A. Unfilled Customer Orders without Advance	(5,917,727)	(6,021,769)
B. Contract Authority	(4,529,016)	(2,903,644)
C. Receivable and Other	(250,454)	(453,610)
D. Total Non-FBWT Budgetary Accounts	(10,697,197)	(9,379,023)
4. Total FBWT	$ 1,894,594	$ 2,059,198

Status of Fund Balance with Treasury Definitions

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 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 the Status of FBWT. For the Army WCF these include unfilled customer orders without 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 adjusted to reflect the Army WCF's balance as reported by Treasury. The difference between FBWT in the Army WCF's general ledgers and FBWT reflected in the Treasury accounts is 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 valid 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	2019	2018
(Amounts in thousands)		
1. Cash	$ 10,811	$ 6,937
2. Total Cash, Foreign Currency, & Other Monetary Assets	$ 10,811	$ 6,937

Cash includes collections on hand that were not deposited during the accounting period.

NOTE 5. INVESTMENTS AND RELATED INTEREST

The Army WCF has no investments and related interest.

NOTE 6. ACCOUNTS RECEIVABLE, NET

As of September 30	2019		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 210,940	N/A	$ 210,940
2. Nonfederal Receivables (From the Public)	$ 19,902	$ (198)	$ 19,704
3. Total Accounts Receivable	$ 230,842	$ (198)	$ 230,644

As of September 30	2018		
(Amounts in thousands)	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 338,874	N/A	$ 338,874
2. Nonfederal Receivables (From the Public)	$ 23,539	$ (47)	$ 23,492
3. Total Accounts Receivable	$ 362,413	$ (47)	$ 362,366

Accounts receivable represent the Army WCF claim for payment from other entities. The Army WCF only recognizes an allowance for uncollectible amounts from the public. Allowances for uncollectible accounts are based upon an analysis of aging of accounts receivable. 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 2019, Army WCF reports $151 thousand bad debt expense.

NOTE 7. DIRECT LOAN AND LOAN GUARANTEES, NON-FEDERAL BORROWERS.

The Army WCF operates no direct loan or loan guarantee programs.

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

As of September 30	2019	2018
(Amounts in thousands)		
1. Inventory, Net	$ 17,798,977	$ 19,317,237
2. Operating Materiel & Supplies, Net	2,226	-
2. Total	$ 17,801,203	$ 19,317,237

Inventory, Net

As of September 30	2019			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Inventory Held for Sale	$ 10,356,590	$ -	$ 10,356,590	MAC
B. Inventory Held for Repair	5,256,129	-	5,256,129	MAC
C. Raw Materiel	1,234,123	-	1,234,123	MAC
D. Excess, Obsolete, and Unserviceable Inventory	228,681	(228,681)	-	NRV
E. Work In Process	952,135	-	952,135	SP
F. Total Inventory, Net	$ 18,027,658	$ (228,681)	$ 17,798,977	

As of September 30	2018			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. Inventory Categories				
A. Inventory Held for Sale	$ 11,221,587	$ -	$ 11,221,587	MAC
B. Inventory Held for Repair	4,871,020	-	4,871,020	MAC
C. Raw Materiel	1,171,840	-	1,171,840	MAC
D. Excess, Obsolete, and Unserviceable Inventory	125,558	(125,558)	-	NRV
E. Work In Process	2,052,790	-	2,052,790	SP
F. Total Inventory, Net	$ 19,442,795	$ (125,558)	$ 19,317,237	

Legend for Valuation Methods:
MAC = Moving Average Cost   NRV = Net Realizable Value   SP = Standard Price*
**Repair Cost are added to the carcass valued based on standard price*

Operating Materiel and Supplies, Net

As of September 30	2019			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. OM&S Categories				
A. OM&S Held for Sale	$ 2,226	$ -	$ 2,226	MAC
B. Total Inventory, Net	$ 2,226	$ -	$ 2,226	

As of September 30	2018			
(Amounts in thousands)	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Valuation Method
1. OM&S Categories				
A. OM&S Held for Sale	$ -	$ -	$ -	MAC
B. Total Inventory, Net	$ -	$ -	$ -	

Legend for Valuation Methods:
MAC = Moving Average Cost

Inventory

The Army WCF Inventory and Related Property is categorized into the following categories:

Inventory Held for Sale includes both consumable, non-reparable as well as repairable 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. 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. Inventory held for repair is valued using the moving average cost method.

Excess, Obsolete, and Unserviceable Inventory includes excess inventory that exceeds management requirements to meet the Army WCF mission; obsolete inventory, which is inventory that is no longer useful; 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.

Raw Materiel includes materiel to be used in the Industrial Operations mission. Raw materiel is valued using the moving average cost method.

Work in Process balances include (1) the reparable item from inventory held for repair which is valued using standard price 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. Prior to FY 2019, these items were expensed upon goods receipt and not reported on the balance sheet. OM&S is valued at 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	2019				
(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	20 or 40	$ 2,507,523	$ (1,809,970)	$ 697,553
B. Software	S/L	2-5 or 10	1,651,969	(1,469,582)	182,387
C. General Equipment	S/L	5 or 10	1,850,915	(1,559,568)	291,347
D. Assets Under Capital Lease	S/L	Lease term	-	-	-
E. Construction-in-Progress	N/A	N/A	243,375	N/A	243,375
F. Leasehold Improvements	S/L	10	668	(434)	234
G. Total General PP&E			$ 6,254,450	$ (4,839,554)	$ 1, 414,896

As of September 30	2018				
(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	20 or 40	$ 2,577,724	$ (1,845,028)	$ 732,696
B. Software	S/L	2-5 or 10	1,597,495	(1,358,299)	239,196
C. General Equipment	S/L	5 or 10	1,853,748	(1,512,634)	341,114
D. Assets Under Capital Lease	S/L	lease term	668	(357)	311
E. Construction-in-Progress	N/A	N/A	205,643	N/A	205,643
F. Leasehold Improvements	SL	10	-	-	-
G. Total General PP&E			$ 6,235,278	$ (4,716,318)	$ 1,518,960

S/L = Straight Line NA = Not Applicable

The Army WCF's general PP&E is comprised of buildings, structures, and facilities; software, general equipment, assets under capital lease, 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 FY 2017, the Army WCF adopted SFFAS 50, paragraph 40.f.i, permitting an exclusion of land and land rights from its reported property, plant and equipment balances; alternatively, as indicated in paragraph 3, with disclosure of acreage information and expensing of future acquisitions beginning in FY 2018. As of September 30, 2019 and 2018, the Army WCF had 207,367 acres of land. There were no land and land rights acquisitions or disposals during those periods.

Assets Under Capital Lease were reclassified to solely leasehold improvements in FY 2019.

NOTE 10. OTHER ASSETS

As of September 30	2019	2018
(Amounts in thousands)		
1. Intragovernmental Other Assets		
A. Other Assets	$ -	$ -
B. Total Intragovernmental Other Assets	$ -	$ -
2. Nonfederal Other Assets		
A. Outstanding Contract Financing Payments	$ 109,333	$ 69,364
B. Advances and Prepayments	10	5
C. Total Nonfederal Other Assets	$ 109,343	$ 69,369
3. Total Other Assets	$ 109,343	$ 69,369

Information Related to Other Assets

Contract terms and conditions for certain types of contract financing payments convey certain rights to the Army WCF 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 do not mean that ownership of the contractor's work has transferred to the Army WCF. The Army WCF does not have the right to take the work, except as provided in contract clauses related to termination or acceptance, and the Army WCF is not obligated to make payment to the contractor until delivery and acceptance.

For FY 2019 and FY 2018, Outstanding Contract Financing Payments only includes $109.3 and $59 million in contract financing payments, respectively, and an additional $0.0 and $10.4 million for estimated future payments to contractors upon delivery and government acceptance. The assets associated with these estimated future payments are related to Contingent Liabilities reported in Note 15, Other Liabilities. Effective third quarter of FY 2019, estimated future payments to contractors are no longer reported as 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. 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.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2019	2018
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Other	$ 41,668	$ 42,566
B. Total Intragovernmental Liabilities	$ 41,668	$ 42,566
2. Nonfederal Liabilities		
A. Military Retirement and Other Federal Employment Benefits	254,670	254,158
B. Environmental and Disposal Liabilities	291,098	-
C. Other Liabilities	-	7,000
D. Total Nonfederal Liabilities	$ 545,768	$ 261,158
3. Total Liabilities Not Covered by Budgetary Resources	$ 587,436	$ 303,724
4. Total Liabilities Covered by Budgetary Resources	$ 875,138	$ 641,430
5. Total Liabilities	$ 1,462,574	$ 945,154

Intragovernmental Other Liabilities represent future-funded *Federal Employees' Compensation Act* (FECA) liabilities billed to the Army WCF by the Department of Labor (DOL) for payment made by DOL to Army beneficiaries.

Intragovernmental Liabilities, Other, primarily consists of $18.9 million in unfunded FECA liabilities and $22.8 million in other unfunded employment-related liabilities as of September 30, 2019. As of September 30, 2018 unfunded FECA liabilities were $19.1 million and other unfunded employment-related liabilities were $23.5 million.

Military Retirement and Other Federal Employment Benefits consist of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities consist of the actuarial FECA benefits liability of $254.7 million as of September 30, 2019 and $254.2 million as of September 30, 2018. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Environmental and Disposal Liabilities consist of the liabilities associated with the Army WCF that include disposal liabilities for operational assets. Refer to Note 14, Environmental and Disposal Liabilities for additional details and disclosures.

NOTE 12. DEBT

The Army WCF has no intragovernmental loan or non-federal debt.

NOTE 13. MILITARY RETIREMENT AND OTHER FEDERAL EMPLOYMENT BENEFITS

As of September 30	2019	
(Amounts in thousands)	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	$ 254,670	$ 254,670
B. Total Other Benefits	$ 254,670	$ 254,670
2. Total Military Retirement and Other Federal Employment Benefits:	$ 254,670	$ 254,670

As of September 30	2018	
(Amounts in thousands)	Liabilities	Unfunded Liabilities
1. Other Benefits		
A. FECA	$ 254,158	$ 254,158
B. Total Other Benefits	$ 254,158	$ 254,158
2. Total Military Retirement and Other Federal Employment Benefits:	$ 254,158	$ 254,158

Federal Employees Compensation Act (FECA) actuarial liabilities are computed for employee compensation benefits as mandated by the FECA. The Office of Personnel Management provides updated Army actuarial liabilities during the fourth 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.

The Army WCF actuarial liability for workers' compensation benefits is developed by the DOL and provided to Army WCF at the end of each fiscal year. The 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 (CPIM) factors, and discount rates by averaging the COLA rates, CPIM factors, and discount rate estimates to reflect historical trends.

DOL selected the COLA factors, CPIM factors, and discount rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years for FY 2019 and FY 2018, respectively. Using averaging renders estimates that reflect historical trends over five years. DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2019 and FY 2018, respectively.

Interest rate assumptions utilized for FY 2019 discounting were as follows:

Discount Rates
For wage benefits:
2.610% in Year 1 and years thereafter;
For medical benefits:
2.350% in Year 1 and years thereafter.

Interest rate assumptions utilized for FY 2018 discounting were as follows:

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

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, COLAs and CPIMs were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 2019 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various CBY were as follows:

CBY	COLA	CPIM
2019	N/A	N/A
2020	1.47%	2.86%
2021	1.85%	3.05%
2022	2.12%	3.09%
2023	2.17%	3.47%
2024	2.21%	3.88%

The compensation COLAs and CPIMs used in the projections for FY 2018 were as follows:

CBY	COLA	CPIM
2018	N/A	N/A
2019	1.31%	3.21%
2020	1.51%	3.48%
2021	1.89%	3.68%
2022	2.16%	3.71%
2023	2.21%	4.09%

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

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2019	2018
(Amounts in thousands)		
1. Environmental Liabilities – Non-Federal		
A. Accrued Environmental Restoration Liabilities	-	-
B. Other Accrued Environmental Liabilities – Non-BRAC	-	-
1. Environmental Corrective Action	-	-
2. Environmental Closure Requirements	45,136	-
3. Environmental Response at Operational Ranges	-	-
4. Asbestos	245,962	-
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	$ 291,098	$

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

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 (E&DL) cleanup costs. Effective October 1, 2018, and in alignment with Interpretation No. 9, the Army WCF recognized a $291 million (Facility Closure $45M and Asbestos $246M) E&DL previously reported by the Army GF.

The Army WCF report for E&DL consists of only asset-driven liabilities for facility closures. Event-driven liabilities caused by the release of contamination to the environment that require future cleanup are all recognized by the Army GF. Asset-driven liabilities are the environmental disposal costs incurred at the end of the asset's useful life. The Army WCF's current E&DL is reported in the following categories:

1.B.2 Environmental Closure Requirements
1.B.4 Asbestos

The environmental liabilities associated with Army WCF (Line 1.B.2 and 1.B.4) includes disposal liabilities for operational assets such as buildings, which have asbestos, lead-based paint, and other regulated materials (ORM) at the end of their useful life. For each category, the E&DL reflects the future work required to address legal and 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 associated with facility closures.

The 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* clarifies reporting of liabilities arising from asbestos-related cleanup.

SFFAS 6, and FASAB Technical Release 11, *Implementation Guidance on Cleanup Costs Associated with Equipment*, June 2, 2010 provides that cleanup costs for when equipment operations cease shall be estimated when the associated asset is placed in service and a portion of estimated total cleanup costs shall be recognized as expense during each period that the asset is in operation. The Army GF is in its initial stages of determining completeness and a methodology for determining general equipment environmental liability. Once the methodology for determining environmental liability for Army GF is defined, further discussion will be held to determine if an environmental liability for Army WCF exists beyond environmentally-related facility closures.

The applicable laws and regulations include:

- Clean Water Act (CWA)
- Clean Air Act (CAA)
- Toxic Substances Control Act (TSCA)
- Resource Conservation and Recovery Act (RCRA)
- Asbestos Hazard Emergency Response Act (AHERA)

Methods for Assigning Estimated Total Cleanup Costs to Current Operating Periods

Asset-driven liabilities for facility closures 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 survey 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. Environmental closure liabilities for individual building demolition will vary significantly depending on location, so environmental related building closure liabilities for ORM are reported in aggregate and adjusted for location and useful life determinations. The historical costs to support the estimating model is taken from various sites around CONUS and updated annually. The costs for the historical contracted demolitions are then averaged and a Unit Cost Factor (UCF) developed for asbestos and ORM. UCF are derived using industry standards or historical costs, along with the assets inventory data to develop environmental closure liabilities. The UCF is multiplied by the total FEE (government-owned) building square footage inventory to generate the environmental liabilities for building closure for ORM and asbestos survey.

Asbestos disposal costs are based on historical cost data from recent building demolitions and pre-demolition building survey to develop cost factors for asbestos survey and abatement. The methodology is based on the 30 Sep 2015 Assistant Secretary of Defense (Energy, Installation and Environment) memo entitled, “Strategy for Environmental & Disposal Liabilities Audit Readiness”. In 1990, the U.S. Environmental Protection Agency provided the final regulatory ban on the use of asbestos-containing materials in construction. Therefore, E&DL for asbestos abatement only includes facilities put into service prior to 1990. The liability is determined using the square footage of buildings put into service prior to 1990 multiplied by the asbestos abatement cost factor.

Unrecognized costs of the estimated total cleanup, closure, or disposal costs associated with General PP&E

For General PP&E placed in service on or after October 1, 1997, costs are allocated to the periods benefiting from the operations of the General PP&E. Cleanup costs allocated to future periods and not included in the liability amounted to $4.9 million at September 30, 2019. The recognized amounts are included in the Environmental Closure Requirements on Note 14 (Line 1.B.2) 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.

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

E&DL for the Army WCF 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 for the liabilities. The actual results may vary from the accounting estimates if agreements with regulatory agencies require closure to a different degree than anticipated when calculating the estimates.

The Army WCF has reported asbestos survey costs based on estimating the amount of non-friable asbestos removal/disposal at the time of building renovation or demolition. Friable asbestos mitigation estimates are based on historical costs of asbestos abatement during facility demolition.

The cleanup costs for general equipment is uncertain. The Army is unable to determine general equipment disposal liabilities because the determination for completeness for general equipment and defining valuation method are still ongoing.

E&DL for the Army's asset driven liabilities are based on estimates, which are dependent on data from the Accountable Property System of Record (APSR), and require certain technical judgments, historical cost information, and assumptions that are believed to be reasonably based upon information available at the time of calculating the estimates. Due to the dependencies on the APSRs, the methodology for asset driven liabilities assumes that the APSRs are accurate and the data used from the Accountable Property System of Record 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.

All environmental liabilities as of September 30, 2019 are stated in FY 2019 dollars, as required by generally accepted accounting principles for federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

NOTE 15. OTHER LIABILITIES

As of September 30	2019		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	$ 19,029	$ -	$ 19,029
B. FECA Reimbursement to the Department of Labor	18,897	22,770	41,667
C. Custodial Liabilities	4	-	4
D. Employer Contribution and Payroll Taxes Payable	15,705	-	15,705
E. Other Liabilities	87,038	-	87,038
F. Total Intragovernmental Other Liabilities	$ 140,673	$ 22,770	$ 163,443
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 178,171	$ -	$ 178,171
B. Advances from Others	91,502	-	91,502
C. Deposit Funds and Suspense Accounts	10,811	-	10,811
D. Contract Holdbacks	49	-	49
E. Employer Contribution and Payroll Taxes Payable	7,342	-	7,342
F. Contingent Liabilities	-	-	-
G. Other Liabilities	84,604	-	84,604
H. Total Nonfederal Other Liabilities	$ 372,479	$ -	$ 372,479
3. Total Other Liabilities	$ 513,152	$ 22,770	$ 535,922

As of September 30	2018		
(Amounts in thousands)	Current Liability	Noncurrent Liability	Total
1. Intragovernmental			
A. Advances from Others	$ 12,290	$ -	$ 12,290
B. FECA Reimbursement to the Department of Labor	19,059	23,507	42,566
C. Custodial Liabilities	4	-	4
D. Employer Contribution and Payroll Taxes Payable	13,820	-	13,820
E. Other Liabilities	-	-	-
F. Total Intragovernmental Other Liabilities	$ 45,173	$ 23,507	$ 68,680
2. Nonfederal			
A. Accrued Funded Payroll and Benefits	$ 166,613	$ -	$ 166,613
B. Advances from Others	56,191	-	56,191
C. Deposit Funds and Suspense Accounts	6,936	-	6,936
D. Contract Holdbacks	37	-	37
E. Employer Contribution and Payroll Taxes Payable	6,108	-	6,108
F. Contingent Liabilities	-	17,363	17,363
G. Other Liabilities	67,280	-	67,280
H. Total Nonfederal Other Liabilities	$ 303,165	$ 17,363	$ 320,528
3. Total Other Liabilities	$ 348,338	$ 40,870	$ 389,208

Intragovernmental Liabilities

Advances from Others

Advances from Others represent liabilities for collections received from the customer to cover Army WCF's future expenses incurred or assets acquired. Army WCF receives the advance related to fulfillment and delivery of the respective goods or services.

FECA Reimbursement to the Department of Labor

FECA Reimbursement to the DOL represents liabilities due under the *Federal Employee Compensation Act*. Billed amounts payable in FY 2018 and FY 2019 and unbilled amounts for both incurred and estimated accrual amounts are included. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

Custodial Liabilities

Custodial Liabilities represent liabilities for collections reported as non-exchange revenues for which the Army WCF is acting on behalf of another Federal entity. Army collects interest payments, penalties, and administrative fees from both individuals and organizations that are remitted to U.S. Treasury.

Employer Contributions and Payroll Taxes Payable

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

Office of Personnel Management (OPM) administers insurance benefit programs available for coverage to the Army WCF eligible civilian employees. These programs include life and health insurance, and employee participation is voluntary.

The life insurance program, Federal Employee Group Life Insurance (FEGLI) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (FEHB) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. 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. Additional information may be found on OPM's website.

Intragovernmental Other Liabilities
Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

Nonfederal Liabilities

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
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 Fund and Suspense Accounts
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.

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.

Employer Contribution and Payroll Taxes Payable
Employer contribution and payroll taxes payable represents the employer portion of payroll taxes and benefit contributions for health benefits, life insurance, Social Security, Medicare and other retirement benefits, including the Army WCF's contribution to the Thrift Savings Plan.

Contingent Liabilities
Contingent liabilities for FY 2018 includes $10.4 million related to contracts authorizing progress payments based on cost as defined in the FAR. The Army WCF recognized a contingent liability for the estimated unpaid costs that were considered conditional for payment pending delivery and government acceptance. The Army WCF estimated this contingent liability because of the probability the contractors would complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid were estimable. Beginning in FY 2019, the liabilities for progress payment are included in Accounts Payable.

Other Liabilities
Other Liabilities represent accruals for service contracts, not otherwise classified above, for which there is a related budgetary obligation.

NOTE 16. LEASES

Assets under Capital Lease

As of September 30	2019	2018
(Amounts in thousands)		
1. Entity as Lessee, Assets Under Capital Lease		
A. Land and Buildings	$ -	$ 668
B. Accumulated Amortization	-	(357)
C. Total Capital Leases	$ -	$ 311

Operating Leases

As of September 30	2019			
(Amounts in thousands)	Land and Buildings	Equipment	GSA Vehicles	Total
1. Intragovernmental Operating Leases				
Future Payments Due Fiscal Year:				
2020	-	64	12,993	13,057
2021	-	65	13,112	13,177
2022	-	66	13,189	13,255
2023	-	68	13,263	13,331
2024	-	69	13,352	13,421
After 5 years	-	69	13,707	13,776
Total Intragovernmental Future Lease Payments Due	$ -	$ 401	$ 79,616	$ 80,017
2. Nonfederal Operating Leases				
Future Payments Due Fiscal Year:				
2020	7	60	-	67
2021	7	60	-	67
2022	8	-	-	8
2023	8	-	-	8
2024	8	-	-	8
After 5 years	49	-	-	49
Total Intragovernmental Future Lease Payments Due	$ 87	$ 120	$ -	$ 207
3. Total Future Lease Payments	$ 87	$ 521	$ 79,616	$ 80,224

Future operating lease amounts for the years 2020 through 2025 include estimates based upon current FY 2019 annualized activity levels for motor vehicles obtained for indefinite assignment under the General Services Administration (GSA) Interagency Fleet Management System (IFMS) program (Federal Property Management Regulation Section 101-39.204).

NOTE 17. COMMITMENTS AND CONTINGENCIES

Nature of Contingency

Army WCF has other contingent liabilities for which the possibility of loss is considered reasonable. These liabilities are not accrued in the Army WCF's financial statements. As of September 30, 2019, the Army WCF had an estimated range of loss from $2.2 million to $10.0 million related to employee compensation and vendor contract disputes considered reasonably possible and no claims considered probable. As of September 30, 2018, the Army WCF had $7.0 million in claims considered probable and $0.2 million was estimated at reasonably possible. Estimates for litigations, claims, and assessments align with the legal representation letter and the related Management Schedule of Information.

NOTE 18. FUNDS FROM DEDICATED COLLECTIONS

The Army WCF has no funds from dedicated collections.

NOTE 19. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Schedule of Cost and Revenue by Business Area

For the Year Ended September 30	2019			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Eliminations	2019 Consolidated
1. Program Costs				
A. Gross Costs	$ 5,557,495	$ 15,932,449	$ (1,978,667)	$ 19,511,277
Operations, Readiness & Support	5,557,495	15,932,449	(1,978,667)	19,511,277
B. (Less: Earned Revenue)	(4,755,092)	(14,068,720)	1,978,818	(16,844,994)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	802,403	1,863,729	151	2,666,283
D. Net Program Costs Including Assumption Changes	802,403	1,863,729	151	2,666,283
2. Net Cost of Operations	$ 802,403	$ 1,863,729	$ 151	$ 2,666,283

For the Year Ended September 30	2018			
(Amounts in thousands)	Industrial Operations	Supply Management Activities	Eliminations	2018 Consolidated
1. Program Costs				
A. Gross Costs	$ 5,038,774	$ 13,963,446	$ (1,589,897)	$ 17,412,323
Operations, Readiness & Support	5,038,774	13,963,446	(1,589,897)	17,412,323
B. (Less: Earned Revenue)	(4,519,579)	(15,905,129)	1,589,888	(18,834,820)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	519,195	(1,941,683)	(9)	(1,422,497)
D. Net Program Costs Including Assumption Changes	519,195	(1,941,683)	(9)	(1,422,497)
2. Net Cost of Operations	$ 519,195	$ (1,941,683)	$ (9)	$ (1,422,497)

Information Related to the Statement of Net Cost

The Statement 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 is presented net of $2.3 billion in material returns for FY 2019.

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

Information Related to the Statement of Changes in Net Position

Other Financing Sources, Other on the Statement 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.

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, previously reported separately within the Combined Statements of Budgetary Resources, and 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.

Undelivered Orders at the End of the Period

For the Years Ended September 30	2019		2018	
(Amounts in thousands)				
1. Intragovernmental:				
A. Unpaid	$	819,341	$	4,558,134
B. Prepaid/Advanced		-		-
C. Total Intragovernmental	$	819,341	$	4,558,134
2. Nonfederal:				
A. Unpaid	$	7,403,141	$	2,692,889
B. Prepaid/Advanced		109,344		59,005
C. Total Nonfederal	$	7,512,485	$	2,751,894
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	8,331,826	$	7,310,028

Undelivered Orders

Undelivered Orders presented in the Statement of Budgetary Resources (SBR) include Undelivered Orders-Unpaid for both direct and reimbursable funds.

Other Information Related to the Statement of Budgetary Resources

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, previously reported separately within the Combined Statements of Budgetary Resources, and together impacting the Obligated balance, end of the prior year and brought forward, October 1, as reported.

During first quarter of FY 2019, the Army WCF received appropriations amounted to $106.4 million to fund War Reserve materiel, $0.0 million for Army Prepositioned Stock $0.0 million for Inventory Augmentation, $59.0 million for Industrial Mobilization Capacity, and $99.0 million for Arsenal Sustainment Initiative. The Army WCF received appropriations in third quarter of FY 2018 in the amount of $40.6 million to fund War Reserve materiel, $3.8 million for Army Prepositioned Stock, $46.3 million for Inventory Augmentation, $43.1 million for Industrial Mobilization Capacity, and $99 million for Arsenal Sustainment Initiative.

The Army WCF obligations represent new reimbursable obligations and upward adjustments of $14.0 billion and new direct obligations and upward adjustments of $247.1 million in apportionment category B, apportioned by project or activity for fourth quarter of FY 2019. For fourth quarter of FY 2018, the related amount were $13.5 billion and $270 million, respectively.

There are no legal arrangements affecting the use of unobligated balances of budgetary authority.

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

There are no material differences between the prior year amounts reported on the Army WCF SBR and actual FY 2018 amounts on the Budget of the U.S. Government. The Budget of the U.S. Government with the actual amounts for FY 2019 will be available at a later date at *https://www.whitehouse.gov/omb/budget*.

The Army WCF does not have contributed capital.

NOTE 22. DISCLOSURES RELATED TO INCIDENTAL CUSTODIAL COLLECTIONS

The Army WCF does not collect incidental custodial revenues.

NOTE 23. FIDUCIARY ACTIVITIES

The Army WCF has no fiduciary activities.

NOTE 24. RECONCILIATION OF NET COST TO NET OUTLAYS

For the Year Ended September 30	2019		
(Amounts in thousands)	Intragovernmental	With the Public	Total
1. Net Cost of Operations (SNC)	$ (8,228,274)	$ 10,894,557	$ 2,666,283
Components of Net Cost That are Not Part of Net Outlays:			
2. Property, plant, and equipment depreciation	$ -	$ (214,731)	$ (214,731)
3. Property, plant, and equipment disposal & revaluation	-	(1,311,239)	(1,311,239)
4. Year-end credit reform subsidy re-estimates	-	-	-
5. Unrealized valuation loss/(gain) on investments	-	-	-
6. Other	(153,379)	(7,767,874)	(7,921,253)
7. Increase/(decrease) in assets:			
7a. Accounts Receivable	(203,156)	(3,788)	(206,944)
7b. Loans Receivable	-	-	-
7c. Investments	-	-	-
7d. Other assets	(8,749)	43,849	35,100
8. (Increase)/decrease in liabilities:			
8a. Accounts payable	200,433	(266,174)	(65,741)
8b. Salaries and benefits	(1,885)	(12,793)	(14,678)
8c. Insurance guarantee program liabilities	-	-	-
8d. Environmental and disposal liabilities	-	(291,098)	(291,098)
8e. Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(57,584)	(473)	(58,057)
9. Other financing sources:			
9a. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(167,688)	-	(167,688)
9b. Transfers out (in) without reimbursement	-	-	-
9c. Other imputed financing	-	-	-
10. Total Components of Net Cost That Are Not Part of Net Outlays Not Part of Net Outlays	$ (392,008)	$ (9,824,321)	$ (10,216,329)
Components of Net Outlays That Are Not Part of Net Cost			
11. Effect of prior year agencies credit reform subsidy re-estimates	-	-	-
12. Acquisition of capital assets	5	2,977,595	2,977,600
13. Acquisition of inventory	2,294,729	2,795,191	5,089,920
14. Acquisition of other assets	-	-	-
15. Other	-	-	-
16. Total Components of Net Outlays that are Not Part of Net Cost	$ 2,294,734	$ 5,772,786	$ 8,068,520
17. Other Temporary Timing Differences	-	-	-
18. Net Outlays	$ (6,325,548)	$ 6,843,022	$ 517,474
19. Agency Outlays, Net, Statement of Budgetary Resources			$ 378,969
20. Reconciling Difference			$ 138,505

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. To account for this difference in reporting, the combined presentation of Net Outlays is reconciled, in part, by the change in permanent accounts (i.e. 1310, 2110 etc.) reported on line 2 through 15, gross of eliminations.

Due to the Army WCF's financial systems limitations, budgetary data do not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency.

Components of Net Cost that are not part of Net Outlays, Other include the cost of goods sold, gains and losses related to activity and other costs that do not require the use of budgetary resources.

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." Statement of Federal Financial Accounting Standards 49: *Public-Private Partnerships* establish disclosure requirements. However, the Army WCF does not have Public-Private Partnerships.

NOTE 26. DISCLOSURE ENTITIES AND RELATED PARTIES

The Army WCF does not have any significant related parties or disclosure entities.

NOTE 27. RECLASSIFICATION OF BALANCE SHEET, STATEMENT OF NET COST, AND STATEMENT OF CHANGES IN NET POSITION FOR COMPILATION IN THE U.S. GOVERNMENT-WIDE FINANCIAL REPORT.

The Army WCF does not have reclassifications of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for compilation in the U.S. Government-wide financial report.

NOTE 28. RESTATEMENTS

The Army WCF does not have restatements.

FISCAL YEAR 2019 REQUIRED SUPPLEMENTARY INFORMATION – **WORKING CAPITAL FUND**

Department of Defense — Army Working Capital Fund

SCHEDULE OF DISAGGREGATED BUDGETARY RESOURCES

For the Years Ended September 30, 2019 and 2018

Amounts in thousands	Industrial Operations	Supply Management Activities	Component	2019 Combined	2018 Combined
Budgetary Resources:					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 3,895,979	$ 805	$ 36,714	$ 3,933,498	$ 4,253,304
Appropriations (discretionary and mandatory)	158,002	106,363	-	264,365	232,887
Contract Authority (discretionary and mandatory)	85,810	8,768,822	-	8,854,632	8,265,120
Spending Authority from offsetting collections (discretionary and mandatory)	4,653,517	50,000	-	4,703,517	4,446,309
Total Budgetary Resources	$ 8,793,308	$ 8,925,990	$ 36,714	$ 17,756,012	$ 17,197,620
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 5,365,562	$ 8,857,937	$ -	$ 14,223,499	$ 13,733,041
Unobligated balance, end of year:					
Apportioned, unexpired accounts	3,427,746	68,054	36,714	3,532,513	3,464,579
Unexpired unobligated balance, end of year	3,427,746	68,054	36,714	3,532,513	3,464,579
Unobligated balance, end of year (total)	3,427,746	68,054	36,714	3,532,513	3,464,579
Total Budgetary Resources	$ 8,793,308	$ 8,925,991	$ 36,714	$ 17,756,012	$ 17,197,620
Outlays, net:					
Outlays, net (total) (discretionary and mandatory)	100,523	291,552	(13,106)	378,969	(305,406)
Distributed offsetting receipts (-)					
Agency Outlays, net (discretionary and mandatory)	$ 100,523	$ 291,552	$ (13,106)	$ 378,969	$ (305,406)

Department of Defense — Army Working Capital Fund

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIR

For the Years Ended September 30, 2019 and 2018
(In Millions)

	Current Fiscal Year 2019			Prior Fiscal Year 2018		
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)	$13,029	$1,484	11%	$12,884	$1,751	14%
Category 2: Buildings Structures, and Linear Structures (Heritage Assets)	$6,696	$1,050	16%	$9,385	$ 772	8%
Inactive Real Property						
Category 3: Building, Structures, and Linear Structures (Excess Facilities or Planned for Replacement	$612	$132	22%	$472	$102	22%

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 2019 and FY 2018 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. 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 2019 and FY 2018 or Q-ratings obtained by application of business rules described below. For FY 2019 and FY 2018, 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)

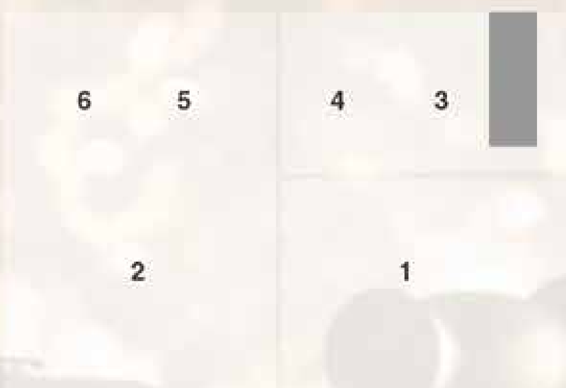
Q-ratings are determined by the ISR for the majority of facilities, and by business rule for the remaining facilities. During ISR data collection, facility occupants evaluate the condition of each facility against published standards. The inspection generates a quality improvement cost estimate for each 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 REAL PROPERTY 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 in the process of developing a methodology to identify and properly report the value of deferred maintenance and repair requirements for its equipment.



COVER PHOTO CAPTIONS

1 Soldiers dressed in historically accurate uniforms from various periods of U.S. Army history. (Photo by 1st Class Maurice Smith, USARPAC Public Affairs)

2 U.S. Army Paratroopers prepare to board an aircraft in preparation for airborne operations. (U.S. Army Photo by Paolo Bovo)

3 Conducting a multi-national platoon live fire qualification. (Photo courtesy of the U.S. Army)

4 Linking blank .50 caliber ammunition together in the back of a vehicle as part of a three-week gunnery exercise designed to hone crucial gunnery skills and increase battlefield lethality. (U.S. Army Reserve photo by Sgt. 1st Class Brent C. Powell)

5 Putting the finishing touches on face paint camouflage. (U.S. Army photo by Paolo Bovo)

6 A soldier scales the monkey bars as part of an endurance course during jungle training. (U.S. Army photo by Army Spc. Valencia McNeal)

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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.

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