FISCAL YEAR 2019 AGENCY FINANCIAL REPORT

TRANSPORTATION WORKING CAPITAL FUND (TWCF)

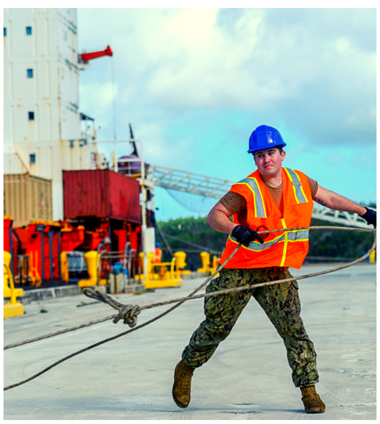


TABLE OF CONTENTS

About the Agency Financial Report

The United States Transportation Command (USTRANSCOM) Agency Financial Report (AFR) provides financial and summary performance results enabling the President, Congress, and the American people to assess its accomplishments, and to understand its financial results and operational functions. The financial statements have been prepared from the books and records of USTRANSCOM in accordance with, and to the extent possible, U.S. Generally Accepted Accounting Principles (U.S. GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); Office of Management and Budget (OMB) Circular A-136; and the Department of Defense (DoD) Financial Management Regulation (FMR). This AFR uses the reporting requirements of the following:

- Federal Managers' Financial Integrity Act of 1982 (Public Law (P.L.) 97-255) (FMFIA);
- Chief Financial Officers Act of 1990 (P.L. 101-576) (CFO Act);
- Government Management Reform Act of 1994 (P.L. 103-356) (GMRA);
- Reports Consolidation Act of 2000 (P.L. 106-531);
- OMB Circular A-136, Financial Reporting Requirements;
- Improper Payments Elimination and Recovery Improvement Act of 2012 (P.L. 112-248) (IPERIA);
- OMB Memorandum M-12-12, Promoting Efficient Spending to Support Agency Operations; and
- Fraud Reduction and Data Analytics Act of 2015 (P.L. 114-186) (FRDAA).

The AFR may be viewed online at https://www.ustranscom.mil/cmd/audit.cfm or on the Office of the Deputy Chief Financial Officer (ODCFO) website at https://comptroller.defense.gov/ODCFO/afr2019.aspx. The AFR consists of three primary sections:

Management's Discussion and Analysis

Provides a brief, high-level overview of USTRANSCOM, including its history, mission, and organizational structure; USTRANSCOM's overall strategic goals and primary objectives; analysis of financial statements; management's assurance on internal controls and legal compliance; and forward-looking information.

Financial Section

Contains financial statements, accompanying notes, required supplementary information, as well as the independent auditor's report on the financial statements and management's response to that report.

Other Information

Contains information on management challenges, summary of financial statement audit and management assurances, payment integrity, and the fraud reduction report.

MESSAGE FROM THE COMMANDER

Our ability to respond with military force has been a deterrent to conflict and an assurance to our allies that we will defend our mutual values of freedom and liberty.

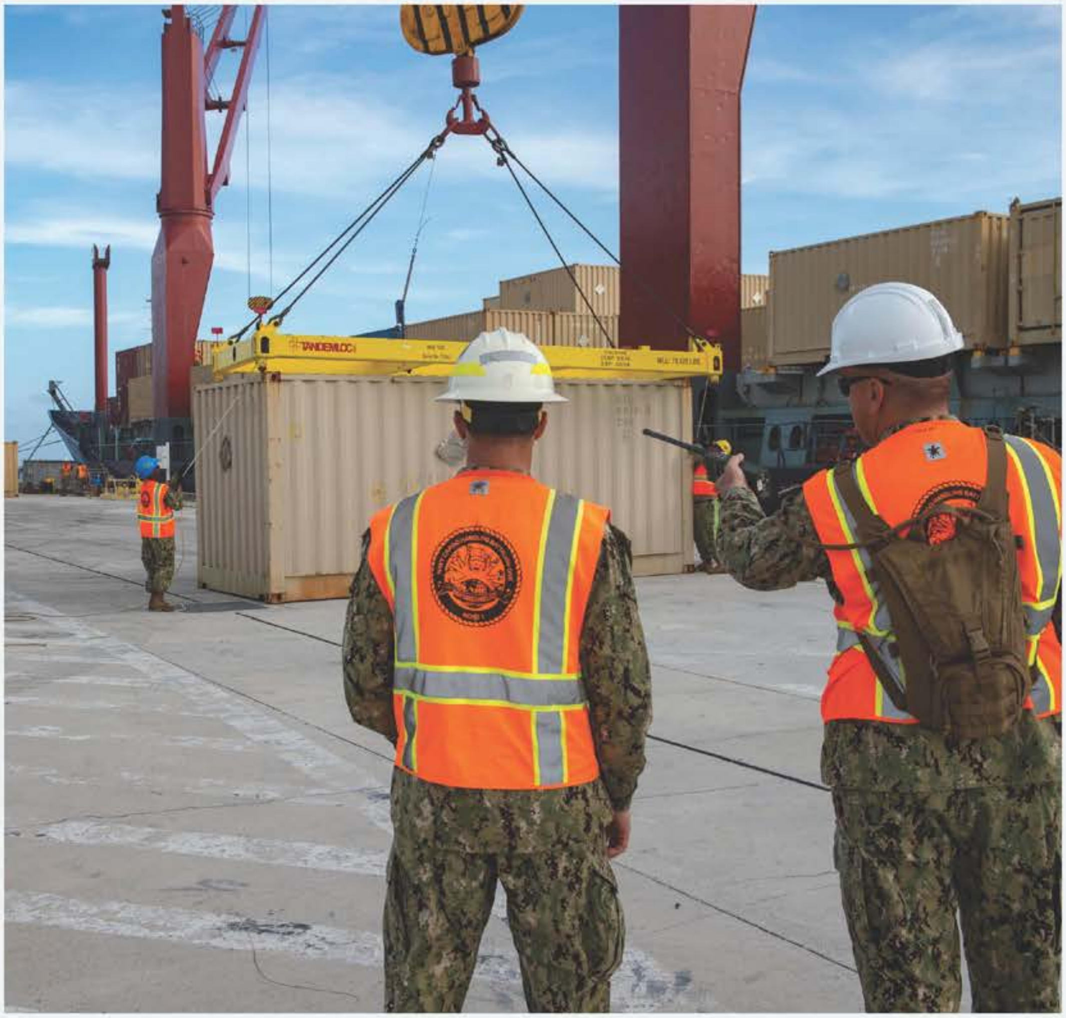
The United States Transportation Command (USTRANSCOM) exists as a warfighting Combatant Command to project and sustain military power. Powered by dedicated men and women, we underwrite the lethality of the joint force, advance American interests, and provide our Nation's leaders with strategic flexibility to select from multiple options and create multiple dilemmas for adversaries. USTRANSCOM is leading the charge to enable the global reach of the Department of Defense (DoD). Projecting and sustaining power is the cornerstone of the Joint Force's ability to fight and win our Nation's wars. Our ability to respond with military force has been a deterrent to conflict and an assurance to our allies that we will defend our mutual values of freedom and liberty. My number one priority is warfighting readiness – being ready not only to provide an immediate force tonight, but also to transition to a high-end war plan and provide a decisive force when needed.

On behalf of USTRANSCOM, I present the Fiscal Year (FY) 2019 USTRANSCOM Transportation Working Capital Fund (TWCF) Agency Financial Report (AFR). This report provides an overview of our mission and organization, challenges, and management's accountability for the resources entrusted to us by the American public. FY 2019 was a critical year for USTRANSCOM, as the Command underwent our second financial statement audit for the TWCF. As expected for an organization of our size and complexity, we received a disclaimer of opinion. Our auditors reported deficiencies in key areas involving controls over information technology, financial reporting, transactional controls, budgetary controls and completeness of transaction-level populations. USTRANSCOM is fully committed to improving our ability to provide transparency and to report timely, accurate, and reliable information related to the operating results of USTRANSCOM's complex mission. Cost-effective remediation efforts are being designed and implemented with a focus on ensuring lasting compliance. We continue to develop solutions to enhance operations and accounting compliance by working with our component commands to improve and standardize data and business processes enterprise wide. This will drive efficiencies to increase speed, value, and support the warfighter.

The success of the joint force over the last 30 years does not guarantee success for the next 30 years. USTRANSCOM must continue to evolve to ensure the U.S. military retains a comparative advantage. We continually reevaluate our role as the leader of the Joint Deployment and Distribution Enterprise (JDDE) by looking at end-to-end logistics to improve warfighting outcomes for the Joint Force. We encourage a culture of innovation throughout our workforce to ensure the JDDE remains both effective and efficient. Throughout all of our initiatives, our number one priority is and will remain warfighting readiness.

Stephen R. Lyons
General, U.S. Army
Commander

MANAGEMENT'S DISCUSSION & ANALYSIS



Mission and Organization Structure

USTRANSCOM is one of 10 warfighting Combatant Commands (CCMD) in the DoD[1]. Our ability to deliver and sustain combat power anywhere in the world underpins the lethality of the Joint Force. USTRANSCOM's purpose is to project and sustain military power at a time and place of our choosing in support of the National Defense Strategy. Powered by dedicated men and women, we underwrite the lethality of the Joint Force, we advance American interests around the globe, and we provide our Nation's leaders with strategic flexibility to select from multiple options while creating multiple dilemmas for our adversaries. We do this by balancing strategic mobility requirements for the Secretary of Defense and executing the Unified Command Plan roles and responsibilities assigned to USTRANSCOM by the President. No other country in the world possesses the capability to deploy, sustain, and redeploy forces across strategic distances, providing an immediate and decisive force when needed.

The basis for USTRANSCOM began 40 years before USTRANSCOM was established, when the National Security Act of 1947 created the DoD, placing into law the requirement for unified action by the Services under the Joint Chiefs of Staff. The Goldwater-Nichols DoD Reorganization Act of 1986 was a sweeping reorganization of the DoD, to include the establishment of CCMDs, which produced the operational chain of command structure we know today. Pursuant to that Act, Title 10, Part 1, Chapter 6 of the United States Code provides the legal basis for the roles, missions, and organization of CCMDs. On April 18, 1987, President Ronald Reagan directed Secretary of Defense Weinberger to establish USTRANSCOM in accordance with that statutory authority.

The Unified Command Plan (UCP), signed by the President pursuant to his authority as Commander in Chief, establishes the missions, responsibilities and, where appropriate, the geographic areas of responsibility for commanders of CCMDs. The UCP requires the Commander, USTRANSCOM, to maintain a mission-capable and efficient headquarters staff that can:

- Carry out assigned missions and tasks; plan for and execute military operations, as directed;
- Assign tasks to, and direct the coordination of, subordinate commands to ensure unified action;
- Maintain the security of, and carry out force protection responsibilities for the combatant command, including assigned or attached commands, forces, and assets, in compliance with applicable geographic combatant command policy;
- Provide readiness requirements oversight of assigned Military, ensuring a joint task force-capable headquarters;
- Provide joint capable forces to other CCMDs, as directed;
- Plan, conduct, and assess security cooperation activities in support of the geographic combatant commander's security cooperation strategies; and
- Support the geographic combatant commanders in the planning and execution of military support to stability operations, humanitarian assistance, and disaster relief, as directed.

[1] U.S. Space Command was established on August 29, 2019; however, the FY 2019 AFR will not address the impact of the newest Combatant Command to USTRANSCOM operations until this eleventh command is funded by Congress in FY 2020.

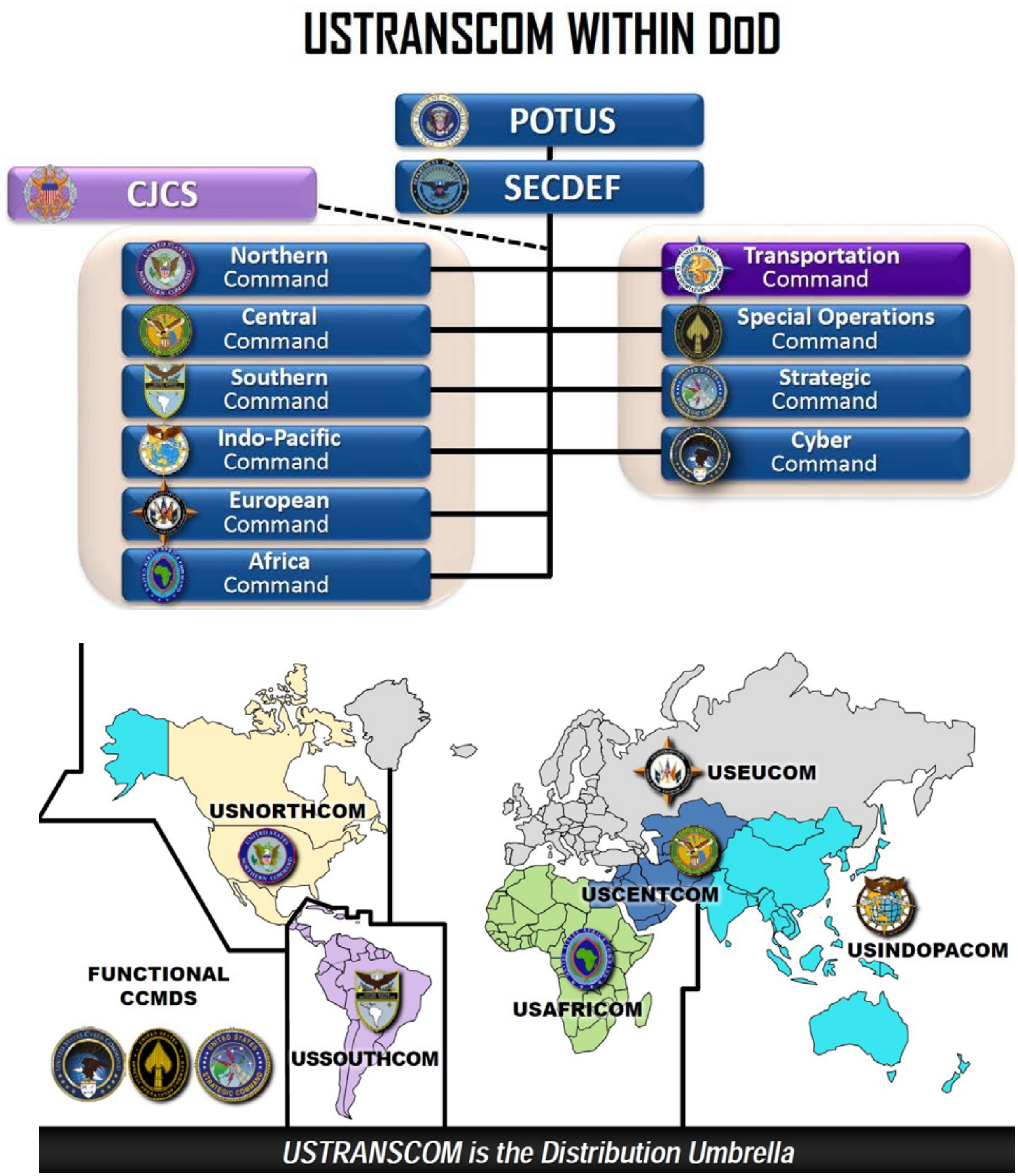
With global responsibilities and capabilities that transcend air, land, and sea, USTRANSCOM is uniquely postured to fulfill five specific responsibilities within the 2017 UCP[2]:

1. DoD single manager for patient movement responsible for DoD global patient movement, through the Defense Transportation System, in coordination with the geographic CCMDs.
2. DoD's single manager for transportation responsible for providing common-user (i.e., other than service-unique or theater-assigned assets) and commercial air, land, and sea transportation; terminal management; and aerial refueling to support the global deployment, employment, sustainment, and redeployment of US forces.
3. Joint Deployment and Distribution Coordinator (JDDC) for the Joint Deployment and Distribution Enterprise (JDDE), responsible for coordinating and overseeing the DoD distribution system to provide interoperability, synchronization, and alignment of DoD-wide, end-to-end distribution and developing and implementing distribution process improvements that enhance the defense logistics and Global Supply Chain Management System.
4. Mobility joint force provider responsible for identifying and recommending global joint sourcing solutions to the Chairman, in coordination with the Services and other combatant commanders, from all mobility forces and capabilities, and supervising the implementation of sourcing decisions.
5. Joint enabling capabilities provider responsible for providing mission-tailored, ready joint capability packages, as directed, which are capable of short-notice, limited duration deployments to assist combatant commanders in establishing, organizing, and operating a joint force headquarters, including deployable communications and public affairs support.

[2] The five specific USTRANSCOM responsibilities come from the 2017 UCP, revised May 24, 2019.

Components, Subordinates & Activities

Responding to the needs of the DoD's warfighting commanders is USTRANSCOM's No. 1 priority. USTRANSCOM skillfully coordinates missions worldwide using both military and commercial transportation resources through the other nine CCMDs: U.S. Northern Command, U.S. Central Command, U.S. Southern Command, U.S. Indo-Pacific Command, U.S. European Command, U.S. Africa Command, U.S. Special Operations Command, U.S. Strategic Command, and U.S. Cyber Command.



USTRANSCOM executes missions and global responsibilities through component commands, subordinate commands, and a courier division. Like all combatant commands, USTRANSCOM constitutes a headquarters element without any military units permanently assigned to it. USTRANSCOM operates with Service Component Commands – one for each of the following U.S. Armed Services: U.S. Army, U.S. Navy, and the U.S. Air Force. The Service Component Commands are assigned to the USTRANSCOM Commander to accomplish its Unified Command Plan mission, most of which is funded by the TWCF. In this support role, the Service Component Commands are part of the TWCF. The Service Component Commands are reimbursed by the TWCF for any missions performed for the TWCF in accordance with published rates. However, the service component commands also execute non-TWCF missions for its Armed Service.

The Subordinate Commands differ because they do not report to both a military department and USTRANSCOM; they report directly to the USTRANSCOM Commander. The Subordinate Commands, however, are not used for TWCF missions, and are therefore not funded with TWCF dollars, and as such, are not included in the TWCF financial statements. USTRANSCOM also has a strong connection with commercial industry partners because they provide important augmentation in day-to-day and surge operations.

A list and short description of each Component Command is provided below.

Military Surface Deployment and Distribution Command (SDDC)

SDDC is a unique Army command that delivers world-class, origin-to-destination distribution solutions. Whenever and wherever Soldiers, sailors, airmen, Marines and Coast Guardsmen are deployed, SDDC is involved in planning and executing the surface delivery of their equipment and supplies.

Military Sealift Command (MSC)

MSC operates approximately 110 noncombatant, civilian-crewed ships that replenish U.S. Navy ships, conduct specialized missions, strategically preposition combat cargo at sea around the world, and move military cargo and supplies used by deployed U.S. forces and coalition partners.

Air Mobility Command (AMC)

AMC's mission is to provide rapid, global mobility and sustainment for America's armed forces. The command also plays a crucial role in providing humanitarian support at home and around the world. The men and women of AMC provide airlift and aerial refueling for all of America's armed forces.

In addition to the above Component Commands, USTRANSCOM is also made up of the following Subordinate Commands and a courier division:

Joint Transportation Reserve Unit (JTRU)

JTRU is a subordinate command responsible for providing a trained, ready, and relevant operational force to augment USTRANSCOM's active component forces in order to meet peace and wartime mobility requirements. Comprised of Air Force Reserve, Army Reserve, Coast Guard Reserve, Marine Reserve, and Navy Reserve personnel, JTRU members are organized, trained, and equipped to seamlessly execute USTRANSCOM's global distribution mission at a moment's notice.

Joint Enabling Capabilities Command (JECC)

JECC, a subordinate command, provides decisive joint communications, planning and public affairs support to the Joint Force that will meet the emerging requirements of CCMDs and Joint Task Force-capable headquarters.

Defense Courier Division (DCD)[3]

DCD provides secure, timely, and efficient end-to-end global distribution of classified and sensitive material for the United States and its allies. The division oversees and synchronizes activities of 18 courier stations worldwide to service over 6,000 accounts. Each courier station is assigned responsibility for providing courier service to customers within a defined geographic region.

[3] The Defense Courier Division (DCD) is a part of the USTRANSCOM Operations Directorate (TCJ3). The DCD operates as part of the TWCF, charging a set rate per pound for the movement of classified material which reimburses the DCD for its costs. In order to ensure its overhead is properly attributed to its operations, the DCD's funding is segregated from the general TWCF line of operation. As a result, the DCD, from an accounting perspective, is treated as a separate division on the TWCF financial statements, even though it is part of the USTRANSCOM headquarters.

Command Leadership


GEN Stephen R. Lyons
Commander


VADM Dee L. Mewbourne
Deputy Commander


MG Deborah L. Kotulich
Chief of Staff


CMSgt Jason L. France
Senior Enlisted Leader

Vision, Mission & Priorities

Command Vision: Delivering for the Nation...Providing America's promise around the world.

Command Mission: USTRANSCOM conducts globally integrated mobility operations, leads the broader Joint Deployment and Distribution Enterprise, and provides enabling capabilities in order to project and sustain the Joint Force in support of national objectives.

Command Priorities: The priorities described below are lenses through which we execute commander's intent and develop plans to achieve our objectives. We will focus our combined energies, invite fresh and innovative thinking, and adapt in these specific areas.

- **Warfighting Readiness –** Warfighting readiness is our #1 priority, and there is no other #1 priority. USTRANSCOM's enduring mission is to project and sustain combat credible forces needed to deter war, protect the security of our Nation, and win decisively should deterrence fail. We will maintain a global deployment posture, ready mobility capacity, and global command and control at echelon necessary to generate an immediate force and seamlessly transition to a fully mobilized JDDE and project a decisive force when required. The surest way to prevent war is to be prepared to win one. All activities and efforts must contribute to this priority.

- **Cyber Domain Mission Assurance –** Cyberspace is a warfighting domain, without sanctuary, in which capable adversaries continuously attempt to degrade our Nation's ability to project the Joint Force globally. As in all warfighting domains, assuring mission capabilities requires resilience and simultaneous efforts across multiple functions and stakeholders, including defense, interagency and industry partners. There is no single 'silver bullet' solution. Our actions are underscored by the need to understand adversary intentions, capabilities, and actions targeting the JDDE. We will actively manage mission risk and advance our cyber domain capabilities by understanding our large and complex attack surface, constantly managing and improving our mission relevant cyber terrain, securing our cyber area of operations, and actively defending our ability to globally command and control operations.

- **Evolve For Tomorrow –** Warfighting readiness today does not guarantee warfighting readiness in the future, a future that is unknown, unpredictable, and changing at an unprecedented pace. We must adapt to the changing character of war. We face a competitive environment characterized by great power competition, an erosion of technical advantage, all-domain warfare, and increasing logistical demands. USTRANSCOM will evolve and overcome emerging threats by being agile in our processes, willing to test and rapidly adopt or reject new concepts and technologies, and make wise investments in innovative, transformational capabilities in order to continue to outpace our adversaries. In doing so, we will position our enterprise to create multiple options for national leadership and multiple dilemmas for potential adversaries. Innovation and critical thinking are essential at every echelon to ensure we can outpace our adversaries. We are all co-equal in the value of our ideas focused on improving the JDDE to support national security requirements.

- **ADVANCE DECISION MAKING –** In war, data can be as useful as a weapon system. Information technology (IT) and computational processing continues to advance rapidly as we approach game changing capabilities like Artificial Intelligence, Machine Learning, and Advanced Analytics, all of which have enormous potential to improve USTRANSCOM mission outcomes. The foundation for our success starts with data. Establishing Enterprise Data Management, migrating our data and systems into cloud computing environments, and embracing the full range of analytic tools/methods are essential to take advantage of today's technology. Doing so will speed decision making, free up human capital, accelerate learning, reduce costs, and improve productivity. Our methodology will be to accelerate a series of 'use cases' in mission areas where we need to sharpen our warfighting focus, and build on those successes that in the aggregate will have strategic impact and continue to inform our IT modernization/optimization initiatives. These efforts are essential to enable USTRANSCOM to retain our strategic comparative advantage to project and sustain the Joint Force globally.

- **TAKE CARE OF THE TROOPS –** Our collective strength depends on our people. Every day we must keep foremost in our minds our Soldiers, Sailors, Airmen, Marines, Coast Guardsmen, and civilians operating across the globe as well as their families. We will always treat everyone with dignity and respect. We will always lead with integrity. We are blessed with incredible human talent at every level. Our personal investments in developing agile, adaptive, and innovative leaders is our enduring legacy. Our people provide the ultimate competitive edge and we must love them, develop them, and always keep the faith with them.

Analysis of Performance Goals, Objectives, and Results

USTRANSCOM is a global CCMD and the transportation provider for the DoD. USTRANSCOM does not just move the force, we sustain the force, operate the Joint Deployment and Distribution Enterprise, and in support of the Chairman of the Joint Chiefs of Staff, we "set the globe for logistics." Setting the globe means establishing an equilibrium between the capability and capacity required to meet emerging threats and regularly using the vast network of nodes, modes, and routes to expand and maintain access to assets and infrastructure. In doing so, we provide the President options and deliver national objectives at the time and place of our choosing. USTRANSCOM also ensures the well-being of the joint force by providing aeromedical transportation for ill or injured service members and their families in peace and war. USTRANSCOM's ability to deliver and sustain combat power anywhere in the world is what allows the United States to remain the world's only superpower.

On any given day, USTRANSCOM has:

- 122,000 Active Duty, National Guard, Reserve, and Civilians conducting worldwide operations
- 115 railcars moving DoD equipment
- 33 ships underway
- 1,500 trucks delivering cargo
- Aircraft taking off or landing every 2.8 minutes
- 1,500 household goods movements (moving 430,000 service members per year)
- 455 airlift sorties in motion
- 47 tankers refueling aircraft
- 13 patients being air evacuated under expert medical care
- 25 couriers en route

This activity, although significant, would be dwarfed by a wartime scenario that requires a fully-mobilized deployment enterprise.

Analysis of Financial Statements

The primary financial mechanism to accomplish the USTRANSCOM mission is the Transportation Working Capital Fund (TWCF). Whether delivering combat power to Afghanistan and Syria or humanitarian relief to the people of Venezuela, the TWCF enables USTRANSCOM to perform at the best value to the taxpayer. The TWCF is a revolving fund for defense transportation established to provide full-spectrum global mobility solutions and related enabling capability for supported customers' requirements in peace and war. It models a customer-seller relationship between the provider (USTRANSCOM) and the customer (Military Services, geographic commanders, other government agencies, and based on other statutes, the public). Whether the TWCF is supporting overseas contingency operations or responding to humanitarian crises, the TWCF is an enabler that allows USTRANSCOM to adjust to changing operational environments.

The TWCF ensures resources are available for USTRANSCOM to carry out its mission successfully. Under the revolving fund concept, an appropriation or a transfer of funds finances initial TWCF operations. General or appropriated fund payments from customers for services performed subsequently replenish this initial working capital investment and sustain a continuous cycle of operations, minimizing the need for additional annual appropriations by Congress. Maintaining TWCF Fund Balance with Treasury (FBWT) is the key enabler to giving the USTRANSCOM Commander the flexibility to respond to a crisis at a moment's notice, even before supplemental funds become available.

USTRANSCOM budgets for the cost and revenue required for the TWCF to break even while focusing on the effectiveness of its transportation services. The goal of the TWCF is to break even over time. Achievement of this goal is occasionally complicated by the requirement that TWCF business areas maintain stable budget-driven prices for services, to protect customers from unforeseen price fluctuations. Cost visibility is just as critical to the financial success of the TWCF as in-transit visibility is to the operational aspect of the mission. The performance of the TWCF can be measured by the net cost of operations, which is the difference between the expenses and exchange revenue[4] for the year. The net position measures the TWCF's difference between assets and liabilities, and is the residual amount retained by USTRANSCOM that is available for future programs and capital investments. Within net position, the TWCF tracks and reports two main types of operating results. The Net Operating Result (NOR) is the net difference between expenses and funds received for a single fiscal year (FY). The accumulated operating result (AOR) is the net difference between expenses and funds received since the inception of the fund. AOR is typically used in establishing the future rates to be charged to customers.

Financial Statement Analysis

The accompanying financial statements and related disclosures represent USTRANSCOM's commitment to fiscal accountability and transparency. Through the Financial Improvement and Audit Readiness (FIAR) plan and related business transformation initiatives undertaken in the last few years, the TWCF has made significant progress toward improving the quality and timeliness of financial information. However, for FY 2018 and FY 2019, USTRANSCOM's Independent Public Accountant (IPA) was unable to express an opinion on the TWCF financial statements.

The following sections provide a brief description of the nature of each financial statement. The charts and tables presented in this analysis are "in thousands" unless otherwise noted.

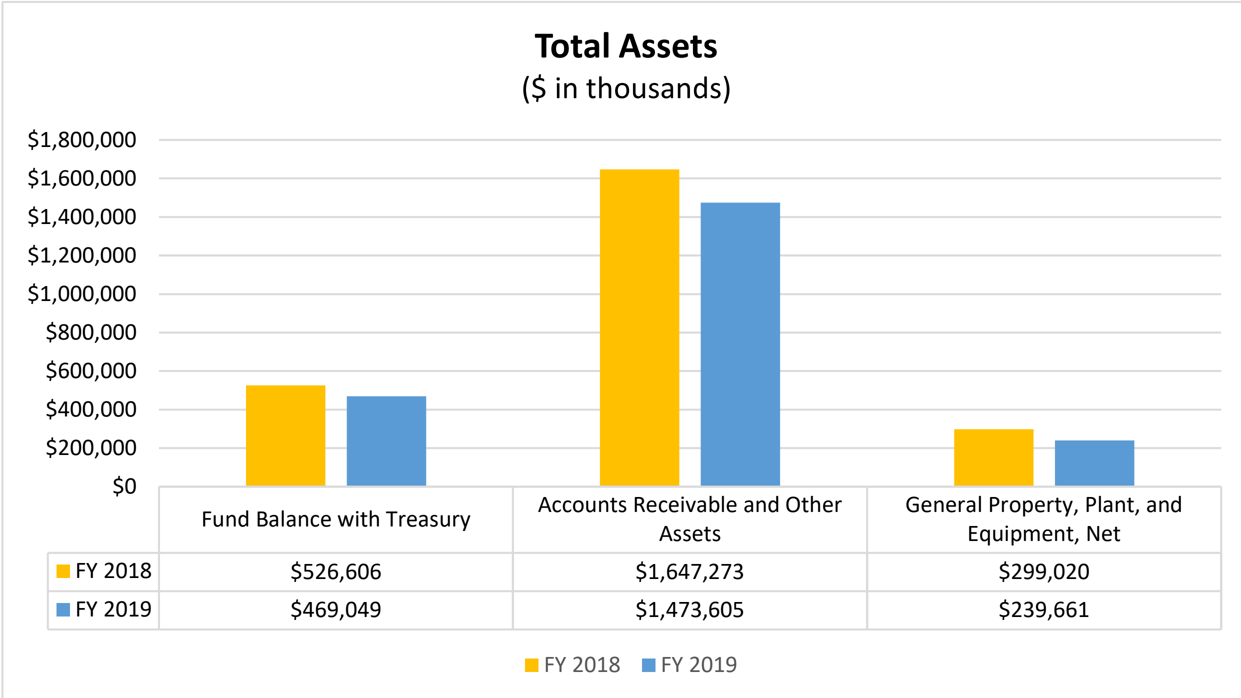
Consolidated Balance Sheets

The Balance Sheets reflect the TWCF's financial position as of September 30, 2019, and details resources owned or managed by USTRANSCOM that have future economic benefits (assets) and the amounts owed that will require future payments (liabilities), and the difference between them (net position). The table below summarizes the fluctuations in the Balance Sheets from FY 2018 to FY 2019.

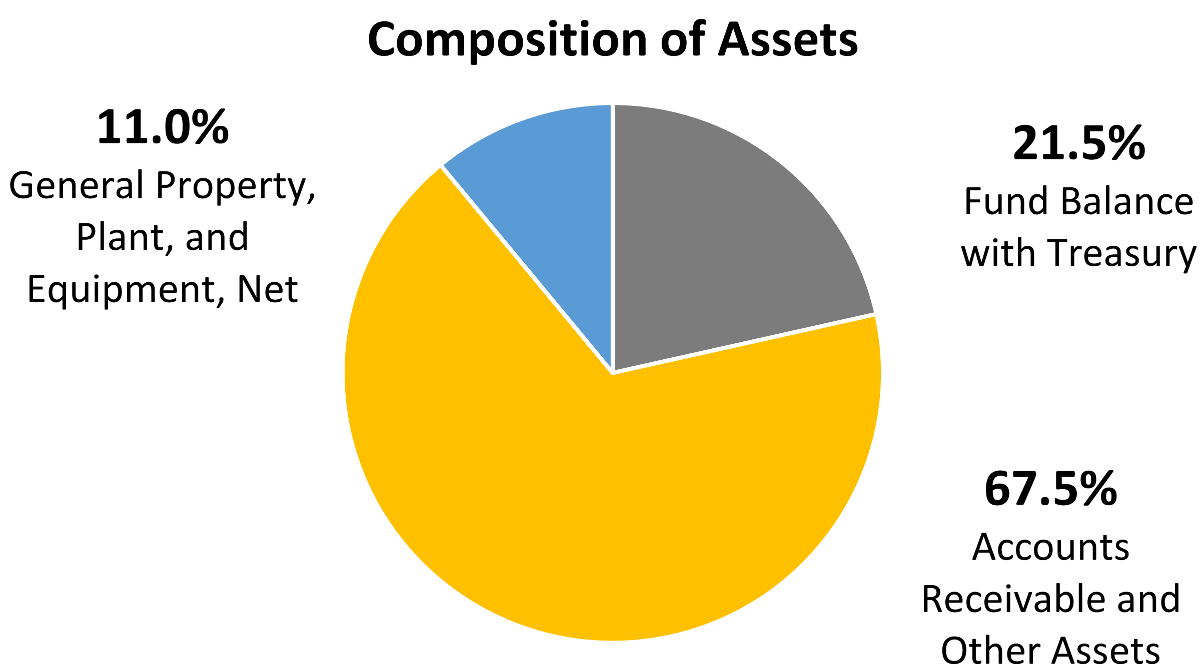
(dollars in thousands)	***Unaudited***			
As of September 30	**2019**	**2018**	**Increase (Decrease)**	**% Change**
Assets	$ 2,182,315	$ 2,472,899	$ (290,584)	-12%
Liabilities	$ 872,167	$ 744,579	$ 127,588	17%
Net Position	$ 1,310,148	$ 1,728,320	$ (418,172)	-24%

[4] Exchange revenue, per the FASAB handbook, are inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return.

Assets – What We Own and Manage



Assets represent amounts owned or managed by USTRANSCOM, which are used to accomplish the mission.



Accounts Receivable and Other Assets are the TWCF's largest asset and comprise 67.5% of the total assets. Accounts receivable represent amounts due to USTRANSCOM from other federal entities and the public. Of the total accounts receivable, 98.3% is due from federal entities and 1.7% is due from nonfederal entities. Other assets include assets such as employee pay advances and travel advances. Accounts receivable and other assets decreased by 11% compared to the prior fiscal year. This decrease is driven by SDDC accounts receivable clean-up and increased effort on billing and collecting in FY 2019.

DoD working capital funds, such as the TWCF, are authorized to charge amounts necessary to recover the full costs of goods and services provided[5]. However, the TWCF is authorized to establish airlift customer rates to be competitive with commercial air carriers. This results in some rates charged to customers that are below actual costs incurred by the TWCF. Due to mobilization requirements, the resulting revenue does not always cover the full costs of airlift operations provided through the TWCF. To the extent customer revenue is insufficient to support the costs of maintaining airlift capability, the Air Force provides appropriated funds. The Air Force generally pays for expenses not covered by TWCF rates through the Airlift Readiness Account (ARA). The Air Force requests ARA funds in its annual operations and maintenance budget request; however, the ARA request is not presently broken out in the budget request as an individual line item. These funds are subsequently provided to USTRANSCOM to assist in paying for airlift services. Amounts requested, allotted, and expended vary from year-to-year, in part due to the amount of airlift services provided by USTRANSCOM[6]. As of September 30, 2019, the outstanding ARA receivable amount was $170 million.

The Airlift Readiness Account (ARA) Relationship to the Transportation Working Capital Fund

Source: GAO analysis of Department of Defense data. | GAO-18-557

General Property, Plant, and Equipment (PP&E), Net comprises 11.0% of total assets. USTRANSCOM currently has financial reporting and sustainment responsibilities for real property; however, new policy related to the financial reporting of real property was issued by the Office of the Under Secretary of Defense (Comptroller) (OUSD-C) on March 15, 2019. By the end of FY 2020, USTRANSCOM intends to transfer financial reporting and sustainment responsibilities of the real property to the installation host and intends to impute costs for the use of real property assets in accordance with SFFAS 55, *Amending Inter-Entity Cost Provisions*. As of September 30, 2019, the real property balance on the Consolidated Balance Sheet still includes certain facilities and structures that plan to be transferred to the installation host financial statements at a mutually agreed upon date. PP&E also includes internal use software (IUS) which includes purchased commercial-off-the-shelf (COTS) software, contractor-developed software and internally developed software, as well as general equipment. General PP&E decreased by 20% compared to the prior fiscal year. This decrease is due to the annual IUS write-off, as well as SDDC's write-off related to the change in fixed asset capitalization threshold and duplicate asset write-off. These write-offs are

[5] 10 U.S.C. § 2208

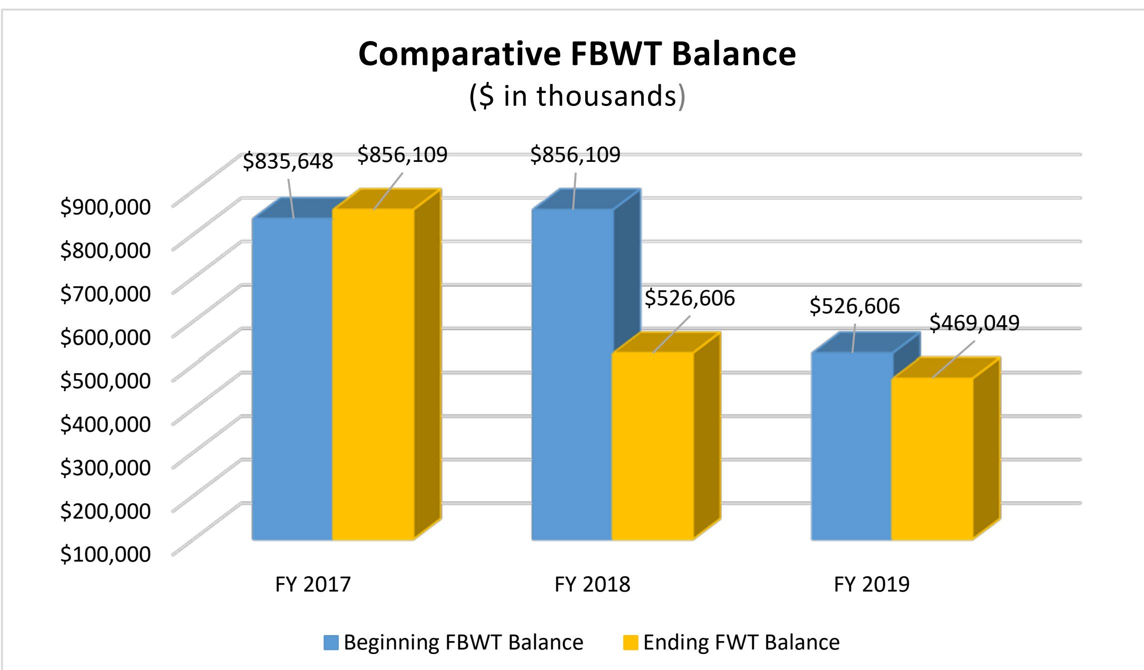
[6] Source: GAO-18-557

discussed in detail in the notes to the Financial Statements, Note 5 *General Property, Plant & Equipment, Net*.

Fund Balance with Treasury (FBWT) is maintained by the U.S. Treasury and comprises 21.5% of total assets. USTRANSCOM shares a U.S. Treasury Index (TI)-97 with Other Defense Organizations for U.S. Treasury Reporting. FBWT decreased by 11% compared to the prior fiscal year as discussed in the subsequent section, *Management of FBWT*.

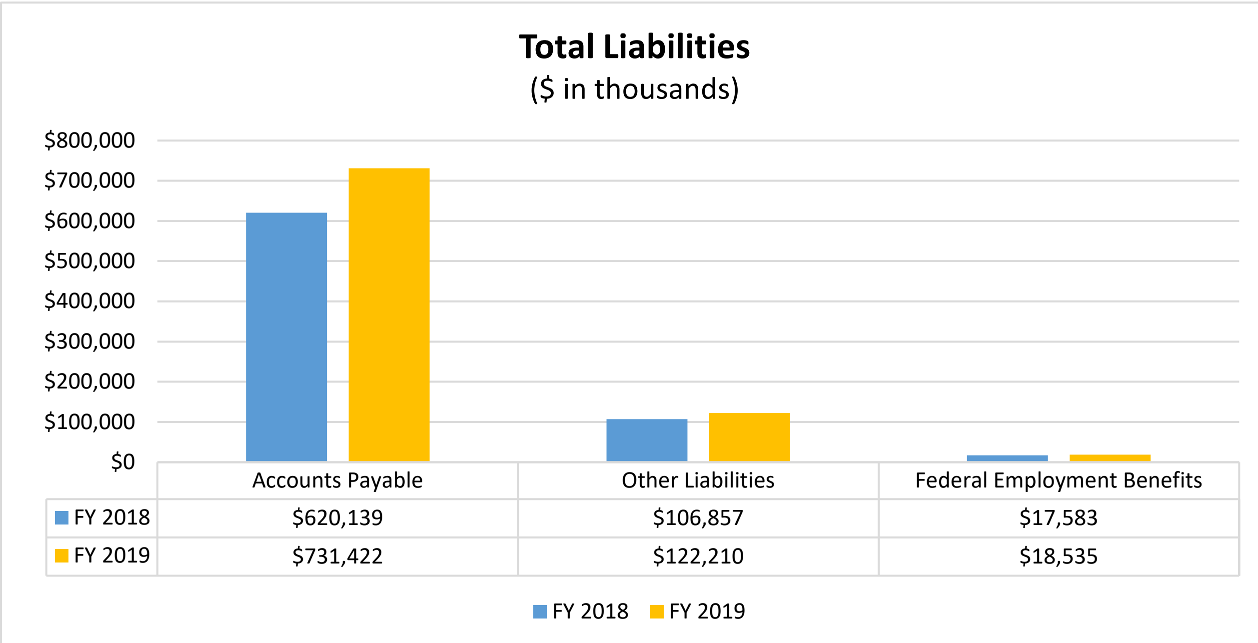
Management of FBWT

In determining required FBWT levels, USTRANSCOM calculates average disbursements and the expected range of volatility, known changes in the business environment, and unplanned events outside management's control. The current methodology for calculating FBWT requirements consists of four elemental components: rate of disbursement, range of operation, risk mitigation, and reserves. USTRANSCOM targets to maintain FBWT within operating ranges to ensure balances are sufficient for disbursements in support of the operating and capital programs, as required by the DoD FMR. As of September 30, 2019, FBWT was below the lower target range as a result of increased fuel rate, a congressional mark taken against the ARA, as well as non-collection of the accounts receivable for the Overseas Contingency Operations (OCO) airlift and surge sealift (i.e., MSC ship maintenance and repairs not funded by the Navy) balances. The TWCF FY 2019 lower target range was $549 million and the upper range goal was $1.1 billion[7]. The chart below depicts the comparative FBWT position.



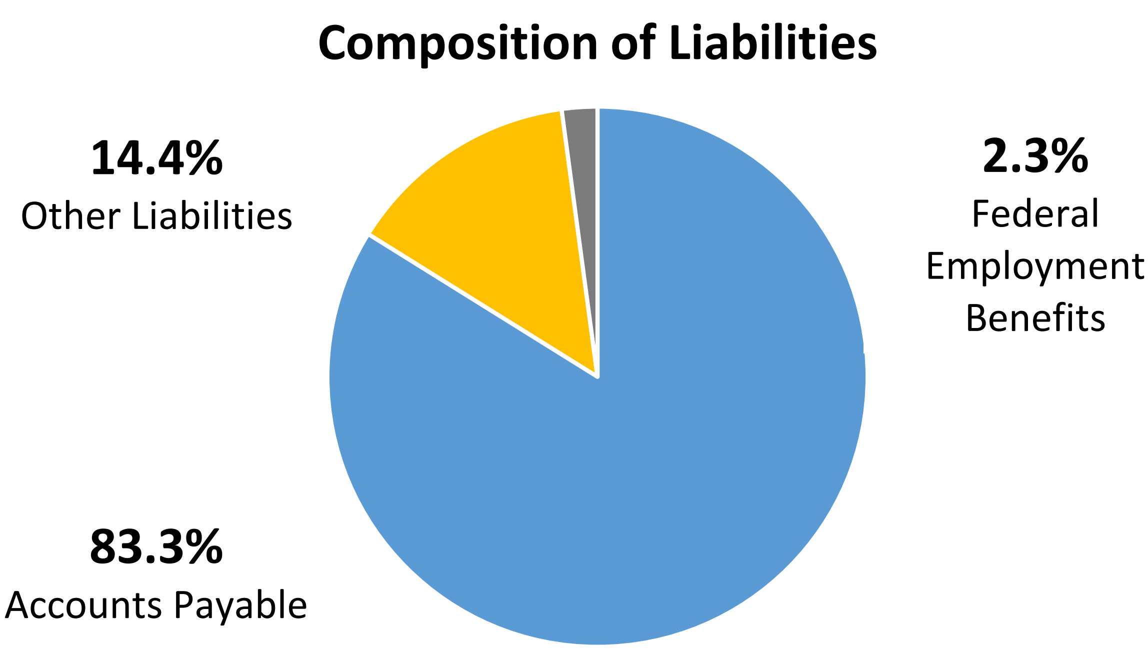
[7] Calculated in accordance with Draft FMR Volume 2B, Chapter 9, paragraph 090103, and submitted via Exhibit Fund 13b - Cash Requirements, to OUSD-C for review and approval during the Program/Budget Review (PBR).

Liabilities – What We Owe



	Accounts Payable	Other Liabilities	Federal Employment Benefits
FY 2018	$620,139	$106,857	$17,583
FY 2019	$731,422	$122,210	$18,535

Liabilities are the amounts owed to the public or other federal agencies for services provided but not yet paid; to USTRANSCOM employees for wages and future benefits; and for other liabilities.



Accounts Payable is the TWCF's largest liability and comprises 83.3% of the total liabilities. Accounts payable include amounts owed to federal and nonfederal entities for goods and services received by USTRANSCOM. Of the total accounts payable, 87% is owed to nonfederal entities and 13% is owed to federal entities. Accounts payable increased by 18% compared to the prior fiscal year primarily as a result of a combination of an increase in expenses at AMC and a decrease in disbursements, as well as SDDC's FY 2019 clean-up of un-invoiced receipts, prior obligations, and other items affecting accounts payable.

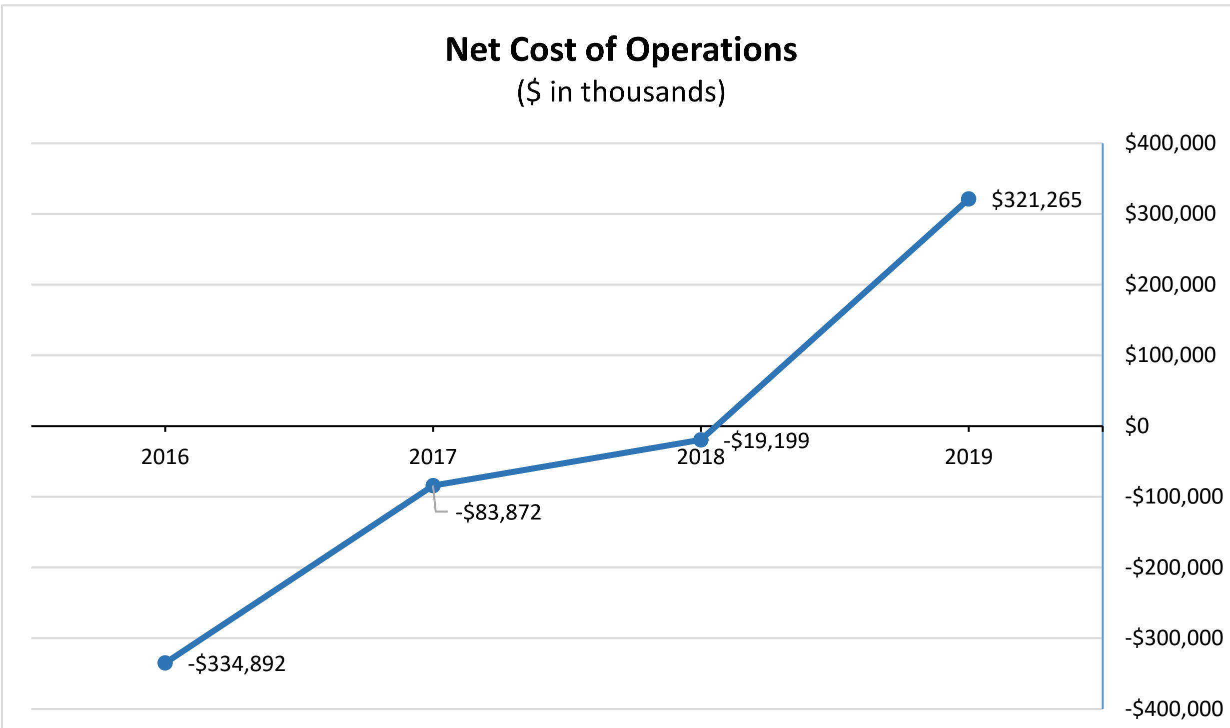
Other Liabilities comprise 14.4% of total liabilities. Other liabilities consist of items such as employer contributions and payroll taxes payable, accrued payroll and leave, contract holdbacks, advances and prepayments, and liabilities offsetting International Tariff Rate (ITR) receivables and collections. The Other liabilities increase of 14%, as compared to the prior fiscal year, is largely attributable to an increase in the SDDC payroll accrual, due to the timing of the receipt of the payroll files, an increase in the liability for AMC ITR amounts awaiting redistribution, and CMD recording an accrual for unused annual leave, which had previously not been recorded.

Federal Employment Benefits comprises 2.3% of total liabilities. Federal employment benefits primarily consist of Federal Employees' Compensation Act (FECA) actuarial liabilities not due and payable during the current fiscal year.

Consolidated Statements of Net Cost

The Statements of Net Cost present the annual cost of operations for USTRANSCOM. Net cost of operations represents reimbursable costs incurred by the TWCF related to services provided to other federal agencies, as well as incurred costs that are not part of USTRANSCOM's core mission less earned revenue. The table below illustrates the changes in costs and revenue.

(dollars in thousands)	*Unaudited*			
Year Ended September 30	**2019**	**2018**	**Increase (Decrease)**	**% Change**
Gross Costs	$ 7,546,054	$ 7,096,176	$ 449,878	6%
Less: Earned Revenue	(7,224,789)	(7,115,375)	(109,414)	2%
Net Cost of Operations	$ 321,265	$ (19,199)	$ 340,464	-1773%



Net cost of operations increased significantly compared to prior year primarily as a result of AMC's FY 2019 increase in gross costs resulting from the over-execution of military augmentation and commercial augmentation versus budget for FY 2019.

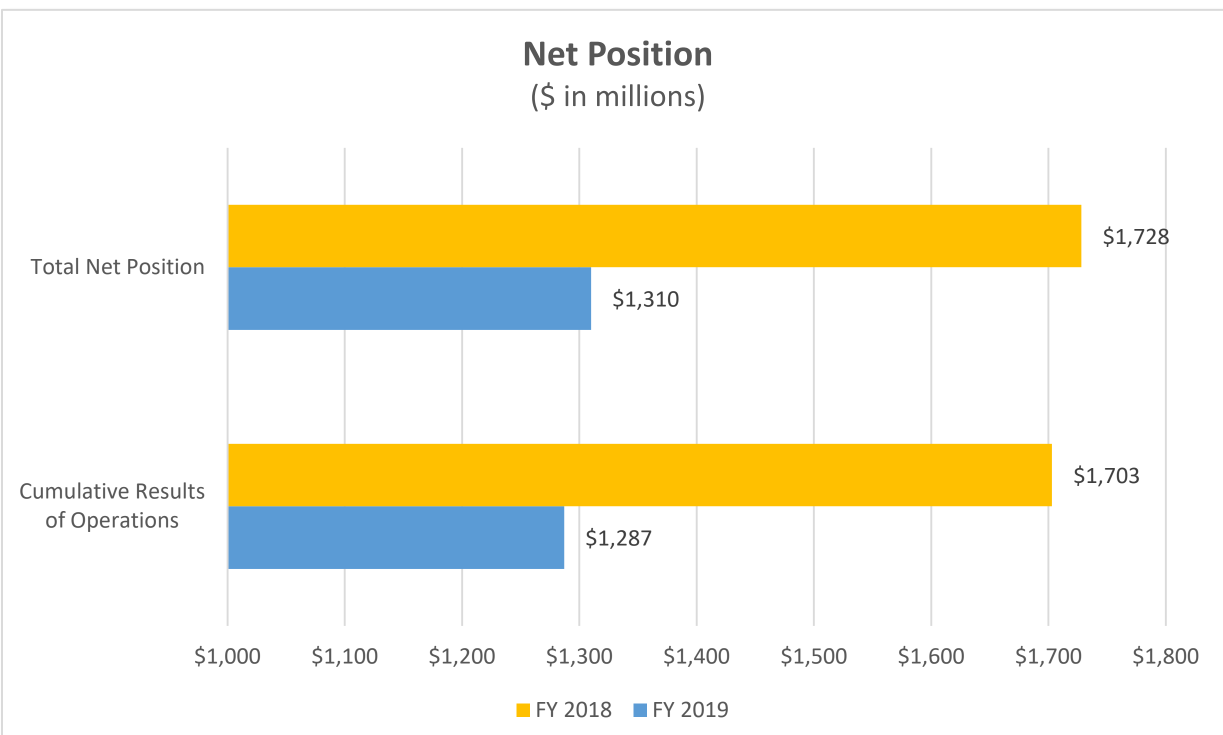
Consolidated Statements of Changes in Net Position

The Statements of Changes in Net Position present the cumulative results of operations since inception. The statement focuses on how the net cost of operations is financed, as well as other items financing the TWCF. The resulting financial position represents the difference between assets and liabilities as shown on the Balance Sheets. Various financing sources can increase the net position, including transfers of FBWT, property, nonexchange revenue, and imputed financing costs absorbed by other federal agencies on the TWCF's behalf. Net cost of operations reduces overall net position.

(dollars in thousands)	*Unaudited*			
Year Ended September 30	**2019**	**2018**	**Increase (Decrease)**	**% Change**
Beginning Balance	$ 1,702,733	$ 1,957,645	$ (254,912)	-13%
+/- Prior Period Adjustments	(82,847)	(82,089)	(758)	1%
Total Financing Sources	(11,407)	(192,022)	180,615	-94%
Less: Net Cost of Operations	(321,265)	19,199	(340,464)	-1773%
Cumulative Results of Operations	1,287,214	1,702,733	(415,519)	-24%

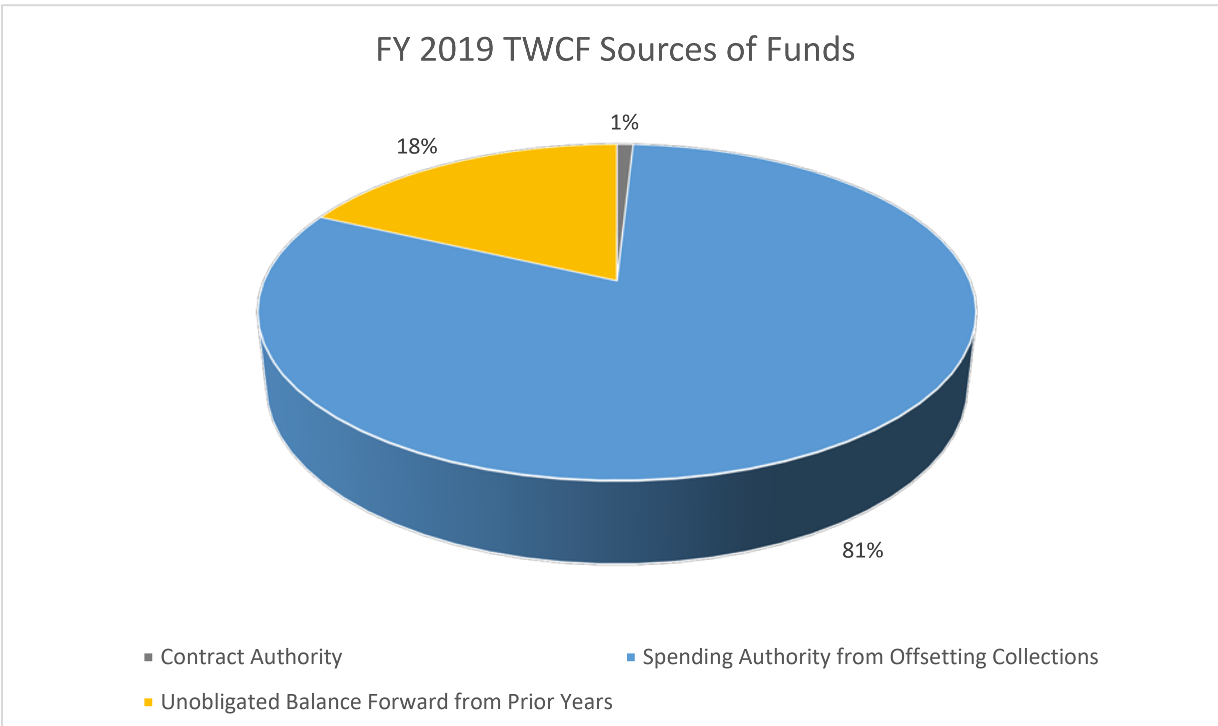
Cumulative results of operations decreased by 24% compared to prior fiscal year, as a result of net cost of operations fluctuation discussed above, as well as AMC's Other Financing Sources decrease in FY 2019. In FY 2018, AMC performed a clean-up of minor construction and removed unsupportable assets from the books, this resulted in an offset to Other Losses in FY 2018. In FY 2019, AMC's Other Financing Sources returned back to normal immaterial amounts.

The chart below shows USTRANSCOM's net position, as well as the largest component of USTRANSCOM's net position, cumulative results of operations, for FY 2019 and FY 2018.



Combined Statements of Budgetary Resources

The TWCF Statements of Budgetary Resources present the total budgetary resources available to USTRANSCOM for use in FY 2019, the status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. It is the only financial statement exclusively derived from the budgetary general ledger in accordance with budgetary accounting rules. USTRANSCOM's budgetary resources are generated by accepting orders and collecting funds from customers in exchange for providing transportation services. USTRANSCOM receives apportioned budget authority (prior year unobligated authority, contract authority and spending authority from offsetting collections) from the OMB, through the OUSD-C.



Stewardship Information

The USTRANSCOM TWCF does not have any stewardship resources entrusted to it.

Audit Readiness

The CFO Act was passed in 1990. Since then 23 federal agencies, including the DoD, have implemented financial improvement measures with the ultimate goal of achieving an unmodified (clean) audit opinion. Additionally, the National Defense Authorization Act (NDAA) of 2014 mandated a department-wide audit starting in FY 2018.

As expected, the TWCF received a disclaimer of opinion for FY 2019 from its IPA. Improvements in the level of audit readiness were apparent during the FY 2019 audit. In FY 2019, USTRANSCOM developed 178 Corrective Action Plans (CAPs) to address 165 Notice of Finding and Recommendations (NFRs) based on the FY 2018 Audit. CAPs and NFRs may have a many-to-one or one-to-many relationship depending on the complexity of the issue. As of the date this report was finalized, USTRANSCOM has internally closed and validated 61 CAPs addressing 63 NFRs. USTRANSCOM's IPA has reviewed USTRANSCOM's internal testing procedures of 20 NFRs and concurred with the validation and closure of 46 (27.9%) of total NFRs identified during FY 2018 Financial Statement Audit, of which 38 were related to populations. During the FY 2019 Audit, the IPA issued 32 new, 34 reissued with modification, and 85 NFRs reissued without modification. USTRANSCOM will continue to work with the components and DFAS to remediate issues pertaining to the remaining population NFRs and findings from sampling so USTRANSCOM can move into detailed testing. In addition, USTRANSCOM will continue to strive for a clean audit opinion and make the necessary improvements to fully support its missions through better management of financial resources with timely, accurate, and reliable information.

Analysis of Systems, Controls, and Legal Compliance

As a component of the DoD, USTRANSCOM management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of the FMFIA (31 U.S.C. § 3512) and the FFMIA, as prescribed by the Government Accountability Office (GAO) Green Book, *Standards for Internal Control in the Federal Government*, are met.

In FY 2014, the GAO revised the Green Book effective beginning FY 2016 and for the FMFIA reports beginning that year. The Green Book provides managers the criteria for an effective internal control system, organized around internal control components, principles, and attributes.

OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* emphasizes the integration of risk management and internal controls within existing business practices across an agency. USTRANSCOM continues to implement improvements to internal controls to strive for compliance with all applicable laws and regulations.

Management Assurances

UNITED STATES TRANSPORTATION COMMAND
OFFICE OF THE COMMANDER
508 SCOTT DRIVE
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

4 October 2019

MEMORANDUM FOR THE SECRETARY OF DEFENSE

FROM: Commander, United States Transportation Command

SUBJECT: Annual Statement of Assurance for Fiscal Year 2019

1. As Deputy Commander of the United States Transportation Command (USTRANSCOM), and Transportation Component Commands (TCCs), we are 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. USTRANSCOM and the TCCs have assessed risk and internal control in accordance with OMB Circular No. A-123 and GAO-14-704G. Based on our assessment, USTRANSCOM can provide reasonable assurance with the exception of eleven material weaknesses, that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2019.

2. USTRANSCOM and the TCCs conducted an assessment of internal controls over operations per Attachment 1. USTRANSCOM can provide reasonable assurance with the exception of two operational material weaknesses reported that internal controls over operations and compliance were operating effectively as of September 30, 2019.

3. USTRANSCOM and the TCCs conducted an assessment of internal controls over reporting including external financial reporting per Attachment 1. USTRANSCOM can provide reasonable assurance with the exception of seven material weaknesses reported that internal controls over financial reporting were operating effectively as of September 30, 2019.

4. USTRANSCOM and the TCCs conducted an internal review of the effectiveness of internal controls over integrated financial management systems per Attachment 1. USTRANSCOM can provide reasonable assurance with the exception of two non-conformances reported that internal controls over financial systems are in compliance as of September 30, 2019.

5. The point of contact in this matter is LTC Theodore Capra and can be reached at (618) 229-5057 or theodore.g.capra.mil@mail.mil with any questions or concerns.

DEE L. MEWBOURNE
Vice Admiral, USN
Deputy Commander

Summary of Internal Control Assessment FY 2019

As a component of the DoD, USTRANSCOM is responsible for managing risks and maintaining effective internal controls to meet the objectives of the FMFIA and the FFMIA. USTRANSCOM assessed risk and internal control in accordance with OMB Circular A-123 and GAO-14-704G, *Standards for Internal Control in the Federal Government*. Based on the assessment, USTRANSCOM can provide reasonable assurance, except for eleven material weaknesses, that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2019.[8]

Internal Controls over Operations (ICO)
USTRANSCOM conducted its assessment of the effectiveness of ICO in accordance with the FMFIA and the OMB Circular A-123. Evaluations occurred at both the entity and component level, and conclusions on the status of internal control are included in the annual Statement of Assurance at the consolidated level. Based on the results of the assessment, USTRANSCOM can provide reasonable assurance, except for the two material weaknesses reported in the annual Statement of Assurance, that ICO were operating effectively as of September 30, 2019.

Internal Controls over Financial Reporting (ICOFR)
USTRANSCOM assessed the effectiveness of ICOFR, including external financial reporting, in accordance with OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting*. Evaluations occurred at both the entity and component level, and conclusions on the status of internal control are included in the annual Statement of Assurance at the consolidated level. Based on the results of the assessment, USTRANSCOM can provide reasonable assurance, except for the seven material weaknesses reported in the annual Statement of Assurance, that ICOFR were operating effectively as of September 30, 2019.

[8] For a comparison of the Independent Public Accountant's assessment of material weaknesses compared to management's assessment of material weaknesses, see the Summary of Financial Statement Audit and Management Assurances tables in the Other Information section.

Internal Controls over Financial Systems (ICOFS)
USTRANSCOM also conducted an internal review of the effectiveness of ICOFS in accordance with FFMIA and OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act*. The evaluations were performed on USTRANSCOM owned systems that were determined to be material to the USTRANSCOM Financial Statements and included in the annual Statement of Assurance at the consolidated level. Based on the results of the assessment, USTRANSCOM can provide reasonable assurance, except for two non-conformances, that ICOFS are in compliance with FFMIA and OMB Circular A-123, Appendix D as of September 30, 2019.

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2019 financial statement audit. However, our auditors have indicated that the FY 2019 report on compliance will report non-compliance in all three areas of FFMIA indicating that USTRANSCOM financial management systems lacked compliance with 1) Federal financial management system requirements, 2) Applicable federal accounting standards, and 3) U.S. Standard General Ledger (USSGL) at the transaction level. USTRANSCOM is in the process of evaluating the FY 2019 audit findings contributing to noncompliance to implement remediation plans necessary to bring the financial management systems into substantial compliance.

Compliance with Laws and Regulations

Anti-Deficiency Act (P.L. 97-258) (ADA)

Section 1341, Title 31, United States Code (31 U.S.C. § 1341) prohibits federal employees from obligating in excess of an appropriation, before funds are available or from accepting voluntary services. In a working capital fund (WCF), such as USTRANSCOM's TWCF, a potential violation occurs when the WCF or a part of that fund is apportioned and obligations of the fund or part of that fund exceed the available amount of the apportionment.

As required by the ADA, USTRANSCOM notifies all appropriate authorities of any ADA violations. USTRANSCOM management has taken and continues to take necessary steps to prevent ADA violations. Investigations of any violations will be completed in a thorough and expedient manner. USTRANSCOM remains fully committed to resolving ADA violations appropriately and in compliance with all aspects of the law.

Pay & Allowance System for Civilian Employees as provided in 5 U.S.C. Chapters 51–59

5 U.S.C. Chapters 51–59 codify the statutory provisions concerning the pay and allowances afforded federal employees. USTRANSCOM is fully committed to complying with these provisions, periodically reviewing its compliance with them, and taking appropriate action to achieve compliance if and when any errors are identified.

Prompt Payment Act (P.L. 97-177) (PPA)

The PPA (codified as amended in 31 U.S.C. §§ 3901-3907) ensures federal agencies pay vendors in a timely manner. Prompt Payment (5 Code of Federal Regulation [CFR] 1315), formerly OMB Circular A-125, Prompt Payment) requires USTRANSCOM to pay commercial obligations within certain periods and to pay interest penalties when payments are late. USTRANSCOM pays interest to vendors as required to ensure compliance with this statutory requirement.

Debt Collection Improvement Act of 1996 (P.L. 104-134) (DCIA)

The DCIA, updated April 30, 1999, and amended by the Digital Accountability and Transparency Act of 2014 (DATA Act), is legislation that provides an opportunity for the federal government to move toward its goal of increased electronic commerce and improved FBWT and debt collection management. The Act enhances debt collection government-wide and mandates the use of electronic funds transfer for federal payments, allows Federal Reserve Bank U.S. Treasury Check Offset, and provides funding for the Check Forgery Insurance Fund.

The law provides that any non-tax public debt or claim owed to the United States that has been delinquent for a period of 120 days shall be turned over to the Secretary of the Treasury for appropriate action to collect or terminate collection actions on the debt or claim. Debt that is in litigation or foreclosure with a collection agency or a designated federal debt collection center, or that will be disposed of under an asset sales program, is exempt from transfer to the Secretary of the Treasury. USTRANSCOM follows applicable requirements for establishing and collecting validated public debts, ensuring compliance with Debt Collection statutes and regulations.

Government Charge Card Abuse Prevention Act of 2012 (P.L. 112-194)

The Charge Card Abuse Prevention Act (Charge Card Act) requires agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. Furthermore, the Charge Card Act requires agencies to report purchase card violations, and the Inspector General to conduct periodic risk assessments of government charge card programs. USTRANSCOM, through implemented internal controls, is committed to continued compliance with all aspects of the public law.

Federal Information Security Modernization Act of 2014 (P.L. 113-283) (FISMA)

The FISMA requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. National Institute of Standards and Technology (NIST) publishes standards and guidelines for federal entities to implement for non-national security systems. Deviations from NIST standards and guidelines represent departures from FISMA requirements. USTRANSCOM is committed to compliance with FISMA.

Federal Financial Management Improvement Act of 1996 (P.L. 104-208) (FFMIA)

The FFMIA was designed to strengthen the financial management, accountability, and reporting requirements outlined within the CFO Act, as amended. Specifically, FFMIA requires agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements as clarified in OMB Circular A-123, Appendix D, applicable federal accounting standards promulgated by the FASAB, and the USSGL at the transaction level. Financial management systems include both financial and financially related (or mixed) systems. USTRANSCOM's financial systems did not fully comply with federal financial management system requirements, federal accounting standards and application of the USSGL at the transaction level. These conditions are caused by the complexity of the USTRANSCOM and Defense Finance and Accounting Service (DFAS) financial reporting processes, current system configurations and integration with the core general ledger systems, and insufficient financial management and information systems controls.

USTRANSCOM has developed a series of CAPs, which includes documenting system processes and procedures, as well as addressing segregation of duties, that will remediate all identified system issues causing FFMIA compliance issues. While some of these CAPs have been remediated and validated internally as closed, others remain open and are not scheduled for complete remediation until FY 2021. USTRANSCOM TCJ8 works closely with the Program Manager from each system to ensure their CAPs are realistic and responsive to the conditions and recommendations cited in the NFRs.

Digital Accountability and Transparency Act of 2014 (P.L. 113-101) (DATA Act)

The DATA Act expands the Federal Funding Accountability and Transparency Act of 2006 (FFATA) to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directs the Federal Government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on the USASpending.gov Web site. The standards and Web site allow stakeholders to track federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards. USTRANSCOM complies with the DATA Act by making its expenditures accessible to the public on USASpending.gov.

Financial Systems Framework

USTRANSCOM understands ICOFS plays a key role in the generation and auditability of the USTRANSCOM TWCF financial statements. USTRANSCOM is implementing a strategy for identifying and prioritizing assessment of financial and mixed systems. USTRANSCOM relies on both USTRANSCOM-owned systems, as well as a large number of service provider systems, to support the TWCF's complete set of financial statements.

Integrated Financial Management System

USTRANSCOM lacks an integrated financial system compliant with the FFMIA, OMB Circular A-123, Appendix D, and the DoD FMR Volume 1, Chapter 3, requirements for compliance under the FMFIA. The design of legacy financial management and feeder systems does not allow for the collection and recording of financial information based on a full accrual accounting basis. Systems do not necessarily have all system security controls or comply with the USSGL at the transaction level. Proprietary financial reporting continues to be largely based on budgetary transactions. USTRANSCOM continues to rely on various management feeder systems to provide financial data to the accounting system of record.

Federal Information System Controls Audit Manual (FISCAM) Sustainment Testing

USTRANSCOM identified seven systems, listed in the table below, as USTRANSCOM-owned that are material to the command and the Transportation Component Commands (TCCs). All seven systems underwent an internal control assessment between FY 2014 and FY 2017 in accordance with the FISCAM. Sustainment testing began in FY 2017. As part of sustainment testing, the FISCAM team meets regularly with system owners to plan for and test remediated CAPs. In March 2019 USTRANSCOM began an evaluation of each system to ensure critical Application General Controls are included in the scope of the testing. Test of design and operating effectiveness will begin in FY 2020. As testing is completed, the USTRANSCOM Audit Management Team will hold regular meetings with each system owner to create and manage the remediation of any resulting CAPs. Between FY 2018 and FY 2019, 13 of the 34 internally identified sustainment CAPs have been remediated as indicated in the table below.

FISCAM Sustainment Testing Metrics			
Critical Systems	**Total CAPS**	**Total Remediated**	**Total Remaining**
Transportation Financial Management System (TFMS)	4	2	2
Commercial Operations Integrated System (COINS)	6	2	4
Distribution Component Billing System (DCBS)	9	3	6
Global Air Transportation Execution System (GATES)	6	4	2
Global Decision Support System (GDSS)	4	1	3
Integrated Booking System (IBS)	5	1	4
Standard Procurement System (SPS)	-	-	-
Total	34	13	21

Service Providers' Weaknesses

USTRANSCOM must rely on service providers' business processes and systems of internal control to accomplish our mission. Many of these service providers make available a *report on controls at a Service Organization relevant to User Entities' Internal Control over Financial Reporting,* also known as a SOC 1 report, specifically intended to meet the needs of entities that use service organizations in evaluating the effect of the service organization controls on the user entities' financial statements. The control objectives stated in the SOC 1 report cannot be achieved by the service organization alone. Rather, the achievement of the control objectives is dependent on USTRANSCOM's implementation of control activities that address the complementary user entity controls (CUEC) as identified within the SOC 1 report. USTRANSCOM testing of CUECs contained in a SOC 1 report is not complete and was not available for review by the internal control team, resulting in an ICOFS nonconformance. A corrective action plan has been put in place. Additionally, if a SOC 1 is not available for a third party service provider system, USTRANSCOM must still confirm that all controls, including user entity controls, are in place and operating effectively.

Independent Auditors Report

Cotton & Company LLP conducted an audit of USTRANSCOM's consolidated TWCF financial statements as of September 30, 2018 and 2019. Systems in scope included USTRANSCOM-owned general ledger accounting systems and financial feeder systems which are included in the table below. The IPA tested Application General Controls including security management, access controls, segregation of duties, configuration management, and contingency planning. To date, the below internal control deficiencies have been identified and NFRs were issued. Cotton & Company LLP conducted an audit of USTRANSCOM's consolidated TWCF financial statements as of September 30, 2019. During the FY 2019 audit, there were 4 new, 8 reissued with modification, and 44 IT NFRs reissued without modification.

Financial Statement Audit Metrics				
Critical Systems / Programs	**Total Open NFRs**	**Total CAPs**	**Total CAPs Remediated**	**Total NFRs Remediated**
Transportation Financial Management System (TFMS)	8	8	1	-
Commercial Operations Integrated System (COINS)	5	6	2	-
Distribution Component Billing System (DCBS)	9	8	-	-
Global Air Transportation Execution System (GATES)	8	9	2	-
Global Decision Support System (GDSS)	7	7	3	1
Integrated Booking System (IBS)	6	8	1	-
Standard Procurement System (SPS)	6	9	3	1
375th Air Mobility Wing Logging and Monitoring Process	1	1	-	-
USTRANSCOM (DIACAP to RMF)	2	1	-	-
Complementary User Entity Controls (CUECs)	4	4	-	-
Total	56	61	12	2

Defense Enterprise Accounting Management System (DEAMS), owned by the Air Force, is the primary financial accounting system for Command Staff (CMD), DCD and AMC. DEAMS received 23 IT NFRs during the FY 2018 Air Force financial audit, which is a separate engagement from the one to audit USTRANSCOM's TWCF financial statements, which will materially affect USTRANSCOM's ability to receive a modified or clean opinion during future audits unless remediated.

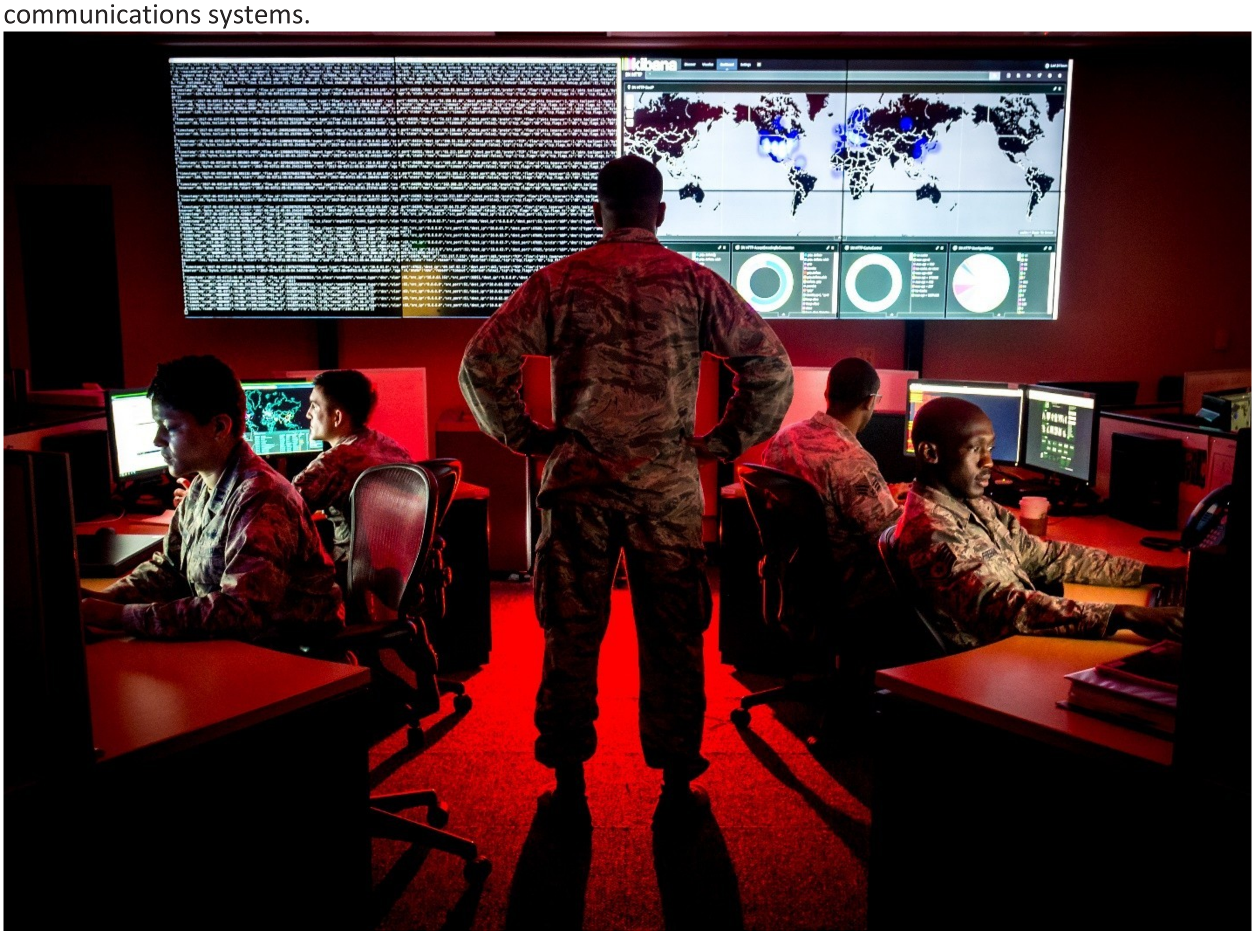
Management continues to review audit findings from prior and current financial statement audits, develop CAPs, and work to resolve findings. Based on the results of testing performed in the coming year, USTRANSCOM will assess the results of its information systems test of internal controls (ICOFS testing), including Entity Level Controls (ELCs) over financial systems, and assessments regarding its compliance to identify systems compliance gaps and develop a systems strategy that will improve financial management and budget performance.

Forward Looking Information

USTRANSCOM delivers global mobility solutions for deployment, employment, sustainment, and redeployment around the world. Transregional, multi-domain, multi-functional challenges to legacy logistics paradigms demand optimized employment of finite resources in the joint operating environment.

Great power competition with China and Russia is challenging American power, influence, and interests. Rogue regimes, such as North Korea and Iran, as well as terrorist organizations, further destabilize the international order and threaten America and our allies. USTRANSCOM must prepare for these threats and the threats of tomorrow.

We must protect our ability to operate and succeed in this dynamic security environment. Challenges to our unfettered use of land, maritime, space, air, and cyber domains threaten our ability to project and sustain global power and influence. We must internalize a new reality: Contested environments across all domains present increasing risks to mobility forces and commercial partner capabilities at home and abroad. Specifically, we must plan and develop mitigation measures for the attrition of mobility assets for the first time since the Cold War. This complicates our decision making and increases the timeline for intermodal transport requirements, to include patient movement, across our span of responsibilities. We must consider that malicious cyber actors pose an increasing threat to our daily operations and must continue to defend against attempts to degrade our cyber security and command, control, and communications systems.



USTRANSCOM must develop mature processes and innovative solutions to address these and other challenges. JDDE requirements demand transparency, affordability, and asset visibility to preserve options in a resource-constrained, global operating environment. We must advocate for critical mobility platforms and infrastructure to improve our surface, sea, and air capabilities. The command is evaluating a prototype Transportation Management System (TMS) to streamline transportation and financial management processes, improve warfighter support, enhance global asset visibility and flexibility, and increase readiness. Likewise, USTRANSCOM must leverage cloud-based technology for all digital applications. Employing best-of-breed commercial technology allows us to enhance mission assurance, improve agility and network resiliency, and control costs. Furthermore, USTRANSCOM must continue its efforts to lead the DoD by harnessing the power of data, seeking improvements to logistics forecasting and rapid decision making. Cloud-based technology and aggregated, interoperable data-sets are foundational steps in realizing the potential of innovative solutions in the digital age. This is just the beginning, as USTRANSCOM will continue to evolve its understanding and ultimately its use of machine learning, artificial intelligence, autonomy, and more.

Limitations of Financial Statements

These financial statements have been prepared to report the financial position and results of operations of USTRANSCOM, pursuant to the requirements of 31 U.S.C. § 3515(b). USTRANSCOM is unable to fully implement all elements of U.S. GAAP as promulgated by the FASAB and the form and content requirements for federal government entities, including the DoD and each component of the DoD, as specified by OMB Circular A-136. This is due to limitations of financial and nonfinancial management processes and systems that support the financial statements. Reports used to monitor and control budgetary resources are prepared from the same books and records.

These financial statements have been prepared from the books and records of USTRANSCOM. The accompanying financial statements account for all resources for which the USTRANSCOM TWCF is responsible unless otherwise noted. The financial statements should be read with the realization that they are for a component of the DoD within the U.S. Government.

FINANCIAL INFORMATION

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
COMMANDER, UNITED STATES TRANSPORTATION COMMAND
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
INSPECTOR GENERAL, UNITED STATES TRANSPORTATION COMMAND

SUBJECT: Transmittal of the Independent Auditor's Report on the United States Transportation Command Transportation Working Capital Fund Financial Statements and Related Notes for FY 2019 and FY 2018 (Project No. D2019-D000FL-0095.000, Report No. DODIG-2020-014)

We contracted with the independent public accounting firm of Cotton & Company LLP (Cotton & Co) to audit the United States Transportation Command (USTRANSCOM) Transportation Working Capital Fund (TWCF) Financial Statements and related notes as of and for the fiscal years ended September 30, 2019, and 2018. The contract required Cotton & Co to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether USTRANSCOM's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The contract required Cotton & Co 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. Cotton & Co's Independent Auditor's Report is attached.

Cotton & Co's audit resulted in a disclaimer of opinion. Cotton & Co could not obtain sufficient, appropriate audit evidence to support the reported amounts within the USTRANSCOM TWCF financial statements. As a result, Cotton & Co could not conclude whether the financial statements and related notes were presented fairly in accordance with generally accepted accounting principles. Accordingly, Cotton & Co did not express an opinion on the USTRANSCOM TWCF FY 2019 and FY 2018 Financial Statements and related notes.

Cotton & Co's report discusses five material weaknesses related to USTRANSCOM's internal control over financial reporting.[*] Specifically, Cotton & Co's report describes the following significant matters:

- USTRANSCOM was unable to provide transaction-level populations that reconciled to the reported balances for significant financial statement line items.

- USTRANSCOM lacked effective internal control over financial reporting to ensure its transactions and account balances were complete and accurate; to prepare its financial statements in accordance with generally accepted accounting principles; and to ensure journal vouchers were reviewed, approved, and supported.

- USTRANSCOM lacked effective internal control to consistently, accurately, and timely record and support transactions and general ledger account balances including, but not limited to, accounts payable, accounts receivable, open obligations, unfilled customer order balances, and undistributed collections and disbursements.

- USTRANSCOM lacked effective budgetary controls to record budgetary authority. Budgetary authority was not recorded based on OMB notification of apportioned amounts or valid customer orders. USTRANSCOM also lacked effective budgetary controls related to the financial presentation of intra-USTRANSCOM TWCF transactions, funds realignments, and funds control.

- USTRANSCOM lacked effective controls over its information systems environment to include security management, access controls, segregation of duties, and configuration management.

Cotton & Co's report discusses one instance of noncompliance with applicable laws and regulations. Specifically, USTRANSCOM did not comply with the FFMIA because it did not establish effective internal control over financial reporting and financial systems.

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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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In connection with the contract, we reviewed Cotton & Co's report and related documentation and discussed them with Cotton & Co'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 USTRANSCOM TWCF FY 2019 and FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control over financial reporting, or conclusions on whether USTRANSCOM's financial systems substantially complied with FFMIA requirements, or on compliance with laws and other matters. Our review disclosed no instances where Cotton & Co did not comply, in all material respects, with GAGAS. Cotton & Co 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

Attachments:
As stated

635 Slaters Lane, 4th Floor | Alexandria, VA 22314
P: 703.836.6701 | F: 703.836.0941 | www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT

Commander, United States Transportation Command (USTRANSCOM)

In our engagement to audit the fiscal years (FY) 2019 and 2018 financial statements of USTRANSCOM's Transportation Working Capital Fund (TWCF), we:

- Were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- Found five material weaknesses and one significant deficiency in internal control over financial reporting as of September 30, 2019.
- Found noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) as of September 30, 2019.

The following sections contain:

1. Our report on USTRANSCOM's TWCF financial statements, including required supplementary information and other information included with the financial statements.
2. Other reporting required by *Government Auditing Standards*, which is our report on USTRANSCOM's (a) internal control over financial reporting and (b) compliance with laws, regulations, contracts, and grant agreements. This section also includes USTRANSCOM's comments on a draft of our report.

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the accompanying financial statements of USTRANSCOM's TWCF, which comprise the consolidated balance sheets as of September 30, 2019 and 2018, related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued in 2011 by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion
During FYs 2019 and 2018, USTRANSCOM had five material weaknesses and one significant deficiency in its internal control over financial reporting. See our Report on Internal Control over Financial Reporting and on Compliance with Laws, Regulations, Contracts, and Grant Agreements, and Appendices A and B for a discussion of these matters and our recommendations for improvement. As a result of certain elements of the material weaknesses, we were unable to determine whether any adjustments were necessary to the financial statements as of and for the fiscal years ended September 30, 2019 and 2018.

Specific elements of the FY 2019 material weaknesses, which contributed to our disclaimer of opinion, include the following:

- USTRANSCOM was unable to provide transaction-level populations that agreed to the reported balances for certain general ledger (GL) accounts reported on the Balance Sheet and Statement of Budgetary Resources. In addition, USTRANSCOM was unable to provide transaction-level populations for intra-USTRANSCOM activity which was recorded in USTRANSCOM's detailed financial records but eliminated in the preparation of USTRANSCOM's TWCF financial statements.
- USTRANSCOM self-identified adjusting journal vouchers recorded in its financial systems which were not supported by transaction-level detail.
- USTRANSCOM was unable to provide populations of Statements of Differences at a suitable level of detail. Statements of Differences arise from differences between the actual amounts disbursed and collected, and the corresponding amounts reported to the U.S. Department of the Treasury. USTRANSCOM was unable to identify and reconcile the specific portion of Statements of Differences that were attributable to the TWCF financial statements.
- USTRANSCOM was unable to provide populations of suspense account transactions at a suitable level of detail. USTRANSCOM was not able to identify and reconcile the specific portion of suspense account balances that were attributable to USTRANSCOM.

In addition, USTRANSCOM has not implemented Statement of Federal Financial Accounting Standards 47, *Reporting Entity*, and is unable to define its reporting entity to determine the completeness of its financial statements and related notes to the financial statements.

During FY 2018, for certain GL accounts, USTRANSCOM provided populations that were not suitable for testing, were incomplete, or did not reconcile to reported amounts.

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

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America and OMB Circular No. A-136, *Financial Reporting Requirements*, require that Management's Discussion and Analysis and other required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board and OMB, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. Because of the significance of the matters described in the Basis for Disclaimer of Opinion, we have not performed any procedures related to

required supplementary information; accordingly, we do not express an opinion or provide any assurance on required supplementary information.

Other Information
The Message from the Commander, Summary of Financial Statement Audit and Management Assurances, Management Challenges, Payment Integrity, and Fraud Reduction Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to auditing procedures and, accordingly, we do not express an opinion or provide any assurance on it.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Report on Internal Control over Financial Reporting and on Compliance with Laws, Regulations, Contracts, and Grant Agreements

Internal Control over Financial Reporting
In connection with our engagement to audit USTRANSCOM's FYs 2019 and 2018 TWCF financial statements, upon which we disclaimed an opinion as noted above, we attempted to consider USTRANSCOM's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USTRANSCOM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of USTRANSCOM's internal control over financial reporting.

A *deficiency in internal control over financial reporting* 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 over financial reporting, 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 over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. However, we identified combinations of deficiencies in internal control over financial reporting that we consider to be five material weaknesses and one significant deficiency. These material weaknesses and significant deficiency are described in Appendix A. Because of the limitations discussed above, other material weaknesses and significant deficiencies may exist that have not been identified.

During the audit, we noted certain other deficiencies that are less important than material weaknesses or significant deficiencies. We will issue a separate letter to USTRANSCOM's management to communicate these items.

Inherent Limitations of Internal Control over Financial Reporting
Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Compliance with Laws, Regulations, Contracts, and Grant Agreements
In connection with our engagement to audit USTRANSCOM's FYs 2019 and 2018 TWCF financial statements, we performed tests of 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, and accordingly, we do not express such an opinion.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to USTRANSCOM. We limited our tests of compliance to provisions referred to in FFMIA, Section 803(a). We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes.

Under FFMIA, we are required to report whether USTRANSCOM's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) application of the U.S. Government Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA, Section 803(a) requirements. The results of our tests of FFMIA compliance disclosed instances in which USTRANSCOM did not substantially comply with financial management system requirements, applicable accounting standards, and the USSGL at a transaction level. These are described in Appendix B.

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

USTRANSCOM's Comments
USTRANSCOM's comments are included in Appendix C. USTRANSCOM concurred with the findings in our report. We did not audit USTRANSCOM's comments, and accordingly, we express no opinion on the comments.

Purpose of the Other Reporting Required by Government Auditing Standards
The purpose of "Other Reporting Required by *Government Auditing Standards"* 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 entity's internal control or on compliance. This other reporting is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this other reporting is not suitable for any other purpose.

COTTON & COMPANY LLP

Steven M. Koons, CPA
Partner
Alexandria, VA
November 8, 2019

APPENDIX A: MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCY

During our engagement to audit the fiscal years (FY) 2019 and 2018 financial statements of the U.S. Transportation Command's (USTRANSCOM) Transportation Working Capital Fund (TWCF), we identified deficiencies in internal control over financial reporting at USTRANSCOM and its components, the Air Mobility Command (AMC), Military Surface Deployment and Distribution Command (SDDC), Military Sealift Command (MSC), Command Staff (CMD), and Defense Courier Division (DCD). These deficiencies aggregate to five material weaknesses and one significant deficiency, and are described in this Appendix.

MATERIAL WEAKNESS 1: INEFFECTIVE PROCESSES TO PROVIDE TRANSACTION-LEVEL POPULATIONS TO SUPPORT SIGNIFICANT FINANCIAL STATEMENT LINE ITEMS AND RECONCILE THE POPULATIONS TO REPORTED AMOUNTS (*REPEAT FINDING*)

Although this material weakness is a repeat finding from FY 2018, USTRANSCOM has made notable progress addressing the fundamental need to provide transaction-level populations supporting material financial statement line items. In FY 2019, there continued to be populations for which USTRANSCOM was unable to provide transaction-level detail that reconciled to the financial statements. Additionally, there were newly-identified populations that were insufficient. Specifically, we noted the following deficiencies related to USTRANSCOM's populations, which preclude USTRANSCOM from substantiating the TWCF financial statement balances:

- USTRANSCOM and its components did not provide populations for the following:
  - AMC – Buildings, Improvements, and Renovations, net (open balances)
  - AMC – Other Liabilities Without Related Budgetary Obligations (open balances)
  - AMC – Allotments – Realized Resources (current year activity)
  - SDDC – Accounts Payable (open balances)
- Although USTRANSCOM and its components provided populations, they were not at the correct level of detail and/or did not reconcile to amounts reported in the TWCF financial statements for the following:
  - SDDC – Undelivered Orders - Obligations, Unpaid (open balances)
  - SDDC – Unfilled Customer Orders Without Advance (open balances; new orders and adjustments)
  - MSC – Unbilled Accounts Receivable (open balances)
  - MSC – Unfilled Customer Orders Without Advance (open balances)
- USTRANSCOM was unable to provide a population of all elimination entries at the transaction-level supporting the eliminations reported in the TWCF financial statements.
- AMC, SDDC, CMD, and DCD populations for undistributed collections and disbursements and MSC population for undistributed disbursements were not at sufficient levels of detail. Undistributed collections and disbursements represent the difference between the amounts of collections and disbursements in the U.S. Department of the Treasury's Central Accounting Reporting System and the amounts recorded in USTRANSCOM's general ledgers (GL). Additionally, AMC and SDDC were unable to fully reconcile cumulative undistributed collections, and AMC, SDDC, MSC were unable to fully reconcile cumulative undistributed disbursements populations to the GLs. Further, AMC, SDDC, CMD, and DCD did not provide populations of current year activity in the undistributed accounts, and MSC was unable to identify transactions in the population that represent current year activity.
- USTRANSCOM, working with a service provider responsible for Fund Balance with Treasury (FBwT) and financial reporting processes, did not fully identify Statement of Differences (SOD) balances and populations attributable to USTRANSCOM for relevant disbursing stations. SODs arise from differences between actual amounts disbursed and collected, and the corresponding amounts reported to the U.S. Department of the Treasury. Although the service provider has made progress developing and

implementing controls to allow it to manage SOD populations, continued work is needed. In addition, USTRANSCOM did not provide all requested SOD populations.

Section 2.C.4.1, *Wave 4 Key Capabilities, Capability Measures, and Success Criteria*, of the April 2017 revision of the Department of Defense's (DoD) Financial Improvement and Audit Readiness (FIAR) Guidance states entities must be able to "identify a complete transaction population, which is reconciled to the general ledger and financial statements." The reporting entity must be able to "demonstrate that the sum of the transactions agrees to the general ledger, the trial balance, and/or the financial statement balance for the assertion period…. Furthermore, the reporting entity must document any reconciling items/differences that exist, and be able to explain and correct the differences via appropriate adjusting entries." Section 4.A.6, *Audit Readiness*, prescribes several critical and additional capabilities, including the ability to produce populations of transaction details, reconciled to each financial statement line item and accounting system; and the ability to reconcile populations of transaction details to feeder systems.

DoD Regulation 7000.14-R, *Department of Defense Financial Management Regulation*, (FMR) Volume 4, Chapter 2, *Accounting for Cash and Fund Balances with Treasury*, states, "…Components must research the causes of the differences at the detail voucher level, identify undistributed amounts, and ultimately, clear the aged undistributed amounts as required in [Volume] I [*Treasury Financial Manual* (TFM)] 2-5100, Section 5130."

Factors causing these conditions include:

- USTRANSCOM and its components do not have processes in place or have not fully implemented corrective actions to generate and reconcile populations for certain balances reported on the TWCF financial statements. For Buildings, Improvements, and Renovations, net, however, Office of the Secretary of Defense (OSD) Memorandum *Real Property Financial Reporting Responsibilities Update*, dated March 15 and effective October 1, 2019, requires transfer of assets to host installations, mitigating AMC's need to report capitalized improvements to real property after placement in service.
- USTRANSCOM also does not have a process in place to identify and reconcile transaction-level activity and balances that are eliminated from the TWCF financial statements.
- AMC, SDDC, CMD, and DCD, and the service provider have not fully implemented corrective actions to provide transaction-level populations that support the undistributed collections and disbursements accounts, and do not have processes to identify current year undistributed collections and disbursements populations. Similar causes exist for MSC undistributed disbursements.
- USTRANSCOM and the service provider have not yet fully implemented a process to identify specific SOD balances and populations attributable to USTRANSCOM. Also, USTRANSCOM does not have a process to coordinate with disbursing stations processing TWCF collections and disbursements to obtain the necessary SOD populations.

The inability to provide populations and reconciliations at the correct level of detail and that agree to the trial balance renders the related GL account balances and elimination entries not supported and, therefore, unsubstantiated. Any budgetary balances corresponding to unsubstantiated proprietary balances also are unable to be substantiated, and the Balance Sheet and Statement of Budgetary Resources may be misstated.

We recommend:

- USTRANSCOM and its components continue implementing corrective actions to develop and implement processes to substantiate all balances reported on the TWCF financial statements.

- AMC implement OSD Memorandum *Real Property Financial Reporting Responsibilities Update,* effective October 1, 2019, and prepare and retain supporting documentation to support the transfer of assets from USTRANSCOM to installation hosts.
- USTRANSCOM, in coordination with its components and the service provider, design, document, and implement a process to identify and reconcile transaction-level activity supporting TWCF financial statement eliminations.
- AMC, SDDC, MSC, CMD, and DCD, in coordination with the service provider, continue to develop and implement corrective actions to provide and reconcile current year and cumulative transaction-level undistributed collections and disbursements populations, as appropriate.
- USTRANSCOM, in coordination with the service provider, continue to implement the process of identifying and obtaining specific SOD balances and transaction populations attributable to USTRANSCOM for relevant disbursing stations that support the completeness and accuracy of the FBwT line item on the Balance Sheet.

MATERIAL WEAKNESS 2: INEFFECTIVE CONTROLS OVER FINANCIAL REPORTING (*REPEAT FINDING)*

We identified several control deficiencies that aggregate to a material weakness in internal control over financial reporting. Specifically, we identified the following areas in which financial reporting controls are not effective:

1. Controls to ensure the completeness and accuracy of USTRANSCOM's transactions and account balances in the GL systems are not in place or are not operating effectively.
2. Controls over the preparation of the financial statements, including USTRANSCOM's controls related to the service provider, are not effective.
3. Controls over journal vouchers (JV) need improvement.

We provide details of these deficiencies, which are repeated from FY 2018, below.

1. Controls to ensure the completeness and accuracy of USTRANSCOM's transactions and account balances in the GL systems are not in place or are not operating effectively. (*Repeat Finding*)

For FY 2018, we reported that USTRANSCOM lacked assurance that transactions and balances are completely and accurately recorded in component-level GL systems—Defense Enterprise Accounting and Management System (DEAMS), General Accounting and Finance System-Reengineered (GAFS-R), Transportation Financial Management System (TFMS), and MSC-Financial Management System (MSC-FMS)—or in the Defense Departmental Reporting System (DDRS) used to prepare financial statements, and that activity and balances are completely and accurately reported on the TWCF financial statements. These matters remain open and unresolved:

- Known USTRANSCOM TWCF payment and collection activity reported in certain U.S. Department of the Air Force suspense accounts is not reported on the TWCF financial statements. In addition, USTRANSCOM and the service provider are unable to determine whether other payment and collection activity recorded in any of the U.S. Departments of the Air Force, Army, or Navy suspense accounts or Defense-wide suspense accounts pertains to USTRANSCOM or to other entities. These suspense accounts temporarily hold unidentifiable transactions until they are classified to the proper receipt or expenditure account.
- USTRANSCOM did not provide sufficient evidence and explanation to support whether the DEAMS to DDRS interface is designed and implemented effectively.

During FY 2019, USTRANSCOM resolved an FY 2018 deficiency related to the calculation, recordation, and monitoring of civilian payroll leave accruals. Nonetheless, other deficiencies from FY 2018 related to ineffectively designed internal control activities and gaps in components' processes and controls remain open. Specifically, USTRANSCOM's internal control environment did not:

- Ensure certain significant accruals were calculated, recorded, and monitored, including revenue accruals related to the Channel Passenger and Channel Cargo lines of business, and accounts payable accruals related to vendor contracts.
- Ensure the completeness and accuracy of recorded obligations and payroll expenses in the GL systems.
- Ensure the existence or occurrence, accuracy, completeness of, and rights to, recorded unfilled customer orders based on receipt and acceptance of orders, and recorded revenue and receivables based on customer billings.
- Ensure that all capitalizable software and minor construction project costs for completed projects were identified, and that the related asset record was timely and accurately created in the GL system.
- Ensure the completeness of recorded capitalized assets in the GL system and ensure that disposals of capitalized assets are timely recorded in the GL system.

In addition, although USTRANSCOM can now identify certain TWCF activity recorded in the DEAMS subsidiary ledger but not reported in the DEAMS GL, USTRANSCOM does not record periodic adjustments to account for this unrecorded TWCF activity.

During FY 2019, we found additional instances of ineffectively designed internal control activities and gaps in components' processes and controls. For example:

- Although MSC stated it verifies the complete allocation of indirect expenses to USTRANSCOM and the U.S. Department of the Navy, MSC does not maintain evidence demonstrating execution of this month-end verification. In addition, although MSC stated it reviews incremental allocation changes in MSC-FMS each year, MSC has not evidenced that it performs a comprehensive review of the accuracy of MSC-FMS allocation tables.
- AMC does not record accruals in DEAMS for Channel Cargo and Channel Passenger suspense transactions in Distribution Component Billing System (DCBS) that reflect AMC earned revenue.
- SDDC does not monitor whether the number of interface files received by the Managed File Transfer System (MFTS), used to transfer various interface files to and from SDDC information systems including TFMS, agrees to the expected number of files. Additionally, there are no compensating file integrity controls in place to prevent unauthorized changes to interface files on MFTS.
- A formal, signed interface agreement between DEAMS and DCBS was not in place for part of FY 2019.

During FY 2019, we also found that USTRANSCOM components have not designed and implemented internal control activities for the reconciliation of significant feeder systems to amounts recorded in GL systems. Component-specific conditions include:

- AMC, SDDC, CMD, and DCD have not designed and implemented internal control activities for the reconciliation of significant feeder systems to amounts recorded in DEAMS and TFMS.
- Although MSC has internal control activities to reconcile amounts between MSC-FMS and the four feeder systems it has identified as significant to USTRANSCOM, MSC has not demonstrated whether the reconciliations include all significant feeder systems interfacing to MSC-FMS.

The U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (2014) Principle 10 states, "Management should design control activities to achieve objectives and respond to risks." In addition, Principle 3 states, "Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives."

DoD FMR, Volume 6A, Chapter 2, *Financial Reports, Roles and Responsibilities*, states:

> Many financial balances (e.g., GL proprietary and budgetary accounts, such as assets, liabilities, commitments, and undelivered orders) require supporting subsidiary records to validate the amount of the financial balance. Such subsidiary records will be reconciled to financial balances in accordance with the policies, requirements, and frequencies prescribed in this Regulation.

Factors causing these conditions include:

- USTRANSCOM and the service provider have not designed and implemented policies and procedures requiring internal control activities to reconcile suspense account balances, and determine whether activity reported in the U.S. Departments of the Air Force, Army, or Navy suspense accounts or Defense-wide suspense accounts pertains to the TWCF for inclusion in the TWCF financial statements.
- USTRANSCOM, the service provider, and the DEAMS Program Management Office do not have sufficient narratives documenting the strategy, design, and implementation of the DEAMS to DDRS interface.
- Processes to calculate and record certain significant accruals, and document, monitor, and assess the appropriateness of the accrual methodologies are not in place or not fully developed.
- A process is not in place for project managers to notify the asset accountant at the time a software or minor construction project is complete.
- MSC's indirect cost allocation Standard Operating Procedure does not specify all internal control activities, who is responsible for execution of controls, and how execution of controls should be documented.
- AMC's internal control activity to record monthly Channel Cargo and Channel Passenger revenue accruals is not effectively designed. Specifically, AMC does not determine if DCBS suspense transactions reflect AMC earned revenue for the Channel Cargo and Channel Passenger lines of business that should be accrued in DEAMS.
- SDDC has not developed and implemented policies and procedures requiring internal control activities to monitor whether the number of interface files received by MFTS is the expected number or to prevent unauthorized changes to files on MFTS.
- AMC has not developed and documented a process to routinely monitor the status of interface agreements for DCBS and ensure interface agreements are reviewed, updated, and signed in a timely manner.
- Regarding the reconciliations between detail-level feeder systems and the GL systems:
  - AMC, CMD, and DCD do not have processes to obtain counts and amounts by feeder systems to DEAMS for revenues, collections, obligations, expenses, and outlays to facilitate reconciliations.
  - AMC, CMD, and DCD have not identified the significant feeder systems interfacing to DEAMS.
  - Although SDDC has identified the significant feeder systems into TFMS, SDDC has not sufficiently documented the process used to identify the significant feeder systems or the basis for its determination that feeder systems are significant.
  - Although MSC has identified significant feeder systems into MSC-FMS, MSC has not sufficiently documented the process used to identify the significant feeder systems or the basis for its

determination that feeder systems are significant. In addition, MSC has not updated its assessment of significant feeder systems since FY 2015 and does not plan to perform a reassessment until FY 2020.

- USTRANSCOM's Program Analysis & Financial Management Directorate (TCJ8) does not have a process to monitor that USTRANSCOM components are obtaining transaction counts and amounts from the feeder systems interfacing to USTRANSCOM's GL systems. In addition, TCJ8 has not identified the significant feeder systems interfacing to the USTRANSCOM GL systems at the USTRANSCOM-level to allow for prioritization of reconciliation and monitoring activities.

USTRANSCOM's control deficiencies and gaps collectively impede its ability to ensure that all transactions and balances are completely and accurately recorded in the GL systems and reported on the TWCF financial statements.

We recommend USTRANSCOM and its components:

- In coordination with the Office of the Under Secretary of Defense (Comptroller) [OUSD(C)], and the service provider, develop and implement policies and procedures for the analysis and identification of USTRANSCOM payment and collection activity reported in the U.S. Departments of the Air Force, the Army, or the Navy suspense accounts and Defense-wide suspense accounts for inclusion in TWCF financial statements; and conduct a root cause analysis to determine which specific business processes have unidentifiable transactions requiring the use of suspense accounts and implement corrective measures to reduce the use of suspense accounts.
- In coordination with the service provider and the DEAMS Program Management Office, develop, document, and implement narratives documenting the strategy, design, and implementation of the DEAMS to DDRS interface.
- Continue designing and implementing accrual methodologies to calculate and record certain significant accruals, document accrual methodologies and the key assumptions used in estimating accrual amounts, and strengthen the overall process for monitoring and assessing the appropriateness of the accrual methodologies.
- Design and implement a periodic and routine reporting process for project managers to notify the asset accountant of the status of ongoing software and minor construction projects.
- Review and update MSC's indirect cost allocation Standard Operating Procedure to ensure internal control activities are properly documented, including specification of who is responsible for execution of controls and related documentation requirements to evidence execution of controls.
- Enhance, document, and implement AMC's internal control activity to record monthly Channel Cargo and Channel Passenger revenue accruals to include determining if DCBS suspense transactions reflect AMC earned revenue that should be accrued in DEAMS.
- Design, document, and implement internal control activities for monitoring the number of files received by MFTS and integrity controls, such as hash totals or audit log reviews to detect unauthorized changes to files.
- Develop a comprehensive inventory of DCBS interface agreements, and develop, document, and implement a process to ensure DCBS interface agreements are regularly reviewed, updated, and signed in a timely manner.
- Continue designing, implementing, and strengthening reconciliations between detail-level feeder systems and GL systems and financial statements. Where reconciliations have not been designed, determine the extent to which these reconciliations can be designed and implemented and the extent to which other internal control activities can be leveraged to help ensure the completeness and accuracy of recorded transactions in the GL systems.

- Implement TCJ8 oversight of components' implementation of policies and procedures to reconcile significant feeder systems to amounts recorded in GL systems.

2. Controls over the preparation of the financial statements, including USTRANSCOM's controls related to the service provider, are not effective. (*Repeat Finding*)

USTRANSCOM and its components have control deficiencies over financial statement preparation, including controls related to the service provider. During FY 2019, we noted the following:

- USTRANSCOM has not implemented Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, to help ensure consolidation entities and disclosure entities are identified and properly included in the TWCF financial statements and notes.
- USTRANSCOM has made noticeable Agency Financial Report (AFR) improvements during FY 2019. We noted, however, instances of non-compliance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements,* and DoD FMR reporting and disclosure requirements. For example, USTRANSCOM's presentation of the TWCF Consolidated Statement of Net Cost does not disclose net cost of operations by major program. In addition, USTRANSCOM did not disclose information about leases and was unable to provide assurance as to commitments and contingencies disclosures.
- AMC and MSC have not fully identified and documented internal control activities for their financial statement preparation processes.
- USTRANSCOM's Consolidated Variance Analysis contained incorrect ending balances for certain GL accounts leading to missing explanations for certain variances exceeding USTRANSCOM-determined thresholds.
- The Standard Guidance Checklist completed by TCJ8 is incomplete and incorrectly documented that USTRANSCOM satisfies certain accounting and AFR reporting requirements as prescribed by Federal Accounting Standards Advisory Board (FASAB) accounting standards, OMB Circular No. A-136, and the DoD FMR.
- TFMS and MSC-FMS FY 2018 ending GL account balances were not closed in conformity with the U.S. Standard General Ledger (USSGL).
- USTRANSCOM and its components' oversight of the service provider's financial reporting and FBwT processes needs improvement. Specifically:
  - The JV Memorandum of Agreement establishes the same JV approval threshold for all USTRANSCOM components instead of establishing JV approval thresholds at dollar values appropriate for each USTRANSCOM component.
  - USTRANSCOM, AMC, CMD, and DCD do not have processes in place to monitor the Merged Accountability and Fund Reporting (MAFR) reconciliations performed by the service provider to ensure the occurrence, accuracy, and completeness of recorded FBwT activity.

The Federal Financial Management Improvement Act of 1996 (FFMIA), Section 803(a), *Implementation of Federal Financial Management Improvements,* states, "Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the [USSGL] at the transaction level."

SFFAS 47, *Reporting Entity*, requires that component reporting entities' general purpose federal financial reports include all consolidation and disclosure entities for which they are accountable so that both the component reporting entity and government-wide general purpose federal financial reports are complete. It also provides for disclosure of related party relationships of such significance that it would be misleading to exclude information about them.

OMB Circular No. A-136, Section I.3, *Entities Subject to this Circular*, (June 2019) states:

> This Circular provides guidance for Executive Branch entities required to submit audited financial statements, interim financial statements, and Performance and Accountability Reports (PARs) or Agency Financial Reports (AFRs) under the Chief Financial Officers Act of 1990, as amended (CFO Act), the Government Management Reform Act of 1994 (GMRA), and the Accountability of Tax Dollars Act of 2002 (ATDA)…. Throughout the Circular, the terms "must," "shall," and "will" denote a requirement that management must comply with in all cases; the term "should" denotes a presumptively mandatory requirement that applies except in circumstances where the requirement is not relevant for the agency; and "may" and "could" denote best practices that may be adopted at the discretion of management.

GAO's *Standards for Internal Control in the Federal Government* Principle 10 states, "Management should design control activities to achieve objectives and respond to risks." Attribute 10.03, *Design of Appropriate Types of Control Activities*, provides explanation for management to design appropriate types of control activities for the entity's internal control system. Accurate and timely recording of transactions is one example of a common category of control activities. Specifically, control activities to achieve accurate and timely recording of transactions help to ensure "transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

Factors causing these conditions include:

- USTRANSCOM has not designed, documented, and implemented an assessment to determine whether there are any consolidation and disclosure entities which require consolidation or disclosure in the TWCF financial statements and notes.
- USTRANSCOM has not fully prioritized corrective actions and remediated underlying departures from accounting principles generally accepted in the United States of America (GAAP) that give rise to missing disclosures. For example, USTRANSCOM does not have processes in place to help ensure presentation of the Consolidated Statement of Net Cost in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, and SFFAS 55, *Amending Inter-Entity Cost Provisions*.
- AMC and MSC's financial statement preparation business process narratives continue to be in draft form and are undergoing changes.
- USTRANSCOM's Consolidated Variance Analysis is not yet designed effectively because it does not have a mechanism to help ensure the correct GL account balances are used in the analysis.
- The Standard Guidance Checklist does not include verification of all accounting, reporting, and disclosure requirements prescribed by FASAB accounting standards, OMB Circular No. A-136, and the DoD FMR, such as verifications over Management's Discussion and Analysis, and Statement of Net Cost. In addition, TCJ8's review and approval of the Standard Guidance Checklist is not effective.
- USTRANSCOM, SDDC, and MSC controls over TFMS and MSC-FMS year-end closing entries are not operating effectively to help ensure TFMS and MSC-FMS ending GL account balances are closed in conformity with the USSGL.
- USTRANSCOM and its components have not fully developed and implemented procedures for the oversight of the service provider's financial reporting and FBwT processes, including review, approval, and

monitoring of JVs recorded in USTRANSCOM GL systems and DDRS, and MAFR reconciliations. In addition, related USTRANSCOM, component, and service provider roles and responsibilities are not clearly defined.

USTRANSCOM and its components' control deficiencies over the preparation of the financial statements and disclosures impede its ability to ensure complete and accurate presentation and disclosure. As a result:

- USTRANSCOM lacks assurance as to whether the TWCF financial statement reporting entity definition is complete and whether notes accurately include consolidation and disclosure entities in accordance with GAAP.
- USTRANSCOM's AFR omits required information prescribed by FASAB, OMB Circular No. A-136, and the DoD FMR.
- There is an increased risk that USTRANSCOM's financial statements and disclosures may contain material misstatements or other omissions that are not detected and corrected.

We recommend:

- USTRANSCOM conduct an assessment to determine whether there are any consolidation and disclosure entities omitted from the TWCF financial statements and disclosure, and update AFR disclosures accordingly.
- TCJ8, in coordination with USTRANSCOM components, determine materiality of GAAP departures giving rise to incomplete AFR disclosures, perform a comprehensive analysis of accounting policies and procedures to determine what corrective measures are needed to ensure compliance with GAAP, and prioritize corrective measures.
- AMC and MSC enhance, finalize, and implement its financial statement preparation process narratives.
- TCJ8 enhance, document, and implement procedures for the USTRANSCOM Consolidated Variance Analysis to help ensure USTRANSCOM includes the correct GL account balances in its analysis.
- TCJ8, in coordination with the service provider, update the Standard Guidance Checklist to include verification of all accounting, reporting, and disclosure requirements as applicable to USTRANSCOM and prescribed by FASAB accounting standards, OMB Circular No. A-136, and the DoD FMR.
- USTRANSCOM, SDDC, and MSC strengthen, document, and implement internal controls over TFMS and MSC-FMS year-end closing processes to help ensure TFMS and MSC-FMS ending account balances are closed in conformity with the USSGL.
- USTRANSCOM and its components enhance, document, and implement procedures for the oversight of the service provider's financial reporting and FBwT processes.

3. Controls over Journal Vouchers need improvement. (*Repeat Finding*)

USTRANSCOM and its components continue to have deficiencies in controls to record JVs in GL systems and DDRS. Specifically, these deficiencies relate to:

- Properly reviewing and approving JVs.
- Providing sufficient documentation to evidence JVs were supported, and properly reviewed and approved.
- Recording unsupported JVs.

Additionally, we noted:

- The service provider records SDDC, CMD, and DCD's entire undistributed JVs as unsupported although a portion of the cumulative undistributed balances are supported by transaction-level detail. Conversely, the service provider records AMC's entire undistributed JV as supported although a portion of AMC's cumulative undistributed balances are unsupported.

- Although MSC has the ability to identify unposted JVs in MSC-FMS at month-end, MSC lacks internal control activities to ensure all JVs in MSC-FMS are posted in time for financial reporting activities.

GAO's *Standards for Internal Control in the Federal Government*, Principle 10 states, "Management should design control activities to achieve objectives and respond to risks." Attribute 10.03 Design of Appropriate Types of Control Activities provides explanation for management to design appropriate types of control activities for the entity's internal control system.

DoD FMR, Volume 6a, Chapter 2 specifies that JVs may be prepared at the installation (execution) or departmental (reporting) level and must be documented to support the validity and the amount of the transaction and authorized, approved, and documented at the appropriate level of management or designee. Volume 4, Chapter 2, states, "…Components must require the practice of segregating the journal entry for unsupported undistributed amounts from the journal entry for the undistributed amounts that can be supported. …For example, if the total undistributed amount is 95 percent supported and 5 percent not supported, then record two journal voucher entries to segregate the amounts."

Factors causing these conditions include:

- USTRANSCOM and its components do not have effective processes in place to identify, accumulate, retain, and provide for examination sufficient evidential documentation in support of JVs recorded in GL systems and DDRS. In addition, USTRANSCOM and its components' controls over the review and approval of JVs are not operating effectively to help ensure JVs in GL systems and DDRS are appropriate and accurate.
- The service provider records certain JVs as unsupported because USTRANSCOM has not been able to provide to the service provider transaction-level detail behind the JVs. This indicates USTRANSCOM does not have sufficient internal control activities for the preparation, review, and approval of JVs recorded by the service provider.
- AMC, SDDC, CMD, and DCD, and the service provider do not have internal control activities in place to determine what portion of the undistributed JVs are supported and to record the transactions to the correct GL accounts.
- MSC does not have policies and procedures requiring internal control activities to ensure all expected MSC-FMS JVs are prepared and posted in the applicable period prior to month-end close.

USTRANSCOM and its components' control deficiencies over JVs collectively increase the risk that the TWCF financial statements contain misstatements. In addition, the transactions underlying the undistributed JVs may not be recorded to the correct GL accounts and may misstate the Balance Sheet and Statement of Budgetary Resources.

We recommend:

- USTRANSCOM and its components continue to strengthen processes to identify, accumulate, retain, and provide for examination sufficient evidential documentation in support of JVs recorded in GL systems and DDRS.
- USTRANSCOM and its components strengthen, document, and implement internal control activities over review and approval of JVs to help ensure appropriate and accurate adjustments are made to GL systems and DDRS.
- USTRANSCOM, in coordination with its components and service provider, evaluate why it is unable to provide to the service provider the transaction-level detail behind certain JVs. USTRANSCOM should

enhance, document, and implement policies and procedures for internal control activities related to the preparation, review, and approval of JVs recorded by the service provider.

- AMC, SDDC, CMD, and DCD in coordination with the service provider, develop and implement corrective actions to determine which portion of the undistributed JVs are supported and record the JVs to the correct GL accounts.
- MSC design, document, and implement policies and procedures requiring internal control activities to help ensure all JVs are prepared, recorded, and posted to MSC-FMS in the applicable period prior to month-end close.

MATERIAL WEAKNESS 3: INEFFECTIVE TRANSACTIONAL CONTROLS (*REPEAT FINDING*)

In FY 2018, we reported that USTRANSCOM had pervasive transactional control deficiencies related to transactions and GL account balances involving new and open obligations and unfilled customer orders; accounts payable and accounts receivable; operating expenses and earned revenue; disbursements and collections, including undistributed transactions; property, plant and equipment; and civilian payroll.

In FY 2019, USTRANSCOM resolved certain prior year conditions reported as part of this material weakness, by:

- Implementing posting logic changes to record in-progress minor construction project costs and in-development software project costs in compliance with the USSGL.
- Identifying and providing sufficient evidence to demonstrate, for civilian payroll transactions, that an employee/supervisor relationship existed during the pay period.

However, other conditions related to this material weakness from FY 2018 remain unresolved. For example:

- Documentation was not always provided or was not sufficient to evidence expenses were incurred and support the accounts payable balance, and to evidence services were requested, or performed, and support the accounts receivable balance.
- Transactions were not recorded timely or in the correct accounting period or fiscal year.
- Transactions and balances were not recorded accurately based on supporting documentation provided.
- Transactions were not recorded in the correct GL accounts, with the correct line of accounting, or in compliance with the USSGL.
- Open obligations and unfilled customer order balances included amounts that are not valid.
- Undistributed collections and disbursements remain unresolved and have not been recorded in the GL systems.

During FY 2019, we also found:

- AMC and the service provider lack assurance as to whether the redistribution of International Tariff Rate (ITR) collections are recorded to the correct GL accounts for the correct amounts.
- MSC does not have guidance requiring the rejection of funding documents which do not align with the customer request amount. Additionally, MSC records funding using unofficial documents (i.e., customer emails) in lieu of authorized funding documents (e.g., Military Interdepartmental Purchase Requests). Unofficial documents do not sufficiently evidence an agreement in writing with the customer to perform services or a customer's obligation.

Section 2.C.4.1, *Wave 4 Key Capabilities, Capability Measures, and Success Criteria*, of the April 2017 revision of the FIAR Guidance states that reporting entities must track and achieve key capabilities for the financial statement line items. Specifically, an entity must be able "to retain and make readily available supporting documentation to meet audit standards. Reporting entities are responsible for ensuring that sufficient, relevant and accurate supporting documentation is readily available for all line items."

GAO's *Standards for Internal Control in the Federal Government*, Principle 10 states, "Management should design control activities to achieve objectives and respond to risks." Attribute 10.03, *Design of Appropriate Types of Control Activities*, provides explanation for management to design appropriate types of control activities for the entity's internal control system.

FFMIA, Section 803(a), states, "Each agency shall implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the [USSGL] at the transaction level."

DoD FMR Volume 3, Chapter 8, *Standards for Recording and Reviewing Commitments and Obligations*, requires a triannual review of commitments, unliquidated obligations, accounts payable, unfilled customer orders, and accounts receivable. The triannual review process is an internal control practice whereby the funds holder reviews commitments, unliquidated obligations, accounts payable, unfilled customer orders, and accounts receivable transactions for validity, accuracy, and completeness.

Factors causing these conditions include:

- Lack of an effective process in place to identify, accumulate, retain, and provide for examination sufficient evidential documentation in support of reported transactions and balances.
- Insufficient and inconsistent implementation of policies and procedures, lack of internal control activities, or ineffective operation of internal control activities to help ensure the existence or occurrence, completeness, accuracy, rights or obligations, and timeliness of recorded transactions and balances.
- Insufficient analysis to determine and implement USSGL-compliant posting logic in the GL systems for certain transaction types, including the redistribution of ITR collections, and constraints in the GL systems to identify and record at a transaction-level upward and downward adjustments to prior year obligations.
- An insufficient triannual review process to determine the validity, accuracy, and completeness of unliquidated obligations, accounts payable, unfilled customer orders, and accounts receivable.

USTRANSCOM's transactional control deficiencies collectively impede its ability to substantiate amounts presented on the TWCF financial statements, and to ensure that transactions and balances are recorded in accordance with the USSGL at the transaction level and represent valid assets, liabilities, and obligations.

We recommend USTRANSCOM and its components:

- Continue to strengthen processes to identify, accumulate, retain, and provide for examination sufficient evidential documentation in support of reported transactions and balances.
- Develop, document, and implement policies and procedures to require internal control activities and to strengthen existing internal control activities to help ensure the existence or occurrence, completeness, accuracy, rights or obligations, and timeliness of recorded transactions and balances.
- Perform analysis to determine and implement USSGL-compliant posting logic in the GL systems for certain transaction types, including the redistribution of ITR collections, and design and implement posting logic changes in the GL system to allow for the identification and recording at a transaction level upward and downward adjustments to prior year obligations consistent with the USSGL.
- Continue implementation of corrective actions to address the triannual review conditions reported in in Report No. DODIG 2017-108, *United States Transportation Command Triannual Reviews*.

MATERIAL WEAKNESS 4: INEFFECTIVE BUDGETARY CONTROLS (*REPEAT FINDING*)

We identified ineffective budgetary accounting controls in five areas, which combined, constitute a material weakness. Of these five areas, two are repeat deficiencies identified in our FY 2018 engagement and three are new deficiencies identified during our FY 2019 engagement. Specifically, the five areas are:

1. Controls to help ensure recorded budget authority is based on valid support are ineffective.
2. MSC's funds control is not adequately designed.
3. Controls related to support agreements with customers need improvement.
4. Controls related to the financial statement presentation of intra-TWCF transactions are inadequately designed.
5. Controls related to funds realignments need improvement.

1. Controls to help ensure recorded budgetary authority is based on valid support are ineffective. (*Repeat Finding*)

In FY 2018, we reported that Spending Authority from Offsetting Collections in AMC's GL system was significantly higher than the amount in USTRANSCOM's internal annual operating budget (AOB) because of an adjustment recorded by AMC. This finding remains open.

We noted a related condition in FY 2019. Specifically, at the beginning of FY 2019, AMC recorded invalid unfilled customer orders (without advance). In place of a valid authorization, AMC used a memorandum, signed by the U.S. Department of the Air Force's Financial Analysis Division Chief and Budget & Funds Management Division Civilian Chief to record $1.6 billion of unfilled customer orders for budget authority expected but not yet received from the U.S. Departments of the Air Force, the Army, and the Navy; U.S. Marine Corps; and U.S. Special Operations Command.

In addition, in FY 2019, USTRANSCOM components AMC, SDDC, MSC, CMD, and DCD automatically re-established prior year unobligated balances as available for obligation prior to receiving internal AOBs showing the amounts of the prior year unobligated balance available. USTRANSCOM uses internal AOBs to sub-allot funds from the TWCF AOB, which shows amounts allotted to TWCF by OUSD(C) based on the balance apportioned by OMB.

GAO's *Principles of Federal Appropriations Law*, Third Edition, (commonly referred to as the Red Book) Volume I, Chapter 5, *Availability of Appropriations: Time*, provides:

> Revolving funds must have sufficient budget authority against which to record the entire amount of long-term contracts at the time of the obligation… A revolving fund may not count anticipated receipts from future customer orders as budget authority.

GAO's Red Book, Volume III, Chapter 12, *Acquisition of Goods and Services*, provides:

> "…the most important law relating to amount is the Antideficiency Act, which by its terms applies to an 'appropriation or fund.' ... It is clear that the statutory prohibition against overobligating applies to revolving funds. … It also applies to annual obligation limitations on revolving funds…"

OMB Circular No. A-11 (June 2019), *Preparation, Submission, and Execution of the Budget*, Section 120, *Apportionment Process*, explains:

> "multi-year/no-year [Treasury Appropriation Fund Symbols (TAFS)] with unexpired budgetary resources available for obligation MUST be apportioned every fiscal year…" and that "…an obligation

> cannot be incurred without an OMB approved apportionment (account-specific or automatic)… The Antideficiency Act… prohibits the incurring of obligations that exceed the approved apportionment amount... There are other circumstances in which you cannot obligate funds following an apportionment. For example, you cannot obligate against anticipated resources…"

Factors causing these conditions include:

- The signed memorandum AMC used to record $1.6 billion of unfilled customer orders cites the DoD FMR as authoritative guidance allowing exceptions to the normal requirements for recording unfilled customer orders. Nevertheless, this action misinterprets the DoD FMR by not fully considering requirements for exceptions, including there being an urgent situation and a letter of intent from an ordering agency.
- AMC recorded the $1.6 billion invalid unfilled customer orders because the AMC financial community lacks sufficient visibility into operational missions until they are completed and transaction information is sent to DCBS from the respective feeder system for certain lines of business. In these situations, AMC does not record the unfilled customer order until the mission is complete, which is after costs are incurred.
- The initial TWCF AOB for FY 2019 did not specify the amount of prior year unobligated balance available; rather, it contained a "TBD" placeholder.
- USTRANSCOM components lack sufficient internal control activities to ensure prior year unobligated balances are recorded based on internal AOBs showing an amount for the sub-allotment of the prior year unobligated balance from the TWCF AOB, representing amounts apportioned by OMB.
- TCJ8's Budget and Funds Management Division only monitors whether current year budget authority is recorded properly and agrees to internal AOBs. It does not have an internal control activity to monitor whether prior year unobligated balances available for obligation are recorded properly by the components and agree to internal AOBs.

Collectively, these deficiencies result in increased risk of misstatements on the Statement of Budgetary Resources and the potential for Antideficiency Act violations.

We recommend:

- When necessary, in an urgent situation, AMC correctly apply DoD FMR guidance and obtain letters of intent from customers before incurring costs to perform services for customers.
- AMC work with the financial and operational communities to develop, document, and implement internal control activities to record unfilled customer orders when AMC accepts customer funding for all lines of business.
- TCJ8 Budget and Funds Management Division work with the OUSD(C) to obtain an initial TWCF AOB at the beginning of the fiscal year with a prior year unobligated balance amount apportioned by OMB. Consider the need for OMB to apportion an estimated amount prior to receiving the final apportioned amount.
- USTRANSCOM components design, document, and implement internal control activities to ensure prior year unobligated balances recorded as available for obligation are based upon internal AOBs showing amounts sub-allotted from the TWCF AOB, representing amounts apportioned by OMB.
- USTRANSCOM components provide training on updated internal control activities to personnel responsible for recording sub-allotments in GL systems and DDRS.
- TCJ8 Budget and Funds Management Division strengthen current monitoring controls to ensure the prior year unobligated balance recorded by USTRANSCOM components as available for obligation agrees to internal AOBs.

2. MSC's funds control is not adequately designed. (*New Finding*)

MSC-FMS does not have an internal control activity to prevent the recording of unfilled customer orders as available for obligation in excess of the amount sub-allotted on the internal AOB, representing the amount OMB apportioned as Spending Authority from Offsetting Collections.

GAO's *Standards for Internal Control in the Federal Government*, Principle 10 states, "Management designs appropriate types of control activities for the entity's internal control system. Control activities help management fulfill responsibilities and address identified risk responses in the internal control system." OMB Circular No. A-11, Section 150, *Administrative Control of Funds*, states "…agency's financial management system must support the preparation and execution of your agency's budget, among other things. Your agency's fund control system is part of your agency's budget execution process. Therefore, your agency's financial management system must support your agency's fund control system."

This condition is caused by MSC not sufficiently designing and implementing funds control to limit the amount recorded as available for obligation in MSC-FMS to only those resources from unfilled customer orders that have been made available on the internal AOB for Spending Authority from Offsetting Collections.

The lack of a properly designed MSC-FMS funds control increases the risk that MSC and the TWCF could incur obligations in excess of sub-allotments on the internal AOB for Spending Authority from Offsetting Collections apportioned by OMB. This deficiency also represents an increased risk of Antideficiency Act noncompliance.

We recommend:

- MSC design, document, and implement updated funds control procedures specifying steps required in MSC-FMS to limit unfilled customer orders available for obligation to the amount sub-allotted on the internal AOB for Spending Authority from Offsetting Collections.
- MSC provide training on updated internal controls to personnel responsible for recording unfilled customer orders in MSC-FMS.

3. Controls related to support agreements with customers need improvement. (*New Finding*)

USTRANSCOM sometimes accepts customer orders citing multiple sources of statutory authority such as the Economy Act and its authority as a working capital fund in 10 U.S.C. § 2208 even though a single order relates to a single statutory authority. In addition, USTRANSCOM lacks sufficient internal control activities to help ensure the statutory basis for accepting customer orders is documented and that support agreements, including the related Determination and Findings as necessary, are in place prior to accepting orders. Specifically:

- AMC accepts customer orders without consistently verifying the type of statutory authority for accepting the order. As such, AMC accepts orders from non-DoD customers and cites the Economy Act as the statutory authority to perform services without always having a support agreement, including a Determination and Finding which documents how the order meets Economy Act requirements.
- SDDC accepts customer orders without consistently verifying the statutory authority for accepting the orders. SDDC cites the DoD FMR as its authority to accept these orders rather than actual authority.
- MSC does not cite its statutory authority to accept customer funding when accepting certain forms of funding. In addition, MSC is not always citing its statutory authority to accept customer funding and perform services on behalf of USTRANSCOM on the Form 7600A, *General Terms and Condition (GT&C)*, with its customers.

- CMD and DCD accept orders from non-DoD customers and cite the Economy Act without always having a support agreement, including Determination and Findings.

OMB Circular No. A-11, Section 20, *Terms and Concepts*, explains:

> Agencies can perform reimbursable work for the public or other Federal agencies. The types of laws that allow you to use advances or reimbursements in return for providing others with goods and services are:
>
> - Laws that establish revolving funds, including franchise funds and working capital funds;
> - Provisions in appropriations or substantive laws that allow agencies to use the amounts they collect; and
> - The Economy Act (31 U.S.C. 1535).

The Economy Act states, in part, that "(e) This section does not…affect other laws about working funds" and "(d) An order placed or agreement made under this section obligates an appropriation of the ordering agency or unit. The amount obligated is deobligated to the extent that the agency or unit filling the order has not incurred obligations, before the end of the period of availability of the appropriation…"

48 C.F.R. § 17.502-2, *The Economy Act*, further explains:

> (a) The Economy Act (31 U.S.C. 1535) authorizes agencies to enter into agreements to obtain supplies or services from another agency.… The Economy Act also provides authority for placement of orders between major organizational units within an agency; procedures for such intra-agency transactions are addressed in agency regulations.
> (b) The Economy Act applies when more specific statutory authority does not exist.…
> (c) Requirements for determinations and findings. (1) Each Economy Act order to obtain supplies or services by interagency acquisition shall be supported by a determination and findings (D&F)...

TFM, Volume 1, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, Section 9.2, *G-Invoicing*, states:

> As part of Fiscal Service's effort to increase transparency and enhance governmentwide financial management, G-Invoicing will improve the quality and reliability of Buy/Sell [Intragovernmental Transaction (IGT)] Data. G-Invoicing is an online platform for funding officials, program officials, and payment approvers to originate and settle Buy/Sell IGT General Terms & Condition, Orders and Performance Transactions.

Further, OMB Circular No. A-11, Section 130, *SF 133, Report on Budget Execution and Budgetary Resources*, instructs agencies performing under the Economy Act that "If you do not record valid obligations to cover all or part of an order before the period of availability to make obligations of the ordering account expires, then you may not fill that part of the order." In addition, "As of September 30th, the performing agency account and ordering agency account must have corresponding budgetary entries recorded in their agency financial systems. As of September 30th, any unfilled customer order with or without an advance in a performing agency annual or last year of a multiyear TAFS that is unobligated (which is unearned) must be reduced to zero as well as the corresponding unpaid obligation in the paying agency account which must also be reduced by the same amount." Section 130 also prescribes that agencies ask the U.S. Department of the Treasury to establish annual and multi-year TAFSs, as needed, to accommodate Economy Act transactions.

This condition is caused by USTRANSCOM and component policies and procedures lacking sufficient explanation and documentation of the application of statutory authorities in USTRANSCOM's various transaction types. In addition, certain USTRANSCOM personnel may lack sufficient understanding of the differences in the legal authorities.

By incorrectly citing multiple sources of authority for a single order or failing to have in place documented support agreements, including Determination and Findings, USTRANSCOM faces increased risk of noncompliance with specific requirements delineated in statute. For example, unique Economy Act requirements, such as the deobligation requirement of 31 U.S.C. § 1535(d), do not apply to interagency transactions carried out under other authorities. Therefore, to properly design internal control activities to help ensure compliance, USTRANSCOM personnel need to understand and document which transactions are associated with a given statute. In addition, the lack of sufficiently documented support agreements renders USTRANSCOM unprepared for G-Invoicing.

We recommend USTRANSCOM work with its components to:

- Evaluate and update policies and procedures for compliance and clarity for making determinations as to which statutory authority is applicable to USTRANSCOM's various transaction types.
- Conduct a comprehensive review to identify customers and transaction types, and assess whether support agreements, including Determination and Finding as necessary, are in place.
- For customers and transaction types for which a support agreement, including Determination and Finding as necessary, is in place, determine whether the proper statutory authority is cited and correct instances in which multiple sources of statutory authority are cited for a single transaction type.
- For customers and transaction types for which a support agreement, including Determination and Finding as necessary, is not in place, work with the customer to document the support agreement, including Determination and Finding as necessary. Include documentation of the related statutory authority, terms and conditions of the arrangement, and elements required as part of G-Invoicing.
- For transactions types under the Economy Act, determine whether there are sufficient controls in place to address unique Economy Act requirements consistent with related requirements in OMB Circular No. A-11, Section 130, such as:
    - Deobligation requirements that would result in year-end USTRANSCOM adjustments.
    - Establishment of annual and multi-year TAFS to accommodate the periods of availability associated with customer agency appropriations.
- As necessary, update policies and procedures to codify revised internal control activities and provide related training to personnel responsible for implementing the revised controls.

4. Controls related to the financial statement presentation of intra-TWCF transactions are inadequately designed. (*New Finding*)

USTRANSCOM records transactions internal to the TWCF as expenditure transfers even though such transactions are within a single TAFS and do not meet the definition of expenditure transfers. For example, when CMD receives funding documents from components for general and administrative services, it establishes unfilled customer orders; CMD also recognizes budgetary collections when it collects from the components. The components in turn recoup these general and administrative charges through billings to customers (i.e., entities outside of USTRANSCOM), in which case they also recognize budgetary collections. Additionally, when USTRANSCOM components make payments to CMD for general and administrative services, the components record payments as paid obligations. CMD’s payments to entities outside of USTRANSCOM for performing general and administrative services are also recorded as paid obligations.

GAO’s Red Book Volume III, Chapter 12 notes there are “two ‘fundamental rules’ pertaining to revolving funds…. One… is that specific statutory authority is necessary to create a revolving fund. The second is that a revolving fund is an appropriation.” The Red Book further states, “An intragovernmental revolving fund… is, as the name implies, a revolving fund whose receipts come primarily from other government agencies, programs, or activities. It is designed to carry out a cycle of business-type operations with other federal agencies or separately funded components of the same agency…"

OMB Circular No. A-11, Section 20 explains a "Treasury Account Symbol (TAS) refers to the account identification codes assigned by the Department of the Treasury to individual appropriation, receipt, or other fund accounts." Further, "[TAFS] refers to the separate Treasury accounts for each appropriation title based on the availability of the resources in the account." "TAS includes all the component pieces of [TAFS] plus any sub-accounts established by Treasury." It further notes that the term appropriation account and TAFS are interchangeable. Section 130 explains SF 133 information should be submitted "each quarter for each open… TAFS."

OMB Circular No. A-11, Section 20 indicates transfers are between two accounts, as follows: "Transfer means to reduce budgetary resources (budget authority and unobligated balances) in one account and increase them in another, by the same amount." It further explains that if a transfer relates to the purchase of "goods or services that benefit the transferring account for example, Economy Act transactions or purchases from revolving funds (including working capital funds)…" the transfer should be recorded as an expenditure transfer.

Factors causing these conditions include:

- DoD FMR Volume 4, Chapter 14, *Improper Payments*, requires that components prepare reports in accordance with OMB Circular No. A-136, which states, "the information in [the Statement of Budgetary Resources] must be presented on a combined basis, not a consolidated basis". DoD FMR Volume 6B, Chapter 13, *Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Requirements*, states, "The budgetary information shall be presented on a combined basis, with no elimination of budgetary accounts, in order to be consistent with information reported on the "Report on Budget Execution and Budgetary Resources (SF 133)…" USTRANSCOM interpreted this language to mean that intra-TWCF transactions should not be eliminated for consolidation but presented gross. This interpretation does not take into account that OMB Circular No. A-136 calls for the Statement of Budgetary Resources to aggregate TAFS-level information reported in the SF-133s and that OMB Circular No. A-11 did not address the occurrence of intra-TAFS transactions.
- USTRANSCOM's treatment of intra-TWCF transactions as expenditure transfers lacks sufficient consideration of the language in applicable criteria which indicate expenditure transfers should occur only across separate TAFS.

This practice results in double counting of Spending Authority from Offsetting Collections (discretionary and mandatory) and Total New Obligations and Upward Adjustments on the TWCF Statement of Budgetary Resources.

We recommend USTRANSCOM:

- Work with the OUSD(C) and OMB to obtain clarification of guidance concerning Statement of Budgetary Resources presentation for transactions within an individual TAFS. This should include clarification as to whether the statutory authority giving rise to a transaction—such as working capital fund authority and the Economy Act—affects the accounting treatment.
- Review accounting policies and procedures for preparation of the Statement of Budgetary Resources and, based on clarifications obtained from OMB, update accounting policies and procedures, as appropriate.
- Implement any policy and procedure updates, as necessary, related to Statement of Budgetary Resources preparation.

5. Controls related to funds realignments need improvement. (*Repeat Finding*)

In FY 2018, we reported sufficient evidential matter was not always provided to support the approval of funds realignment requests. This condition remains open.

Section 2.C.4.1, *Wave 4 Key Capabilities, Capability Measures, and Success Criteria,* of the April 2017 revision of the FIAR Guidance states that reporting entities must track and achieve key capabilities for the financial statement line items. Specifically, an entity must be able "to retain and make readily available supporting documentation to meet audit standards. Reporting entities are responsible for ensuring that sufficient, relevant and accurate supporting documentation is readily available for all line items."

GAO's *Standards for Internal Control in the Federal Government*, Principle 10 states, "Management should design control activities to achieve objectives and respond to risks."

This condition is because USTRANSCOM and its components do not have effective processes in place to identify, accumulate, retain, and provide for examination sufficient evidential documentation in support of funds realignment requests.

As a result of the condition, USTRANSCOM's funds realignment requests may not have been properly approved. Consequently, USTRANSCOM's recorded budget authority may not have been available for obligation or USTRANSCOM may not have rights to recorded budget authority at a given date.

We recommend:

- USTRANSCOM and its components continue to strengthen processes to identify, accumulate, retain, and provide for examination sufficient evidential documentation in support of its funds realignment requests.

MATERIAL WEAKNESS 5: INEFFECTIVE CONTROLS OVER INFORMATION TECHNOLOGY (*REPEAT FINDING*)

In FY 2018, we reported that USTRANSCOM had pervasive Information Technology (IT) control deficiencies related to the following seven USTRANSCOM-owned systems:

- Commercial Operations Integrated System (COINS).
- DCBS.
- Global Air Transportation Execution System (GATES).
- Global Decision Support System (GDSS).
- Integrated Booking System (IBS).
- Standard Procurement System USTRANSCOM Acquisition (SPS-TCAQ).
- TFMS.

For these seven USTRANSCOM systems, we reported a combination of deficiencies pertaining to USTRANSCOM's internal control activities that we consider to be a material weakness related to the following areas: security management, access controls, segregation of duties, and configuration management. Although USTRANSCOM has made some progress remediating these deficiencies during FY 2019, the material weakness in this area continues to exist.

Security Management
USTRANSCOM does not have effective security management controls in place to provide reasonable assurance that management is effectively identifying, tracking, and mitigating risks within its IT environment. Open security management conditions include:

- System security plans and related security documentation do not include information required by the National Institute of Standards and Technology (NIST).
- USTRANSCOM security management policy and procedures do not include adequate detail on how security controls should be selected for testing or the process management should follow when testing corrective actions for vulnerabilities identified in system Plans of Action & Milestones.
- Formally documented strategies or plans describing how USTRANSCOM selected security controls for testing do not exist.

Access Controls
USTRANSCOM does not have effective access controls in place to provide reasonable assurance that access to computer resources are appropriately restricted to authorized individuals. Open access control conditions include:

- Policies and procedures for account authorization, provisioning, and termination were not sufficiently documented and implemented.
- Periodic account reviews are not performed consistently, or are not in place.
- Password complexity and password lockout parameters were either not sufficiently documented or were not enforced.
- Compensating controls for monitoring the actions of application users with elevated privileges were not operating effectively.
- Session termination settings were either not in place or not in compliance with DoD requirements.
- Logging and monitoring policy and procedures were not sufficiently documented, including a lack of identification of auditable events at the application level.
- Evidence that audit logs were reviewed in a timely manner, as well as evidence of potential incidents being appropriately investigated, was not consistently provided.
- Application sensitive transactions and/or resources were not clearly identified and documented by management.

Segregation of Duties
USTRANSCOM does not have effective segregation of duties controls to provide reasonable assurance that incompatible duties are effectively segregated and that compensating controls have been put in place where conflicting roles are granted. Open segregation of duties conditions include:

- Compensating controls for users with segregation of duties conflicts were not in place.
- Users with segregation of duties conflicts were not consistently authorized in advance, and potential segregation of duties conflicts were not always identified.

Configuration Management
USTRANSCOM does not have effective configuration management controls to provide reasonable assurance that changes to information system resources are authorized and systems are configured and operating securely. Open configuration management conditions include:

- Configuration management policies and procedures did not consistently include adequate detail to describe all aspects of the configuration management process.
- Configuration changes were not appropriately requested, tested, and approved.

In addition to matters pertaining to USTRANSCOM-owned systems presented above, USTRANSCOM and its components have not sufficiently identified, documented, implemented, and tested complimentary user entity controls related to third-party service providers for which USTRANSCOM is responsible.

Criteria include:

- NIST Special Publication (SP) 800-18, Revision 1, February 2006, *Guide for Developing Security Plans for Federal Information Systems*.
- NIST SP 800-53, Revision 4, updated January 22, 2015, *Security and Privacy Controls for Federal Information Systems and Organizations*.
- NIST SP 800-60, Revision 1, August 2008, *Guide for Mapping Types of Information and Information Systems to Security Categories*.

Factors causing these conditions include:

- USTRANSCOM financial systems have not been completely transitioned from Department of Defense Information Assurance Certification and Accreditation Process (DIACAP) to the Risk Management Framework (RMF) which includes more detailed requirements around security management, including the development of a formal system security plan that addresses NIST requirements.
- USTRANSCOM security management, account management, logging and monitoring, segregation of duties, and configuration management policies and procedures have not been fully developed and documented. Further, where policies and procedures exist, USTRANSCOM is not consistently carrying them out.

USTRANSCOM's IT control deficiencies collectively impede its ability to ensure financial transactions and data processed through financial systems are complete, accurate, and appropriately authorized. Further, the deficiencies collectively limit USTRANSCOM's ability to ensure transactions and balances within financial systems are completely and accurately recorded in the GL systems and appropriately reported on USTRANSCOM's TWCF financial statements.

We recommend USTRANSCOM:

- In consultation with financial system program management continue with its current effort to migrate from DIACAP to RMF. When developing RMF documentation, ensure system security plans at a minimum contain required information including identification of the system owner, how management determined the system security categorization (Federal Information Processing Standards-level), detailed descriptions of how security controls have been implemented, and information describing system interconnections and segregation of duties controls.
- Update USTRANSCOM security management policy and procedures to address NIST and RMF requirements and include procedures to ensure security management activities are consistently and effectively carried out.

- In consultation with financial system program management develop, update, and implement security management, account management, logging and monitoring, segregation of duties, and configuration management policies and procedures. Where policies and procedures exist, verify that internal control activities are effectively implemented.

Significant Deficiency: USTRANSCOM Has Not Transitioned to the Risk Management Framework (*New Finding*)

USTRANSCOM has not transitioned COINS, DCBS, GATES, GDSS, IBS, and TFMS from the DIACAP to RMF, which requires the implementation of controls prescribed by NIST SP 800-53, Rev 4. DIACAP is the former overarching certification and accreditation process for the DoD, which was replaced by RMF.

DoD Instruction 8510.01, *Risk Management Framework (RMF) for DoD Information Technology (IT)*, (March 12, 2014), Enclosure 8, *RMF Transition*, states DoD information systems are to transition to RMF within the following date ranges:

- 2.5 years from authorizing official (AO) signature date for completed DIACAP packages submitted for AO signature and containing signatures from March 12, 2014, through May 31, 2015.
- 2 years from AO signature date for completed DIACAP packages submitted for AO signature and containing signatures from June 1, 2015, through February 1, 2016.
- 1.5 years from AO signature date for completed DIACAP packages submitted for AO signature and containing signatures from February 2 through October 1, 2016.

In addition, TFM, Volume 1, *Federal Agencies*, Part 6, *Other Fiscal Matters,* Chapter 9500, *Revised Federal Financial Management System Requirements for Financial Reporting,* Appendix I, *Federal Financial Management System Requirements,* states:

> Provide and monitor federal information system security controls consistent with information system category (low, moderate, high), impact on security objectives (confidentiality, integrity, availability), and minimum security requirements (for example, access control, configuration management, and incident response) as specified by National Institute of Standards and Technology (NIST) and consistent with OMB Circular No. A-130.

OMB Circular No. A-130, *Managing Federal Information as a Strategic Resource* (July 2016), Appendix I, *Responsibilities for Protecting and Managing Federal Information Resources,* Section 4, *Specific Requirements,* states:

> Agencies shall: 1) Identify authorization boundaries for information systems in accordance with NIST SPs 800-18 and 800-37; and 2) Categorize information and information systems, in accordance with [Federal Information Processing Standards] Publication 199 and NIST SP 800-60, considering potential adverse security and privacy impacts to organizational operations and assets, individuals, other organizations, and the Nation.

40 U.S.C. § 11331, *Responsibilities for Federal Information Systems Standards*, Section b, states:

> (b) Requirement to Prescribe Standards.—
> (1) In general.—
> (A) Requirement.—Except as provided under paragraph (2), the Director of the Office of Management and Budget shall, on the basis of proposed standards developed by the National Institute of Standards and Technology pursuant to paragraphs (2) and (3) of section 20(a) of the National Institute of Standards and Technology Act (15 U.S.C. 278g–

> 3(a)) and in consultation with the Secretary of Homeland Security, promulgate information security standards pertaining to Federal information systems.
> (B) Required standards.—Standards promulgated under subparagraph (A) shall include— (i) standards that provide minimum information security requirements as determined under section 20(b) of the National Institute of Standards and Technology Act (15 U.S.C. 278g–3(b)); and (ii) such standards that are otherwise necessary to improve the efficiency of operation or security of Federal information systems.
> (C) Required standards binding.—Information security standards described under subparagraph (B) shall be compulsory and binding.

The primary factor causing these conditions is USTRANSCOM's understanding that AOs have the authority to provide DIACAP accreditation extensions as necessary, per a November 2018 memorandum issued by the USTRANSCOM Chief Information Officer. This understanding is consistent with DoD Instruction 8510.01, Enclosure 8, *RMF Transition*, which states that AOs can request deviation from the transition timeline from the DoD Component Chief Information Officer, even though this guidance is contrary to requirements presented in TFM, OMB Circular No. A-130, and 40 U.S.C. § 11331.

USTRANSCOM faces missed opportunities from implementing RMF, which provides the following benefits as identified in NIST SP 800-37:

- Promotes real-time risk management and ongoing information system authorization through the implementation of continuous monitoring processes.
- Encourages the use of automation to enable senior leaders to make cost-effective, risk-based decisions with regard to the organizational information systems supporting their core missions and business functions.
- Integrates information security into the enterprise architecture and system development life cycle.
- Emphasizes the selection, implementation, assessment, and monitoring of security controls, and the authorization of information systems.
- Links risk management processes at the information system level to risk management processes at the organization level through the risk executive function.
- Establishes responsibility and accountability for security controls inherited by more than one information system (i.e., common controls).

We recommend:

- USTRANSCOM perform a comprehensive analysis of the statutory and other requirements to determine whether USTRANSCOM is required to transition to RMF. If required, we recommend that USTRANSCOM implement a corrective action plan to transition COINS, DCBS, GATES, GDSS, IBS, and TFMS from DIACAP to RMF in a timely manner. If determined USTRANSCOM is not required to transition to RMF, we recommend USTRANSCOM formally document this analysis and determination and seek concurrence from the Staff Judge Advocate and evaluate the effect on USTRANSCOM's control environment.

APPENDIX B: NONCOMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

Under the Federal Financial Management Improvement Act of 1996 (FFMIA) we are required to report whether the U.S. Transportation Command's (USTRANSCOM) financial management systems substantially comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. We identified instances in which USTRANSCOM's financial management systems did not substantially comply with certain federal financial management systems requirements, federal accounting standards, and the USSGL at the transaction level. During FY 2019, for each of the three FFMIA elements introduced above, we noted USTRANSCOM:

1. Federal Financial Management Systems Requirements

- Has not implemented effective controls related to the reconciliation of significant feeder systems to amounts recorded in GL systems and had journal vouchers that were not supported by transaction-level detail.
- Had pervasive Information Technology (IT) control deficiencies surrounding the seven USTRANSCOM-owned systems related to following areas: security management, access controls, segregation of duties, and configuration management.

2. Federal Accounting Standards

- Did not define the TWCF reporting entity and did not develop a financial statement reporting package in accordance with Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*, the *Department of Defense Financial Management Regulation*, and Federal Accounting Standards Advisory Board pronouncements.
- Disclosed that certain accounting transactions were not recorded in accordance with accounting principles generally accepted in the United States of America.
- Re-established prior year unobligated balances as available for obligation prior to receiving internal annual operating budgets showing the amounts of the prior year unobligated balance available.
- Recorded customer funding without appropriate and sufficient documentation.
- Did not calculate, record, and monitor certain significant accruals, including revenue accruals.

3. USSGL at the Transaction Level

- Was unable to provide transaction-level populations that reconcile to reported amounts for certain TWCF financial statement balances.
- Was unable to provide a population of all elimination entries at the transaction-level supporting amounts eliminated from the TWCF financial statements. This indicates that the required trading partner data are not sufficiently tracked in the USTRANSCOM's systems.
- Recorded intra-TWCF transactions as expenditure transfers when they do not meet the criteria for expenditure transfers.
- Used posting logic that is non-compliant with the USSGL, including the posting logic for closing entries, customer refunds, and upward and downward adjustments.

Specific recommendations for corrective actions necessary to ensure compliance with federal financial management system requirements, federal accounting standards, and the USSGL at the transaction level are provided for in Appendix A.

APPENDIX C: USTRANSCOM'S COMMENTS

UNITED STATES TRANSPORTATION COMMAND
508 SCOTT DRIVE
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

6 November 2019

MEMORANDUM FOR COTTON & COMPANY LLP

FROM: USTRANSCOM/J8
203 W LOSEY STREET
SCOTT AFB IL 62225-5233

SUBJECT: United States Transportation Command (USTRANSCOM) Transportation Working Capital Fund (TWCF) Financial Statement Audit – Management Response to the Fiscal Year (FY) 2019 Independent Auditor's Report

Reference: *Fiscal Year 2019 Independent Auditor's Report*

1. I have received and reviewed a copy of the draft Independent Auditor's Report for the FY 2019 USTRANSCOM TWCF financial statements. We concur with the conclusions and findings as they have been presented in the Fiscal Year (FY) 2019 Audit Report. For FY 2019, the goal of the audit was to identify internal controls, document appropriate Key Supporting Documentation, and test remediated Notice of Finding and Recommendations identified in FY 2018's audit. The scale and complexity of USTRANSCOM's activities and corresponding financial management operations and requirements are immense. We know that there is always going to be new challenges and concerns given our complex operating environment and scope of compliance requirements.

2. We acknowledge the material weaknesses and findings identified in the audit report and will continue to focus on efforts that implement risk management methodologies, evaluate internal controls at the component and enterprise wide level, and improve the accuracy of financial reporting. We will evaluate the root cause of these findings and initiate appropriate corrective action plans necessary to continue resolving our financial reporting weaknesses. Additionally, we will further assess our internal control design and effectiveness of key controls as necessary.

3. Despite the challenges of multiple financial systems and associated business processes, USTRANSCOM made advances in FY 2019 to enhance the internal control environment and is committed to a collaborative approach amongst the component commands that will correct current deficiencies, further strengthen controls, and limit future deficiencies. USTRANSCOM will continue to identify the appropriate corrective actions needed to support forward progress in achieving an unmodified audit opinion in the future while continuing to support the warfighter.

TERRI L. DILLY
Director, Program Analysis
and Financial Management

UNITED STATES TRANSPORTATION COMMAND
508 SCOTT DRIVE
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

6 November 2019

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TERRI L. DILLY
Director, Program Analysis
and Financial Management

Principal Financial Statements and Notes

These financial statements have been prepared to report the financial position, results of operations, net position, and budgetary resources of the USTRANSCOM TWCF, as required by the CFO Act, expanded by the GMRA, other appropriate legislation, and in accordance with the form and content provided by OMB Circular A-136.

The responsibility for the integrity of the financial information contained within these statements rests with USTRANSCOM management. Cotton & Company LLP was the IPA engaged to audit these financial statements. The Independent Auditor's Report accompanies the principal financial statements and notes.

A brief description of the nature of each required financial statement and the related notes are listed below.

Consolidated Balance Sheets

The Balance Sheets present amounts of current and future economic benefits owned or managed by USTRANSCOM (assets), amounts owed by USTRANSCOM (liabilities), and residual amounts which constitute the difference (net position).

Consolidated Statements of Net Cost

The Statements of Net Cost present the annual cost of operations for USTRANSCOM. It also presents reimbursable costs related to services provided to other federal agencies and incurred costs that are not part of USTRANSCOM's core mission less earned revenue.

Consolidated Statements of Changes in Net Position

The Statements of Changes in Net Position report the change in net position during the period. Net position is affected by changes to its components and cumulative results of operations.

Combined Statements of Budgetary Resources

The Statements of Budgetary Resources provide information about USTRANSCOM's budgetary resources, status of budgetary resources, and net outlays. USTRANSCOM's budgetary resources are generated by collecting funds from customers in exchange for providing transportation services. Budgetary resources provide USTRANSCOM its authority to incur financial obligations that will ultimately result in outlays.

Notes to Financial Statements

Notes to the financial statements communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statement.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Consolidated Balance Sheets
As of September 30, 2019 and 2018
(dollars in thousands)

	Unaudited FY 2019	FY 2018
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 469,049	$ 526,606
Accounts Receivable (Note 4)	1,447,517	1,606,652
Total Intragovernmental Assets	$ 1,916,566	$ 2,133,258
Accounts Receivable, Net (Note 4)	$ 25,360	$ 39,642
General Property, Plant, and Equipment, Net (Note 5)	239,661	299,020
Other Assets (Note 6)	728	979
TOTAL ASSETS	$ 2,182,315	$ 2,472,899
LIABILITIES (Note 7)		
Intragovernmental:		
Accounts Payable	$ 94,966	$ 40,180
Other Liabilities (Note 9)	50,224	43,199
Total Intragovernmental Liabilities	$ 145,190	$ 83,379
Accounts Payable	$ 636,456	$ 579,959
Military Retirement and Other Federal Employment Benefits (Note 8)	18,535	17,583
Other Liabilities (Note 9)	71,986	63,658
TOTAL LIABILITIES	$ 872,167	$ 744,579
Commitments and Contingencies (Note 11)		
NET POSITION		
Unexpended Appropriations	$ 22,934	$ 25,587
Cumulative Results of Operations	1,287,214	1,702,733
TOTAL NET POSITION	$ 1,310,148	$ 1,728,320
TOTAL LIABILITIES AND NET POSITION	$ 2,182,315	$ 2,472,899

The accompanying notes are an integral part of the statements.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Consolidated Statements of Net Cost
For the Periods Ended September 30, 2019 and 2018
(dollars in thousands)

	Unaudited	
	FY 2019	**FY 2018**
Program Costs		
Operations, Readiness & Support		
Total Gross Costs	$ 7,546,054	$ 7,096,176
Less: Total Earned Revenue	(7,224,789)	(7,115,375)
NET COST OF OPERATIONS	**$** 321,265	$ (19,199)

The accompanying notes are an integral part of the statements.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Consolidated Statements of Changes in Net Position
For the Periods Ended September 30, 2019 and 2018
(dollars in thousands)

	Unaudited FY 2019	FY 2018
UNEXPENDED APPROPRIATIONS		
Beginning Balance	$ 25,587	$ 28,748
	25,587	28,748
Budgetary Financing Sources:		
Other adjustments		(1)
Appropriations used	(2,653)	(3,160)
Total Budgetary Financing Sources	$ (2,653)	$ (3,161)
TOTAL UNEXPENDED APPROPRIATIONS	$ 22,934	$ 25,587
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	$ 1,702,733	$ 1,957,645
Changes in accounting principles (+/-)	(82,847)	(82,089)
Beginning Balances, as adjusted	1,619,886	1,875,556
Budgetary Financing Sources:		
Appropriations used	2,653	3,160
Non-exchange revenue	104	74
Other Financing Sources:		
Transfers in without reimbursement	(31,039)	74
Imputed financing from costs absorbed by others	17,167	15,606
Other adjustments	(292)	(210,936)
Total Financing Sources	$ (11,407)	$ (192,022)
Net Cost of Operations	$ 321,265	$ (19,199)
Net Change	$ (332,672)	$ (172,823)
TOTAL CUMULATIVE RESULTS OF OPERATIONS	$ 1,287,214	$ 1,702,733
TOTAL NET POSITION	$ 1,310,148	$ 1,728,320

The accompanying notes are an integral part of the statements.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Combined Statements of Budgetary Resources
For the Periods Ended September 30, 2019 and 2018
(dollars in thousands)

	Unaudited	
	FY 2019	**FY 2018**
BUDGETARY RESOURCES (Note 14)		
Unobligated balance from prior year budget authority, net	$ 1,610,516	$ 1,752,998
Contract Authority (discretionary and mandatory)	77,528	77,701
Spending Authority from offsetting collections (discretionary and mandatory)	7,237,753	7,535,866
TOTAL BUDGETARY RESOURCES	$ 8,925,797	$ 9,366,565
STATUS OF BUDGETARY RESOURCES		
Total New obligations and upward adjustments	$ 8,150,546	$ 7,824,475
Unobligated balance, end of year:		
Apportioned, unexpired accounts	775,251	1,469,799
Exempt from apportionment, unexpired accounts	-	72,291
Unexpired unobligated balance	775,251	1,542,090
Total Unobligated balance, end of year	775,251	1,542,090
TOTAL BUDGETARY RESOURCES	$ 8,925,797	$ 9,366,565
OUTLAYS, NET		
Total outlays, net (discretionary and mandatory)	$ 57,557	$ 329,502
Agency outlays, net (discretionary and mandatory)	$ 57,557	$ 329,502

The accompanying notes are an integral part of the statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Mission of the Reporting Entity

USTRANSCOM was established in 1987 and is headquartered at Scott Air Force Base, Illinois. USTRANSCOM is a unified, functional CCMD, providing support to the other 10 CCMDs, the military services, defense agencies and other governmental agencies. USTRANSCOM provides full-spectrum global mobility solutions and related enabling capabilities for supported customers' requirements in peace and war and strives to be the transportation and enabling capability provider of choice. USTRANSCOM's consolidated financial statements and accompanying notes relate only to business associated with the USTRANSCOM's TWCF.

USTRANSCOM executes missions and global responsibilities through component commands, subordinate commands, and a courier division. Like all combatant commands, USTRANSCOM constitutes a headquarters element without any military units permanently assigned to it. USTRANSCOM operates with Service Component Commands – one for each of the following U.S. Armed Services: U.S. Navy, U.S. Army, and the U.S. Air Force. The Service Component Commands are assigned to the USTRANSCOM Commander to accomplish its Unified Command Plan mission, most of which is funded by the TWCF. In this support role, the Service Component Commands are part of the TWCF. The Service Component Commands are reimbursed by the TWCF for any missions performed for the TWCF in accordance with published rates. However, the service component commands also execute non-TWCF missions for its Armed Service.

The Subordinate Commands differ because they do not report to both a military department and USTRANSCOM; they report directly to the USTRANSCOM Commander. The Subordinate Commands, however, are not used for TWCF missions, and are therefore not funded with TWCF dollars, and as such, are not included in the TWCF financial statements.

A list and short description of each Component Command is provided below.

Military Surface Deployment and Distribution Command (SDDC) – SDDC is a unique Army command that delivers world-class, origin-to-destination distribution solutions. Whenever and wherever Soldiers, sailors, airmen, Marines and Coast Guardsmen are deployed, SDDC is involved in planning and executing the surface delivery of their equipment and supplies.

Military Sealift Command (MSC) – MSC operates approximately 110 noncombatant, civilian-crewed ships that replenish U.S. Navy ships, conduct specialized missions, strategically preposition combat cargo at sea around the world, and move military cargo and supplies used by deployed U.S. forces and coalition partners. On any given day, USTRANSCOM has 33 of these 110 ships underway.

Air Mobility Command (AMC) – AMC's mission is to provide rapid, global mobility and sustainment for America's armed forces. The command also plays a crucial role in providing humanitarian support at home and around the world. The men and women of AMC provide airlift and aerial refueling for all of America's armed forces.

In addition to the above Component Commands, USTRANSCOM is also made up of the following Subordinate Commands and a courier division:

Joint Transportation Reserve Unit (JTRU) – JTRU is a subordinate command responsible for providing a trained, ready, and relevant operational force to augment USTRANSCOM's active component forces in order to meet peace and wartime mobility requirements. Comprised of Air Force Reserve, Army Reserve, Coast Guard Reserve, Marine Reserve, and Navy Reserve personnel, JTRU members are organized, trained, and equipped to seamlessly execute USTRANSCOM's global distribution mission at a moment's notice.

Joint Enabling Capabilities Command (JECC) – JECC, a subordinate command, provides decisive joint communications, planning and public affairs support to the Joint Force that will meet the emerging requirements of CCMDs and Joint Task Force-capable headquarters.

Defense Courier Division (DCD)[9] – DCD provides secure, timely, and efficient end-to-end global distribution of classified and sensitive material for the United States and its allies. The division oversees and synchronizes activities of 18 courier stations worldwide to service over 6,000 accounts. Each courier station is assigned responsibility for providing courier service to customers within a defined geographic region.

B. Basis of Presentation

USTRANSCOM's fiscal year ends September 30. These financial statements have been prepared to report the consolidated financial position, results of operations, net position, and budgetary resources of USTRANSCOM, as required by the CFO Act, as amended and expanded by the GMRA, and other appropriate legislation. The financial statements have been prepared from the accounting records of USTRANSCOM in accordance with the formats prescribed by OMB Circular A-136 and, to the extent possible, U.S. GAAP promulgated by the FASAB. The accompanying financial statements account for all resources for which USTRANSCOM is responsible unless otherwise noted. Accounting standards require all reporting entities to disclose that accounting standards allow certain presentation and disclosures to be modified, if needed, to prevent the disclosure of classified information.

USTRANSCOM is not yet fully compliant with all elements of U.S. GAAP and the form and content requirements for federal government entities specified by OMB Circular A-136. This is due to limitations of financial and nonfinancial management processes and systems that support the financial statements. USTRANSCOM derives reported values and information for major asset and liability categories largely from nonfinancial systems. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by U.S. GAAP. These systems were designed to support reporting requirements for maintaining accountability over assets and recording information on a budgetary basis, rather than preparing financial statements in

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[9] The Defense Courier Division (DCD) is a part of the USTRANSCOM Operations Directorate (TCJ3). The DCD operates as part of the TWCF, charging a set rate per pound for the movement of classified material which reimburses the DCD for its costs. In order to ensure its overhead is properly attributed to its operations, the DCD's funding is segregated from the general TWCF line of operation. As a result, the DCD, from an accounting perspective, is treated as a separate division on the TWCF financial statements, even though it is part of the USTRANSCOM headquarters.

accordance with U.S. GAAP. USTRANSCOM continues to implement process and system improvements addressing these limitations.

USTRANSCOM reports both entity and non-entity assets. Entity assets are assets that the reporting entity has authority to use in its operations. Management may have authority to decide how funds are used or it may be legally obligated to use the funds a certain way. Non-entity assets are not available for use in USTRANSCOM's normal operations. USTRANSCOM maintains stewardship accountability and reporting responsibilities for non-entity assets and will forward these non-entity assets to the U.S. Treasury or other federal agencies in the future. USTRANSCOM records a corresponding liability for these accounts receivable, net.

C. Use of Estimates

USTRANSCOM's management makes assumptions and reasonable estimates in the preparations of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as year-end accruals of accounts payable, accounts receivable, unbilled revenue, payroll accruals, contingent liabilities, depreciation expense, and actuarial liabilities related to workers' compensation (FECA).

D. Appropriations and Funds

USTRANSCOM's TWCF received its initial FBWT corpus through an appropriation or transfer of resources from existing appropriations or funds from the Defense Working Capital Fund (DWCF). There are several DWCFs, one of which is the Air Force Working Capital Fund (AFWCF). USTRANSCOM's TWCF is reported by the U.S. Treasury as part of the AFWCF; however, for financial reporting purposes USTRANSCOM is included with the other defense organizations.

The corpus financed initial operations. Since then, services have been provided to customers on a reimbursable basis to maintain the FBWT corpus. USTRANSCOM receives budget authority (contract authority and spending authority from offsetting collections) from the Office of the Secretary of Defense (OSD) via the Annual Operating Budget (AOB). OMB apportions via the SF132 to OUSD-C. OUSD-C then provides authority via the AOB to USTRANSCOM. Reimbursable receipts from customers fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the TWCF as an infusion of FBWT when revenues are inadequate to cover costs within the corpus.

Because a capability must be maintained by the USTRANSCOM Transportation activity group to expeditiously respond to requirements to transport personnel, material, or other elements required to satisfy a mobilization condition, direct appropriation funding may be provided to AMC. For AMC, airlift flying hours and associated costs are based on the requirement to maintain the capability of the airlift system, including crew training and concurrent mobilization requirement. The airlift system training generated capacity is used by the DoD to move air eligible cargo and passengers. In order to extend air eligibility and increase capacity utilization, rates are generally established to be competitive with commercial airlift carriers. However, due to the mobilization requirement, the resulting revenue does not cover the full costs of airlift operations. The costs for military personnel will be recorded at the civilian equivalency rate. Military personnel within the AMC will be directly funded by the Military Personnel appropriation. Although the cost shall be recorded, it shall be recorded so that it is not required to be recovered in customer rates. The balance of the mobilization requirement costs will be funded through a direct appropriation to the Air Force.

E. Basis of Accounting

USTRANSCOM's consolidated financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of USTRANSCOM's components. The underlying data is largely derived from budgetary transactions (i.e., obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, revenues, and accounts receivable.

USTRANSCOM presents the Balance Sheets, Statements of Net Cost (SNC), and Statements of Changes in Net Position (SCNP) on a consolidated basis which is the summation of the components less the eliminations. The Statements of Budgetary Resources (SBR) are presented on a combined basis which is the summation of the components. The financial transactions, where possible, are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment. Whereas, under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use of federal funds. Budgetary accounting is essential for compliance with legal constraints and controls over the use of federal funds. USTRANSCOM's continued effort towards full compliancy with U.S. GAAP for the accrual method of accounting is encumbered by various systems limitations and the sensitive nature of USTRANSCOM activities.

Departures from U.S. GAAP

Financial management systems and operations continue to be refined as USTRANSCOM strives to record and report its financial activity in accordance with U.S. GAAP. Currently, USTRANSCOM has identified the below departures from U.S. GAAP, some of which are pervasive problems within DoD that all DoD entities face and cannot be remediated at the USTRANSCOM level.

Definition of Reporting Entity – USTRANSCOM has not completed an appropriate assessment in accordance with SFFAS 47, *Reporting Entity*, in order to be able to properly define its financial reporting entity and ensure completeness of its financial statements and related disclosures. USTRANSCOM has identified component reporting entities based on the currently defined financial statement components, but a complete assessment of potential consolidation entities and disclosure entities for which USTRANSCOM and its components are accountable has not been completed.

General Property, Plant and Equipment, Net – USTRANSCOM has efforts ongoing to address difficulties in determining the completeness and accuracy of reported balances and providing support for all asset costs. Specifically, improvements are needed in (1) identification of the full universe of its internal use software (IUS) and software in-development costs; (2) accounting for General Equipment (GE) Construction in Progress (CIP) properly at the transaction level; and (3) the recurring performance of impairment assessments to record full costs in accordance with SFFAS 6, A*ccounting for Property, Plant, and Equipment*, and/or SFFAS 10, *Accounting for Internal Use Software*. As USTRANSCOM does not yet have SFFAS 6 and SFFAS 10 compliant go-forward processes, supportable General Property, Plant, and Equipment (GPP&E) beginning balances have not been established, and USTRANSCOM management has not yet made its unreserved assertion in accordance with SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment*.

Accounts Payable – Accounts payable, expense, related delivered orders balances and associated accounts payable accruals reported at period end are not in full compliance with SFFAS 1, *Accounting for Selected Assets and Liabilities* and SFFAS 5, *Accounting for Liabilities of the Federal Government*. The current U.S. Treasury Intragovernmental Payments and Collections process allows payments to be made without requiring confirmation of the receipt and acceptance of goods and services provided to the USTRANSCOM by other federal entities. Post-payment receipt and acceptance may occur but is not recorded and reported timely. Additionally, to comply with DoD trading partner requirements, the USTRANSCOM's buyer-side accounts payable are adjusted to agree with the interagency seller-side accounts receivable.

Fund Balance with Treasury – USTRANSCOM is not able to identify its undistributed collections and disbursements in a timely manner because the proper reporting level of TI-97 has not been established. See note 1J for further explanation. In addition, USTRANSCOM was not able to record and report transactions in suspense accounts because suspense balances are not included in FBWT balances. As a result, USTRANSCOM is unable to explain discrepancies between its FBWT recorded in its general ledger accounts and the balance in the U.S. Treasury's accounts in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*.

Accounts Receivable, Net and Revenue Recognition – The accounts receivable balance and the associated allowance for uncollectible accounts receivable reported at period-end were not in full compliance with SFFAS 1, *Accounting for Selected Assets and Liabilities,* and SFFAS 7, *Accounting for Revenue and Other Financing Sources* for multiple reasons. First, to comply with DoD trading partner requirements, the USTRANSCOM's buyer-side accounts payable are adjusted to agree with the USTRANSCOM seller-side accounts receivable, resulting in potentially misstating both Accounts Payable and Accounts Receivable. While this practice is currently DoD FMR compliant, it is not U.S. GAAP compliant. USTRANSCOM also does not have a process in place to capture and retain sufficient documentation to demonstrate that services were requested and provided, including the date services were provided, to support the accounts receivable balance.

Additionally, USTRANSCOM does not have sufficient internal controls in place to ensure the completeness and accuracy of all revenue and associated accounts receivable, including accruals, for certain lines of services, does not have processes in place to ensure that redistribution of ITR collections are recorded in the correct USSGL accounts and for the correct amounts, and does not consistently comply with USSGL posting logic for recording credit memos for customer refunds of prior year excess collections.

Leases – USTRANSCOM has not performed a review of potential lease information to properly account for capital and operating leases, and to identify property and equipment where USTRANSCOM is the lessor. Accordingly, USTRANSCOM is not compliant with SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government* and SFFAS 6, *Accounting for Property, Plant, and Equipment*. In addition, USTRANSCOM does not separately present lease information in the notes as required by OMB Circular A-136.

Consolidated Statement of Net Cost – USTRANSCOM did not have compliant processes in place to ensure its Consolidated Statement of Net Cost was presented in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, and SFFAS 55, *Amending Inter-Entity Cost Provisions*. The Defense Departmental Reporting System is not currently capable of program-level cost reporting. USTRANSCOM has not comprehensively analyzed its operations, including non-reimbursed and under-reimbursed operations paid for by other entities, with respect to the full costing requirements and, to the extent necessary, identified the internal control activities needed to recognize and disclose full costs, including imputed costs.

In addition, USTRANSCOM is currently unable to disclose exchange revenue pricing and loss information in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources*, paragraph 46 and OMB Circular A-136. USTRANSCOM is working towards putting a process in place to gather the information to make this disclosure.

Intra-Entity Activity – USTRANSCOM did not have compliant processes in place to account for intragovernmental transactions by customer in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards,* SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, and SFFAS 55, *Amending Inter-entity Cost Provisions,* which require that an entity eliminates intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. USTRANSCOM has not developed policies and procedures necessary to accurately identify all its intragovernmental transactions by customer because its systems do not track buyer-side data at the transaction level.

Statement of Budgetary Resources – USTRANSCOM's SBR is not compliant with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.* USTRANSCOM records transactions internal to the TWCF as expenditure transfers (i.e., obligations, outlays, and offsetting collections) even though such transactions do not meet the definition of expenditure transactions. The effect is to double count spending authority from offsetting collections and new obligations and upward adjustments on USTRANSCOM's SBR. In addition, USTRANSCOM also automatically re-establishes *Allotments – Realized Resources* in advance of an approved apportionment resulting in the *Apportioned, Unexpired* line item on the SBR being overstated until the OMB apportionment is received.

Unfilled Customer Orders without Advance– USTRANSCOM has not implemented internal control activities to ensure the existence and completeness of recorded unfilled customer orders without advance related to Over Ocean Transport (OOT) orders. In addition, USTRANSCOM has not put processes in place amongst the components to effectively coordinate with each other to ensure that unfilled customer orders without advance are being recorded at the time of customer funding acceptance. Furthermore, USTRANSCOM does not have consistent processes in place across components to ensure that unfilled customer orders without advance are recorded based only upon authorized funding documents. As a result, USTRANSCOM cannot currently ensure the existence and completeness of recorded unfilled customer orders without advance in accordance with SFFAS 7.

Deferred Maintenance and Repairs – Although USTRANSCOM receives the economic benefit and is responsible for the sustainment of various general property, plant and equipment, USTRANSCOM did not disclose deferred maintenance for FY 2018 or FY 2019 in accordance with SFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*.

Commitments and Contingencies – USTRANSCOM is a party in numerous individual contracts that contain clauses, such as economic-price adjustment and dispute resolution, which may result in future outflow of budgetary resources. Currently, USTRANSCOM's automated system processes have limited capability to capture these potential liabilities. Therefore, the amounts reported may not fairly present USTRANSCOM's commitments and contingencies in accordance with SFFAS 5, *Accounting for Liabilities of*

The Federal Government and SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government.*

Advances and Prepayments – The other assets balance reported at period-end was not in full compliance with SFFAS 1, *Accounting for Selected Assets and Liabilities.* USTRANSCOM did not have compliant processes in place to account for travel advances. The travel advance balance for SDDC was abnormal at September 30, 2019 because of identified errors in processing permanent change of station (PCS) travel advances. SDDC is in the process of researching each advance to determine the posting results for the entire advance from requisition to collection and correcting each error identified.

F. Revenue and Other Financing Sources

Exchange and Nonexchange Revenue – USTRANSCOM classifies revenue as either exchange revenue or nonexchange revenue. Exchange revenue is derived from transactions in which USTRANSCOM provides services to another party for a price; both USTRANSCOM and the other party receive value. Exchange revenue is presented on the *Consolidated Statements of Net Cost* and serves to offset the costs of goods and services. Nonexchange revenue is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. Nonexchange revenue is considered to reduce the cost of the USTRANSCOM operations and is therefore reported on the *Consolidated Statements of Changes in Net Position* as a financing source.

In accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financing Accounting*, USTRANSCOM recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. Nonexchange revenue for USTRANSCOM is related to interest, penalties, and admin fees charged on the collection of individual retirement (out-of-service) debts. This debt may be the result of an overpayment or erroneous payment not legally due a retired employee or an amount due to the U.S. Government but unpaid by a retired employee.

Nonmonetary Support – USTRANSCOM does not include nonmonetary support, such as the Air Transport & Air-to-Air Refueling and other Exchanges of Services (ATARES) program, provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and the Note 21, 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.

The ATARES is a cashless exchange system for air transport services. Twenty-eight European and North Atlantic Treaty Organization (NATO) nations are part of the multinational ATARES arrangement. The exchange of services is based on the equivalent flying hour, which is the cost of one C-130/C-160 flying hour. All other aircraft types offered in the framework of the ATARES arrangement are calculated against this C-130/C-160 reference. This arrangement facilitates the mutual support through the exchange of services and it is the currency used among the member nations. This cashless service enables nations to save on outsourcing expenses and to optimize the aircraft load factor. It can also give additional training opportunities to the nations.

G. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, and unbilled revenue. In the case of Operating Materiel & Supplies (OM&S), operating expenses are generally recognized when the items are purchased. OM&S is considered tangible personal property to be consumed in normal operations.

H. Accounting for Intragovernmental and Activities

SFFAS 1, *Accounting for Selected Assets and Liabilities*, defines Intragovernmental and Governmental assets and liabilities. Intragovernmental assets and liabilities arise from transactions among federal entities. Intragovernmental assets are claims other federal entities owe to USTRANSCOM. Intragovernmental liabilities are claims USTRANSCOM owes to other federal entities.

Governmental assets and liabilities arise from transactions of the federal government or an entity of the federal government with public entities, sometimes referred to as nonfederal entities. The term public entities encompasses domestic and foreign persons and organizations outside the U.S. Government. Governmental assets are claims of USTRANSCOM against public entities. Governmental liabilities are amounts that USTRANSCOM owes to public entities.

The U.S. 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 to prevent overstatement for business with itself. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

Imputed financing represents the cost paid on behalf of USTRANSCOM by another federal entity. In accordance with SFFAS 55 (which rescinded SFFAS 4, SFFAS 30, and *Interpretation of Federal Financial Accounting Standards (Interpretation) 6*), the DoD recognizes imputed costs only for business-type activities and other costs specifically required by OMB, including (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 FECA; and (3) losses in litigation proceedings.

The DoD'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 DoD's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues.

Generally, financing for the construction of DoD 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 DoD.

I. Transactions with Foreign Governments and International Organizations

Each year, USTRANSCOM sells defense services to foreign governments and international organizations under the provisions of the Arms Export Control Act of 1976. Under the provisions of the Act, DoD has authority to sell defense services to foreign countries and international organizations, generally at no profit or loss to the Federal Government.

J. Funds with the Department of the Treasury

The U.S. Treasury Department performs FBWT management activities for all Federal Government agencies. USTRANSCOM's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. The disbursing offices of DFAS and the military departments process the majority of USTRANSCOM's collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS submits reports to the U.S. Treasury by appropriation (i.e., 97X4930) on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBWT account.

The U.S. Treasury maintains and reports the DWCF fund balances at the U.S. Treasury Index appropriation sub-numbered level. Defense Agencies, to include USTRANSCOM, are included at the TI 97 DWCF appropriation sub-numbered level, an aggregate level that does not provide identification of the separate Defense Agencies by the U.S. Treasury.

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections have corroborating documentation for summary level adjustments made to accounts payable and accounts receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not be able to be substantiated.

Due to noted material weaknesses in current accounting and financial feeder systems, USTRANSCOM generally cannot determine whether undistributed disbursements and collections should be applied to federal or nonfederal accounts payable and accounts receivable at the time accounting reports are prepared. Accordingly, USTRANSCOM's policy is to allocate undistributed disbursements and collections between federal and nonfederal categories based on the percentage of distributed federal and nonfederal accounts payable and accounts receivable. Unsupported, undistributed disbursements and collections are also applied to reduce accounts payable and accounts receivable accordingly.

K. Cash and Other Monetary Assets

USTRANSCOM does not have any cash or other monetary assets.

L. Accounts Receivable

Accounts receivable represent amounts due to USTRANSCOM from other federal entities and the public. In general, intragovernmental accounts receivable arise from the provision of services to other federal agencies and are expected to be fully collected.

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. The DoD 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 U.S. Treasury Financial Manual.

M. Direct Loans and Loan Guarantees

USTRANSCOM does not have any direct loans or loan guarantees.

N. Inventories and Related Property

USTRANSCOM does not have any inventory or related property.

O. Investments in U.S. Treasury Securities

USTRANSCOM does not have any investments in U.S. Treasury securities.

P. General Property, Plant, and Equipment

Capitalization Threshold: USTRANSCOM capitalizes acquisitions of fixed assets when the acquisition costs equal or exceed $250 thousand and the fixed assets have a useful life greater than two years.

The TWCF capitalizes all PP&E used in the performance of its mission. These assets are capitalized as General PP&E, if they meet the definition of any other PP&E category.

Depreciation Method (Unaudited):

Asset Classes	Depreciation/Amortization Method	Service Life
Buildings, Structures, and Facilities	S/L*	20, 40 or 45
Internal Use Software (IUS)	S/L	2-5 or 10
General Equipment	S/L	5

*Straight line (S/L)

USTRANSCOM recognizes depreciation expense once the asset has been placed in service. Depreciation is calculated using the straight-line depreciation method for all asset classes over their estimated useful lives. Amortization of capitalized software is calculated using the straight-line depreciation method and begins on the date of acquisition if purchased, or when the module or component has been placed in use, if contractor or internally developed.

Cost for construction projects are recorded as construction-in-progress (CIP) until the asset is placed in service. Costs are valued at actual (direct) costs plus applied overhead and other indirect costs. At year-end, a portion of the CIP balance may be estimated to accrue amounts for work completed but not yet recorded.

IUS includes purchased COTS software, contractor-developed software and internally developed software. For COTS software, the capitalized costs are equal to the amount paid to the vendor for the software. For contractor-developed software, the capitalized costs include the amount paid to a contractor to design, program, install and implement the software. For internally-developed software, capitalized costs include the direct costs incurred during the software development phase. USTRANSCOM is working on a methodology to capture indirect costs. Costs incurred during the preliminary design and post-implementation/operational phases are expensed in the period incurred.

Q. Advances and Prepayments

Payments made in advance of the receipt of goods and services should be reported as an asset on the Balance Sheets. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received. USTRANSCOM has not fully implemented this policy.

R. Leases

Lease payments for the rental of equipment and operating facilities should be classified as either capital or operating leases. USTRANSCOM, 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. As noted above, USTRANSCOM has not performed a review of potential lease information to properly account for capital and operating leases, and to identify property and equipment where USTRANSCOM is the lessor. Accordingly, USTRANSCOM is not compliant with SFFAS 5 and SFFAS 6. In addition, USTRANSCOM does not separately present lease information in the notes as required by OMB Circular A-136.

S. Other Assets

Other assets include assets such as military and civil service employee pay advances, travel advances, and prior to FY 2019, included certain contract financing payments not reported elsewhere on USTRANSCOM's Consolidated Balance Sheets.

T. Contingencies and Other Liabilities

SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. USTRANSCOM 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. USTRANSCOM's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; property or environmental damages; and contract disputes.

USTRANSCOM is evaluating treaties and other international agreements that may give rise to contingent liabilities and that should be recognized and disclosed in accordance with SFFAS 5 as amended by SFFAS 12.

U. Accrued Leave

USTRANSCOM reports liabilities for accrued compensatory and annual leave for civilians at least quarterly. Sick leave for civilians is expensed as taken and is not paid out when an employee leaves the agency. The liabilities are based on current pay rates. Under working capital funds, leave is funded as earned.

V. Net Position

Net position is the residual difference between assets and liabilities and is comprised of Cumulative Results of Operations.

Cumulative Results of Operations represent the net difference between expenses and losses, and financing sources (including revenue and gains), since inception. The cumulative results of operations also include transfers in and out of assets that were not reimbursed.

W. Treaties for Use of Foreign Bases

The U.S. Government enters into Status of Forces Agreements (SOFA) with foreign countries, such as Japan and the Republic of Korea. As part of these agreements, the DoD and, by extension, USTRANSCOM, are provided with economic and financial burden-sharing resources (i.e., utilities, labor, construction of buildings and military barracks, etc.) to provide for the common defense and security of the foreign governments with whom the SOFAs are made. Per DoD Policy, the execution of burden-sharing funds is reported at the consolidated DoD level and is not reported on USTRANSCOM's financial statements.

X. Fiduciary Activities

USTRANSCOM does not have any fiduciary activities.

Y. Military Retirement and Other Federal Employment Benefits

Military retirement is accounted for in the audited financial statements of the Military Retirement Fund (MRF); as such, USTRANSCOM does not record any liabilities or obligations for pensions or healthcare retirement benefits. The MRF is funded through a permanent, indefinite appropriation which finances the liabilities of DoD under military retirement and survivor benefit programs on an actuarial basis.

Health benefits are funded centrally at the DoD level. As such, the portion of the health benefits actuarial liability that is applicable to USTRANSCOM is reported only on the DoD agency-wide financial statements and the Medicare-Eligible Retiree Health Care Fund financial statements.

For financial reporting purposes, the Department of Labor (DOL) develops the actuarial liability for civilian workers' compensation benefits under the requirements of the FECA and provides it to USTRANSCOM at the end of each fiscal year.

Z. Subsequent Events

There have not been any significant events that would have a pervasive effect throughout the financial statements and accompanying notes.

Note 2. Non-Entity Assets

As of September 30, 2019 and 2018 (dollars in thousands):

	Unaudited	
	FY 2019	FY 2018
Non-Federal Assets		
Accounts Receivable	$ 469	$ 277
Total Non-Entity Assets	$ **469**	$ **277**
Total Entity Assets	$ **2,181,846**	$ **2,472,622**
Total Assets	**$ 2,182,315**	**$ 2,472,899**

Non-entity assets are not available for use in USTRANSCOM's normal operations. USTRANSCOM has stewardship accountability and reporting responsibility for non-entity assets. Non-entity assets are immaterial to USTRANSCOM's financial statements and represent interest, penalties and fines receivable. Generally, USTRANSCOM cannot use the proceeds and must remit them to the U.S. Treasury unless permitted by law.

Note 3. Fund Balance with Treasury

As of September 30, 2019 and 2018 (dollars in thousands):

	Unaudited	
	FY 2019	FY 2018
Unobligated Balance		
Available	$ 775,251	$ 1,542,091
Total Unobligated Balance	**$ 775,251**	**$ 1,542,091**
Obligated Balance not yet Disbursed	$ 2,507,684	$ 2,217,917
Non-Fund Balance with Treasury Budgetary Accounts		
Unfilled Customer Orders without Advance	$ (1,316,487)	$ (1,550,550)
Contract Authority	(30,940)	(44,204)
Receivables and Other	(1,466,459)	(1,638,648)
Total Non-Fund Balance with Treasury Budgetary Accounts	**$ (2,813,886)**	**$ (3,233,402)**
Total Fund Balance with Treasury	**$ 469,049**	**$ 526,606**

FBWT represents funds held within the Department of the U.S. Treasury from which USTRANSCOM can pay for its ongoing operations. USTRANSCOM reconciles and adjusts its FBWT recorded in the general ledger so that the balances reported in the financial statements agree to the FBWT amounts on record with the U.S. Treasury.

The U.S. Treasury records FBWT receipts and disbursements on USTRANSCOM's behalf and funds are available only for the purposes for which they were appropriated. USTRANSCOM's FBWT consists primarily of revolving funds. The difference between FBWT in the USTRANSCOM general ledger and FBWT reflected in the U.S. Treasury accounts is attributable to transactions that have not been posted in

USTRANSCOM'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 USTRANSCOM general ledger accounts.

The Status of Fund Balance with Treasury reflects the budgetary resources to support FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or 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 future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The obligated balance not yet disbursed represents funds that have been obligated to obtain goods and services in support of USTRANSCOM operations; the balance includes goods and services not yet received, and goods and services received but for which payment has not yet been made.

Non-FBWT budgetary accounts reduces the status of FBWT. This amount represents reconciling adjustments to the status of budgetary resources for which there is no FBWT impact. The amounts include budget authority made available to USTRANSCOM for the fulfillment of reimbursable customer orders, but where FBWT is not impacted until a collection is received from the customer.

USTRANSCOM acknowledges departures from U.S. GAAP related to fund balance with Treasury as disclosed in Note 1E.

Note 4. Accounts Receivable, Net

As of September 30, 2019 (dollars in thousands):

	Gross Amount Due	*Unaudited* Allowance For Estimated Uncollectible	Accounts Receivable, Net
Accounts Receivable			
Intragovernmental Receivables	$ 1,447,517	$ N/A	$ 1,447,517
Receivables due from the Public	29,950	(4,590)	25,360
Total Accounts Receivable	**$ 1,477,467**	**$ (4,590)**	**$ 1,472,877**

As of September 30, 2018 (dollars in thousands):

	Gross Amount Due	*Unaudited* Allowance For Estimated Uncollectible	Accounts Receivable, Net
Accounts Receivable			
Intragovernmental Receivables	$ 1,606,652	$ N/A	$ 1,606,652
Receivables due from the Public	44,216	(4,574)	39,642
Total Accounts Receivable	**$ 1,650,868**	**$ (4,574)**	**$ 1,646,294**

Accounts receivable represent USTRANSCOM's claim for payment from other entities. USTRANSCOM's intragovernmental receivables include amounts due to USTRANSCOM from other

DoD agencies through reimbursable orders for various services. Receivables due from the public include amounts due from nonfederal government agencies, as well as amounts due from foreign governments.

DoD working capital funds, such as the TWCF, are authorized to charge amounts necessary to recover the full costs of goods and services provided[10]. However, the TWCF is authorized to establish airlift customer rates to be competitive with commercial air carriers. This results in some rates charged to customers that are below actual costs incurred by the TWCF. Due to mobilization requirements, the resulting revenue does not always cover the full costs of airlift operations provided through the TWCF. To the extent customer revenue is insufficient to support the costs of maintaining airlift capability, the Air Force provides appropriated funds. The Air Force generally pays for expenses not covered by TWCF rates through the ARA. The Air Force requests ARA funds in its annual Operations and Maintenance budget request; however, the ARA request is not presently broken out in the budget request as an individual line item. These funds are subsequently provided to USTRANSCOM to assist in paying for airlift services. Amounts requested, allotted, and expended vary from year-to-year, in part due to the amount of airlift services provided by USTRANSCOM[11]. As of September 30, 2019, the outstanding ARA receivable amount included in intragovernmental receivables was $170 million.

USTRANSCOM only recognizes an allowance for uncollectible amounts from the public. The allowance for estimated uncollectible public receivables is attributable primarily to AMC and is calculated at the beginning of each fiscal year by using the actual amount of public revenue for the prior two fiscal years and applying the National Bad Debt Statistic recommended ideal rate of .2% or .002 of total sales. The amount derived from this calculation is divided and posted equally among each of the 12 months in the fiscal year. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of the Treasury Financial Manual, Volume I, Part 2, Chapter 4700.

USTRANSCOM acknowledges departures from U.S. GAAP related to accounts receivable, net as disclosed in Note 1E.

[10] 10 U.S.C. § 2208

[11] Source: GAO-18-557

Note 5. General Property, Plant, and Equipment, Net

As of September 30, 2019 (dollars in thousands):

		Acquisition Value		*Unaudited* Accumulated Depreciation/ Amortization		Net Book Value
Major Fixed Asset Classes						
Buildings, Structures, and Facilities	$	272,207	$	(127,041)	$	145,166
Software		68,483		-		68,483
General Equipment		158,244		(143,326)		14,918
Construction-in-Progress (CIP)		11,094		N/A		11,094
Other		-		-		-
Total General Property, Plant, and Equipment	**$**	**510,028**	**$**	**(270,367)**	**$**	**239,661**

As of September 30, 2018 (dollars in thousands):

		Acquisition Value		*Unaudited* Accumulated Depreciation/ Amortization		Net Book Value
Major Fixed Asset Classes						
Buildings, Structures, and Facilities	$	270,250	$	(117,174)	$	153,076
Software		78,075		-		78,075
General Equipment		349,480		(290,565)		58,915
Construction-in-Progress (CIP)		8,954		N/A		8,954
Other		450		(450)		-
Total General Property, Plant, and Equipment	**$**	**707,209**	**$**	**(408,189)**	**$**	**299,020**

Buildings, structures, and facilities – Real property in the federal government generally includes land, land improvements, buildings, facilities, and structures. USTRANSCOM does not own land; however, USTRANSCOM does have an immaterial amount of land improvements on the books. USTRANSCOM currently has financial reporting and sustainment responsibilities for real property; however, new policy related to the financial reporting of real property was issued by the OUSD-C on March 15, 2019. By the end of FY 2020, USTRANSCOM intends to transfer financial reporting and sustainment responsibilities of the real property to the installation host and intends to impute costs for the use of real property assets in accordance with SFFAS 55, *Amending Inter-Entity Cost Provisions*. As of September 30, 2019, the real property balance on the Consolidated Balance Sheet still includes certain facilities and structures that plan to be transferred to the installation host financial statements at a mutually agreed upon date.

Equipment – Equipment includes general office equipment meeting the capitalization threshold and expected to be used in USTRANSCOM's operations. There are no known restrictions on general property, plant, and equipment. Remediation activities are ongoing to identify the full population of impaired assets and design impairment tests that will facilitate U.S. GAAP accounting moving forward. As disclosed in Note 1, impairment losses are not recorded, the full nature of impairment may not be documented, and the financial statement classification of the impairment loss is not currently reported on USTRANSCOM's financial statements.

Internal Use Software – IUS, identified in the schedule above as "software," can be purchased from commercial vendors off-the-shelf, modified "off the shelf," internally developed, or contractor developed. IUS includes software that is: (1) used to operate programs (i.e., financial and administrative software, including that used for project management), and (2) used to provide services. IUS does not include computer software that is integrated into and necessary to operate general property plant & equipment. The Software line item in the schedule above consists of software-in-development costs.

Software – USTRANSCOM has not fully developed and executed its accounting policy and related reporting for software and internal use software.

Construction-In-Progress (CIP) – In accordance with Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities,* a policy change issued by the OUSD-C requires USTRANSCOM components that are allocated construction funds to record CIP projects on that component's books. Completed CIP projects are then transferred to the respective Military Department property holder when placed into service. USTRANSCOM has an immaterial amount of CIP.

Leases – USTRANSCOM has not fully developed and executed its accounting policy and related reporting requirements for its lease activity. USTRANSCOM will be identifying the universe of leases and performing an analysis of its lease contracts to determine capital versus operating leases; however, that process has not yet been started as of September 30, 2019.

Change in Accounting Principle – In FY 2016, USTRANSCOM and its financial statement component entities, SDDC, MSC, AMC, DCD, and Headquarters (i.e., CMD) executed a comprehensive write-off of IUS balances in accordance with a September 30, 2015, OUSD-C Memorandum titled *Strategy for Internal Use Software Audit Readiness*. The goal of this OUSD-C guidance was to establish policy guidelines for DoD-wide IUS audit readiness strategy. At the time of the write-off, SDDC, AMC, MSC, and CMD had material balances of IUS affected by this change in accounting principle. DCD was the only financial statement component with immaterial balances of IUS and therefore was unaffected by this management decision. After the FY 2016 write-off process, MSC and DCD had no further IUS to report. As such, these financial statement components have been excluded from the year-over-year comparison for FY 2019 and FY 2018 below.

USTRANSCOM intends to continue annual write offs until an unreserved assertion for IUS is complete in accordance with SFFAS 50, *Establish Opening Balances for General Property, Plant, and Equipment; Amending SFFAS 6, SFFAS 10, SFFAS 23, and Rescinding SFFAS 35*. When the unreserved assertion is complete, all balances related to IUS before this point will be written down to zero.

The prior period adjustment write off in FY 2019 and FY 2018 is for activity occurring in FY 2018 and FY 2017, respectively. The following was the IUS write-off that occurred as of September 30, 2019, and September 30, 2018 (*dollars in thousand)*:

	Unaudited	
	FY 2019	FY 2018
SDDC	$ 6,740	$ 7,545
AMC	31,124	32,336
CMD	38,657	42,208
TOTAL	**$ 76,521**	**$ 82,089**

In addition, SDDC recorded a prior period adjustment, writing off general PP&E under the guidance of an OUSD-C memo dated March 5, 2019 "Application of Capitalization Thresholds for General Property, Plant, and Equipment (FPM 19-01). The OUSD-C memo increased the capitalization threshold to $250 thousand, therefore, SDDC wrote off general PP&E below the new threshold. The assets written off as a result of the change in capitalization threshold had a net book value of $5.8 million. Also in FY 2019, SDDC wrote off general PP&E assets that were identified as duplicate assets recorded on both the Army's books and SDDC's TWCF books. The assets that were written off were not TWCF funded and had a net book value of $516 thousand.

USTRANSCOM acknowledges departures from U.S GAAP related to general property, plant, and equipment as discussed in Note 1E.

Note 6. Other Assets

As of September 30, 2019 and 2018 (dollars in thousands):

	Unaudited	
	FY 2019	FY 2018
Non Federal Other Assets		
Outstanding Contract Financing Payments	$ -	$ 945
Advances and Prepayments	728	34
Total Other Assets	**$ 728**	**$ 979**

Outstanding Contract Financing Payments in FY 2018 represented progress payments on Mechanization of Contract Administration Services (MOCAS) contracts. In FY 2019, these progress payments have been reclassified to General PP&E CIP, IUS in Development, or expensed as appropriate.

Advances and Prepayments primarily represents payments USTRANSCOM made in advance for payroll and travel. The travel advance balance for SDDC was abnormal at September 30, 2019 because of identified errors in processing permanent change of station (PCS) travel advances. SDDC is in the process of researching each advance to determine the posting results for the entire advance from requisition to collection and correcting each error identified. USTRANSCOM acknowledges departures from U.S GAAP related to travel advances as discussed in Note 1E.

Note 7. Liabilities Not Covered by Budgetary Resources

As of September 30, 2019 and 2018 (dollars in thousands):

	Unaudited FY 2019	Unaudited FY 2018
Liabilities		
Intragovernmental		
Other	$ 47,658	$ 41,119
Total Intragovernmental	$ 47,658	$ 41,119
Liabilities Due to the Public		
Federal Employment Benefits	$ 18,585	$ 17,525
Unfunded Leave	10,549	-
Other Liabilities	38,439	44,997
Total Liabilities Due to the Public	$ **67,573**	$ **62,522**
Total Liabilities Not Covered by Budgetary Resources	$ **115,231**	$ **103,641**
Total Liabilities Covered by Budgetary Resources	$ **756,936**	$ **640,938**
Total Liabilities	**$ 872,167**	**$ 744,579**

Liabilities not covered by budgetary resources are liabilities that are not currently funded by existing budgetary authority as of the balance sheet date. These liabilities will require congressional action before budgetary resources can be provided. USTRANSCOM fully expects to receive the necessary resources to cover these liabilities in future years.

Intragovernmental Liabilities – Other – This primarily represents liabilities offsetting ITR receivables and collections. ITR is levied on airlift services only and is the amount AMC bills non-DoD federal and public customers above stabilized DoD rates to recover the full cost incurred by the federal government. Collections of these costs, which include unfunded civilian retirement and post-retirement benefit costs, are not retained by the TWCF, but are redistributed regularly to various appropriations based on a distribution percentage. The liability amount is equal to the ITR which has yet to be collected and/or redistributed.

Also, included in this amount are unemployment compensation liabilities (FECA). This consists of unfunded liabilities related to unemployment compensation. Unemployment benefits to unemployed DoD and civilian personnel and ex-service members are paid by the DOL from the Federal Employee Compensation Account within the Unemployment Trust Fund. The DOL prepares a chargeback estimate and allocation of accrued benefits for existing claims, which is recognized by DoD as an unfunded liability. After the benefits are paid, the DOL prepares a chargeback billing for these benefit costs to be reimbursed by the DoD. At the time the liabilities become billed and due, the liabilities move from unfunded to funded, and then are reimbursed to the DOL.

Liabilities Due to the Public – Federal Employment Benefits – This consists of various employee actuarial liabilities not due and payable during the current fiscal year.

Liabilities Due to the Public – Unfunded Leave – This liability represents accrued, earned civilian leave that will be funded in future years.

Liabilities Due to the Public – Other – This primarily represents liabilities offsetting ITR receivables and collections. ITR is levied on airlift services only and is the amount AMC bills non-DoD federal and public customers above stabilized DoD rates to recover the full cost incurred by the federal government. Collections of these costs, which include unfunded civilian retirement and post-retirement benefit costs, are not retained by the TWCF, but are redistributed regularly to various appropriations based on a distribution percentage. The liability amount is equal to the ITR which has yet to be collected and/or redistributed.

Total Liabilities Covered by Budgetary Resources – Total liabilities covered by budgetary resources represents all funded liabilities.

Note 8. Federal Employment Benefits

As of September 30, 2019 (dollars in thousands):

	Liabilities	*Unaudited* Less: Assets Available to Pay Benefits	Unfunded Liabilities
Federal Employment Benefits			
FECA	$ 18,585	$ -	$ 18,585
Other	(50)	50	-
Total Federal Employment Benefits	**$ 18,535**	**$ 50**	**$ 18,585**

As of September 30, 2018 (dollars in thousands):

	Liabilities	*Unaudited* Less: Assets Available to Pay Benefits	Unfunded Liabilities
Federal Employment Benefits			
FECA	$ 17,525	$ -	$ 17,525
Other	58	(58)	-
Total Federal Employment Benefits	**$ 17,583**	**$ (58)**	**$ 17,525**

USTRANSCOM actuarial liability for workers' compensation benefit is developed by the DOL and is updated 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 DOL selected the cost of living adjustment (COLA) factors, consumer price index medical (CPIM) factors, and discount rate by averaging the COLA rates, CPIM rates, and interest rates for the current and prior four years for 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 U.S. 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.

FY 2019 Interest rate assumptions utilized for discounting were as follows:
- 2.610% in Year 1 and thereafter for wage benefits
- 2.350% in Year 1 and thereafter for medical benefits

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (COLAs) and medical inflation factors (CPIMs) were applied to the calculation of projected future benefits. The actual rates for these factors for the charge back year (CBY) 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 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%

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 9. Other Liabilities

As of September 30, 2019 (dollars in thousands):

			Unaudited			
		Current Liability		Noncurrent Liability		Total
Other Liabilities						
Intragovernmental Other Liabilities						
FECA Reimbursements due to DOL	$	1,483	$	1,851	$	3,334
Custodial Liabilities		469		-		469
Employer Contributions and Payroll Taxes Payable		2,097		-		2,097
Other Liabilities		44,324		-		44,324
Total Intragovernmental Other Liabilities	**$**	**48,373**	**$**	**1,851**	**$**	**50,224**
Due to the Public Other Liabilities						
Accrued Funded Payroll and Benefits	$	22,457	$	-	$	22,457
Advances from Others		237		-		237
Unfunded Leave		10,549		-		10,549
Contract Holdbacks		174		-		174
Contingent Liabilities		-		-		-
Employer Contributions and Payroll Taxes Payable		(549)		-		(549)
Other Liabilities		39,118		-		39,118
Total Due to the Public Other Liabilities	**$**	**71,986**	**$**	**-**	**$**	**71,986**
Total Other Liabilities	**$**	**120,359**	**$**	**1,851**	**$**	**122,210**

As of September 30, 2018 (dollars in thousands):

	Current Liability	*Unaudited* Noncurrent Liability	Total
Other Liabilities			
Intragovernmental Other Liabilities			
FECA Reimbursements due to DOL	$ 1,476	$ 1,833	$ 3,309
Custodial Liabilities	277	-	277
Employer Contributions and Payroll Taxes Payable	1,804	-	1,804
Other Liabilities	37,809	-	37,809
Total Intragovernmental Other Liabilities	**$ 41,366**	**$ 1,833**	**$ 43,199**
Due to the Public Other Liabilities			
Accrued Funded Payroll and Benefits	$ 17,098	$ -	$ 17,098
Advances from Others	185	-	185
Unfunded Leave	-	-	-
Contract Holdbacks	174	-	174
Contingent Liabilities	-	1,604	1,604
Employer Contributions and Payroll Taxes Payable	(1,108)	-	(1,108)
Other Liabilities	45,705	-	45,705
Total Due to the Public Other Liabilities	**$ 62,054**	**$ 1,604**	**$ 63,658**
Total Other Liabilities	**$ 103,420**	**$ 3,437**	**$ 106,857**

FECA reimbursement due to the DOL – The FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the DOL and consists of two parts. The first part pays valid claims and subsequently seeks reimbursement from USTRANSCOM for these paid claims. USTRANSCOM reimburses DOL for the actual claims as funds are appropriated for this purpose. There is generally a two- to three-year lag between payment by the DOL and reimbursement by USTRANSCOM. The amount above represents the liability for workers' compensation that is remitted to the DOL as required per the FECA. The second part of the FECA program consists of the actuarial liability calculated by the DOL. See Note 8, *Federal Employment Benefits*, for more information regarding the actuarial liability. Billed amounts payable in FY 2018 and 2019 and unbilled amounts for both incurred and estimated accrual amounts are included above.

Custodial Liabilities – This amount represents liabilities for collections reported as non-exchange revenues where USTRANSCOM is acting on behalf of another federal entity.

Employer Contributions and Payroll Taxes Payable – This 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 USTRANSCOM 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. USTRANSCOM 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 – This primarily represents liabilities offsetting ITR receivables and collections. ITR is the amount AMC bills non-DoD federal and public customers above stabilized DoD rates to recover the full cost incurred by the federal government. Collections of these costs, which include unfunded civilian retirement and post-retirement benefit costs, are not retained by the TWCF, but are redistributed regularly to General Fund accounts. The liability amount is equal to the ITR which has yet to be collected and/or redistributed. Also included in this amount are unemployment compensation liabilities (FECA).

Advances from Others – The balance represents funds received from nonfederal entities in advance of the delivery of services by USTRANSCOM to those entities.

Contract Holdbacks – These 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 – The amount reported in FY 2018 includes outstanding contract financing payments owed to the vendor as progress payments for costs incurred related to existing contracts in MOCAS. In FY 2019, outstanding contract financing payments are recorded in accounts payable.

Other Liabilities Due to the Public – This primarily represents liabilities offsetting ITR receivables and collections. ITR is the amount AMC bills non-DoD federal and public customers above stabilized DoD rates to recover the full cost incurred by the federal government. Collections of these costs, which include unfunded civilian retirement and post-retirement benefit costs, are not retained by the TWCF, but are redistributed regularly to General Fund accounts. The liability amount is equal to the ITR which has yet to be collected and/or redistributed.

Note 10. Leases

USTRANSCOM is in the process of reviewing lease information to properly account for capital and operating leases, and to identify property where USTRANSCOM is the lessor. Accordingly, USTRANSCOM is not compliant with SFFAS 5 and SFFAS 6. In addition, USTRANSCOM does not separately present lease information in the notes as required by OMB Circular A-136. USTRANSCOM acknowledges departures from U.S. GAAP related to leases as discussed in Note 1E.

Note 11. Commitments and Contingencies

USTRANSCOM is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the federal government. These matters arise in the normal course of operations; generally relate to equal opportunity and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the

Government, some of the settlements are expected to be paid from the U.S. Treasury Judgment Fund. In most cases, USTRANSCOM does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the Contracts Disputes Act or the No FEAR Act.

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. USTRANSCOM accrues contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. In accordance with SFFAS 5, USTRANSCOM was not required to accrue contingent liabilities in either FY 2018 or FY 2019. USTRANSCOM reports any contingent liabilities in Note 9, Other Liabilities.

USTRANSCOM's Staff Judge Advocate reviews litigation and claims threatened or asserted involving USTRANSCOM to which lawyers devote substantial attention in the form of legal consultation or representation. USTRANSCOM accrues contingent liabilities for legal actions where the USTRANSCOM Staff Judge Advocate considers an adverse decision probable and the amount of loss measurable.

USTRANSCOM is a party to an appeal of a contracting officer's decision at the Armed Services Board of Contract Appeals. Amounts disclosed for litigation claims and assessments are fully supportable and agree with USTRANSCOM's legal representation letters and management summary information schedule. The Appellant initially sought $2.8 million. An estimate of the range of the possible liability cannot be made. The ultimate outcome in this matter cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect USTRANSCOM's financial position or results of operations.

As of September 30, 2019 (dollars in thousands): *

		Estimated Range of Loss	
(Unaudited)	**Accrued Liabilities**	**Lower End**	**Upper End**
Legal Contingencies:			
Probable	$ -	$ -	$ -
Reasonably Possible	$ -	$ -	$ 2,803

** OMB Circular A-136, issued June 28, 2019, revised the presentation of commitments and contingencies. The revised format differs substantially from the format published in FY 2018. Comparative FY 2018 numbers are not available in this format and, therefore, are not presented.*

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

USTRANSCOM acknowledges departures from U.S. GAAP related to the commitment and contingencies as discussed in Note 1E.

Note 12. Funds from Dedicated Collections

Dedicated collections are specifically identified revenues, provided to the government by nonfederal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the government's general revenues. USTRANSCOM does not have any funds from dedicated collections.

Note 13. General Disclosures Related to the Statement of Net Cost

As of September 30, 2019 (dollars in thousands):

	Unaudited							
	MSC	SDDC	AMC	CMD	DCD	Combined Totals	Intra-entity Eliminations	Consolidated Total
Program Costs								
Operations, Readiness & Support								
Total Gross Costs	$898,088	$1,325,036	$5,243,850	$373,471	$6,412	$7,846,857	$ 300,803	$ 7,546,054
Less: Total Earned Revenue	(797,930)	(1,316,319)	(5,032,577)	(372,236)	(6,530)	(7,525,592)	(300,803)	(7,224,789)
NET COST OF OPERATIONS	$100,158	$ 8,717	$ 211,273	$ 1,235	$ (118)	$ 321,265	$ -	$ 321,265

As of September 30, 2018 (dollars in thousands):

	Unaudited							
	MSC	SDDC	AMC	CMD	DCD	Combined Totals	Intra-entity Eliminations	Consolidated Total
Program Costs								
Operations, Readiness & Support								
Total Gross Costs	$847,538	$1,345,321	$4,853,448	$335,007	$7,229	$7,388,543	$ 292,367	$ 7,096,176
Less: Total Earned Revenue	(753,954)	(1,252,101)	(5,043,080)	(351,582)	(7,025)	(7,407,742)	(292,367)	(7,115,375)
NET COST OF OPERATIONS	$ 93,584	$ 93,220	$ (189,632)	$(16,575)	$ 204	$ (19,199)	$ -	$ (19,199)

The SNC represents the net cost of programs and organizations of USTRANSCOM that are 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. The DoD's current processes and systems capture costs based on appropriations groups as presented in the SNC. The lower-level costs for major programs are not presented as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost-reporting methodology as required by SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended by SFFAS 55, *Amending Inter-Entity Cost Provisions*.

Effective FY 2018, the DoD has elected early implementation of SFFAS 55 which rescinds SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts and Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*." Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by USTRANSCOM are recognized as imputed cost in the SNC, and are offset by imputed revenue in the SCNP. Such imputed costs and revenues relate to employee benefits and when applicable, claims to be settled by the U.S. Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

USTRANSCOM is currently unable to disclose exchange revenue pricing and loss information in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources*, paragraph 46 and OMB Circular A-136. USTRANSCOM is working towards putting a process in place to gather the information to make this disclosure. USTRANSCOM acknowledges departures from U.S. GAAP related to the SNC as discussed in Note 1E.

Note 14. Disclosures Related to the Combined Statement of Budgetary Resources

As of September 30, 2019 and 2018 (dollars in thousands):

	Unaudited FY 2019	FY 2018
Undelivered Orders		
Intragovernmental		
Undelivered orders – unpaid	$ 226,769	$ 101,155
Total Intragovernmental Undelivered Orders	**$ 226,769**	**$ 101,155**
With the Public		
Undelivered orders – unpaid	$ 1,519,781	$ 1,460,137
Undelivered orders – paid	729	34
Total Undelivered Orders with the Public	**$ 1,520,510**	**$ 1,460,171**
Total Undelivered Orders	**$ 1,747,279**	**$ 1,561,326**

As of September 30, 2019 and 2018 (dollars in thousands):

	Unaudited FY 2019	FY 2018
Available borrowing and contract authority at the end of the period	$ -	$ -

Reconciliation Differences – Under OMB Circular A-11, federal agencies are to report budgetary information in the SBR based on budget terminology, definitions and guidance issued. OMB Circular A-11 also states that the information on the SBR should be consistent with budget execution information reported in the President's Budget. Additionally, per SFFAS 7, *Accounting for Revenue and Other Financing Sources*, agencies are to provide a financial statement note disclosure to explain significant differences between amounts presented in the SBR and amounts described as actuals in the President's Budget. However, since USTRANSCOM is a component of the DoD rather than a separate federal agency as envisioned by OMB requirements, an analysis of information reported in both the SBR and the Report on

Budget Execution and Budgetary Resources (SF-133) as of September 30, 2019, is performed. There are no differences between the SBR and the SF-133.

Other Disclosures
There are no legal arrangements affecting the use of unobligated balances of budgetary authority.
The SBR includes intra-entity transactions because the statements are presented as combined. The balances are a direct output from DFAS. USTRANSCOM does not have access to the underlying account information.

Undelivered orders (UDOs) consist of services obligated that have been ordered but not received. Unpaid UDOs represent obligations for services that have not been received or paid. Whereas, paid UDOs represent obligations for services that have been paid for in advance of receipt.

Note 15. Budget to Accrual Reconciliation[12]

As of September 30, 2019 (dollars in thousands):

	Unaudited Intragovernmental	With the Public	Total
Net Operating Costs	$ (4,057,731)	$ 4,378,996	$ 321,265
Components of Net Cost that are not Part of Net Outlays			
Property, Plant, and Equipment depreciation	-	(20,854)	(20,854)
Property, Plant, and Equipment disposal and revaluation	-	(235)	(235)
Other	16	(144)	(128)
Increase/decrease in assets			
Accounts Receivable	(176,993)	(14,282)	(191,275)
Other Assets	-	(250)	(250)
Increase/decrease in liabilities			
Accounts Payable	(42,600)	(56,715)	(99,315)
Salaries and benefits	(295)	(5,808)	(6,103)
Other Liabilities	(1,063)	(3,251)	(4,314)
Imputed Costs	(17,167)	-	(17,167)
Total Components of Net Cost that are not part of Net Outlays	$ (238,102)	$ (101,539)	$ (339,641)
Components of Net Cost that are not part of Net Costs			
Acquisition of capital assets	$ -	$ 79,379	$ 79,379
Other	(192)	-	(192)
Total Components of Net Cost that are not part of Net Costs	(192)	79,379	79,187
Net Outlays	$ (4,296,025)	$ 4,356,836	$ 60,811
Outlays, Net, Statement of Budgetary Resources			$ 57,557
Reconciling Difference			$ 3,254

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of FBWT, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information

[12] SFFAS 53; page 8: Effective Date – "In the initial year of implementation, the disclosure requirements that were applicable in prior reporting periods are not required for comparative presentations."

about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis above illustrates this reconciliation by listing the key differences between net cost and net outlays. The reconciling difference is not yet fully explainable.

Note 16. Public-Private Partnerships

Under SFFAS 49, *Public-Private Partnerships: Disclosure Requirements,* which is effective for FY 2019, agencies must disclose certain information for Public-Private Partnerships. USTRANSCOM has not identified any public-private partnerships requiring disclosure under SFFAS 49.

Note 17. Reporting Entities and Related Parties

Under SFFAS 47, *Reporting Entity*, which was effective beginning in FY 2018, agencies must disclose certain information for disclosure entities and related parties. USTRANSCOM has not completed an assessment of any disclosure entities or related parties that are required to be reported pursuant to SFFAS 47. USTRANSCOM acknowledges departures from U.S. GAAP related to the definition of reporting entity as discussed in Note 1E.

Required Supplementary Information

Deferred Maintenance and Repairs

Although USTRANSCOM receives the economic benefit and is responsible for the sustainment of various general property, plant, and equipment, USTRANSCOM did not disclose deferred maintenance for FY 2018 or FY 2019 in accordance with U.S. GAAP per SFFAS 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2019
(dollars in thousands)

	Unaudited MSC	SDDC	AMC	CMD	DCD	Combined Totals
BUDGETARY RESOURCES						
Unobligated balance from prior year budget authority, net	$ (82,427)	$ 1,060,918	$ 660,442	$ (41,931)	$ 13,514	$ 1,610,516
Contract Authority (discretionary and mandatory)	-	8,291	33,541	35,696	-	77,528
Spending Authority from offsetting collections (discretionary and mandatory)	906,624	968,149	5,036,948	320,518	5,514	7,237,753
TOTAL BUDGETARY RESOURCES	$ 824,197	$ 2,037,358	$ 5,730,931	$ 314,283	$ 19,028	$ 8,925,797
STATUS OF BUDGETARY RESOURCES						
Total New obligations and upward adjustments	$ 1,027,942	$ 1,350,038	$ 5,380,033	$ 387,349	$ 5,184	$ 8,150,546
Unobligated balance, end of year:						
Apportioned, unexpired accounts	(203,745)	687,320	350,898	(73,066)	13,844	775,251
Unapportioned, unexpired accounts	-	-	-	-	-	-
Unexpired unobligated balance	(203,745)	687,320	350,898	(73,066)	13,844	775,251
Total Unobligated balance, end of year	(203,745)	687,320	350,898	(73,066)	13,844	775,251
TOTAL BUDGETARY RESOURCES	$ 824,197	$ 2,037,358	$ 5,730,931	$ 314,283	$ 19,028	$ 8,925,797
OUTLAYS, NET						
Total outlays, net (discretionary and mandatory)	$ 65,188	$ (171,203)	$ 156,497	$ 6,599	$ 476	$ 57,557
Agency outlays, net (discretionary and mandatory)	$ 65,188	$ (171,203)	$ 156,497	$ 6,599	$ 476	$ 57,557

USTRANSCOM will do their due diligence to determine the cause of the abnormal unobligated year-end balances for MSC and CMD and will determine the appropriate corrective actions to prevent this issue in the future.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2018
(dollars in thousands)

	Unaudited MSC	SDDC	AMC	CMD	DCD	Combined Totals
BUDGETARY RESOURCES						
Unobligated balance from prior year budget authority, net	$ (96,806)	$ 853,021	$ 937,947	$ 43,800	$ 15,036	$ 1,752,998
Contract Authority (discretionary and mandatory)	-	12,651	27,697	37,383	(30)	77,701
Spending Authority from offsetting collections (discretionary and mandatory)	847,967	1,623,494	4,765,778	291,999	6,628	7,535,866
TOTAL BUDGETARY RESOURCES	$ 751,161	$ 2,489,166	$ 5,731,422	$ 373,182	$ 21,634	$ 9,366,565
STATUS OF BUDGETARY RESOURCES						
Total New obligations and upward adjustments	$ 833,588	$ 1,496,674	$ 5,070,980	$ 415,113	$ 8,120	$ 7,824,475
Unobligated balance, end of year:						
Apportioned, unexpired accounts	(82,427)	992,492	588,151	(41,931)	13,514	1,469,799
Exempt from apportionment, unexpired accounts	-	-	72,291	-	-	72,291
Unapportioned, unexpired accounts		-	-	-	-	-
Unexpired unobligated balance	(82,427)	992,492	660,442	(41,931)	13,514	1,542,090
Total Unobligated balance, end of year	(82,427)	992,492	660,442	(41,931)	13,514	1,542,090
TOTAL BUDGETARY RESOURCES	$ 751,161	$ 2,489,166	$ 5,731,422	$ 373,182	$ 21,634	$ 9,366,565
OUTLAYS, NET						
Total outlays, net (discretionary and mandatory)	$ 153,041	$ 160,348	$ 27,611	$ (10,222)	$ (1,276)	$ 329,502
Agency outlays, net (discretionary and mandatory)	$ 153,041	$ 160,348	$ 27,611	$ (10,222)	$ (1,276)	$ 329,502

OTHER INFORMATION

Summary of Financial Statement Audit and Management Assurances

The table below provides a summary of Financial Statement Audit.[13]

Summary of Financial Statement Audit						
Audit Opinion	Disclaimer					
Restatement	No					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Ineffective controls over information technology	1					1
Ineffective processes to provide transaction-level populations to support significant financial statement line items and reconcile populations to reported amounts	1					1
Ineffective controls over financial reporting	1					1
Ineffective transactional controls	1					1
Ineffective budgetary controls	1					1
Total material weaknesses	**5**	**-**	**-**	**-**	**-**	**5**

[13] The Summary of Financial Statement Audit of material weaknesses are from the Independent Auditor's Report on Internal Controls over Financial Reporting.

The table below provides a summary of management assurances[14]

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Reasonable Assurance (except seven material weaknesses)					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Internal-Use Software	1					1
Real Property	1					1
Financial Reporting	4			3		1
General Equipment	1					1
Fund Balance with Treasury	1					1
Accounts Receivable	1					1
Triannual Review	1				1	-
Budgetary Controls	0	1				1
Total material weaknesses	**10**	**1**	**-**	**3**	**1**	**7**

[14] The number of material weaknesses and non-Compliances for ICOFR, ICO and ICOFS were obtained from the FY 2018 and FY 2019 Statement of Assurance.

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Reasonable Assurance (except two material weaknesses)					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Internal Use Software	1					1
Managers' Internal Control Program (MICP) / OMB Circular A-123 Program	1					1
Security Procedures Compliance	1		1			0
Total material weaknesses	**3**	**-**	**1**	**-**	**-**	**2**

Compliance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Reasonable Assurance (except two non-conformances)					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Financial Management Systems	2					2
Total non-compliances	**2**	**-**	**-**	**-**	**-**	**2**

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
1. Federal financial management system requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable federal accounting standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at transaction level	Lack of compliance noted	Lack of compliance noted

Our auditor has noted that USTRANSCOM financial management systems did not comply substantially with the federal financial management system's requirements, applicable federal accounting standards, or application of the USSGL at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting. USTRANSCOM is in the process of evaluating the FY 2019 audit findings contributing to noncompliance to begin the process of remediation plans necessary to bring the financial management systems into substantial compliance.

Management Challenges

Per OMB Circular A-136, as it relates to form and content of an AFR, USTRANSCOM Inspector General (IG) must, "as required by the Reports Consolidation Act of 2000, include as Other Information, a statement summarizing what the IG considers to be the most serious management and performance challenges facing the agency and assessing the agency's progress in addressing those challenges." For reporting purposes, USTRANSCOM IG has reviewed DoD's Top Management Challenges for FY 2019, and determined that USTRANSCOM faces many of the same high-level challenges as the DoD. See below for memo from USTRANSCOM IG to USTRANSCOM Chief of Staff.

Top 10 DoD Management & Performance Challenges	USTRANSCOM IG Assessment
1. Implementing DoD Reform Initiatives	Applicable – See challenge A below.
2. Countering China, Russia, Iran, and North Korea	Applicable – See challenge B below.
3. Countering Global Terrorism	Applicable – See challenge C below.
4. Financial Management: Implementing Timely and Effective Actions to Address Financial Management Weaknesses Identified During the First DoD-Wide Financial Statement Audit	Applicable – See challenge D below.
5. Improving Cyber Security and Cyber Capabilities	Applicable – See challenge E below.
6. Ensuring Ethical Conduct	Not Applicable
7. Enhancing Space-Based Operations, Missile Detection and Response, and Nuclear Deterrence	Applicable- See challenge F below.
8. Improving Readiness Throughout the DoD	Not Applicable
9. Acquisition and Contract Management: Ensuring that the DoD Gets What It Pays For On Time, at a Fair Price, and With the Right Capabilities	Applicable – See challenge G below.
10. Providing Comprehensive and Cost-Effective Health Care	Not Applicable

MEMORANDUM FOR MAJ GEN JOHN FLOURNOY, CHIEF OF STAFF, USTRANSCOM

SUBJECT: TCIG Input to FY2019 Annual Financial Report (AFR)

1. The Office of Management and Budget Circular A-136 requires that USTRANSCOM's FY2019 Annual Financial Report include an Inspector General summary of the most serious management and performance challenges facing this command. Based on guidance provided by the command OPR (TCJ8), TCIG can leverage the DoD FY2019 Top 10 Management challenges and identify which of these challenges are applicable to USTRANSCOM. To ensure currency, accuracy, and relevance with such a strategic-level commentary, TCIG collaborated with the Commander's Action Group to identify in para 2 those DoD challenges applicable to USTRANSCOM, along with a brief commentary on each challenge from USTRANSCOM's perspective.

2. FY2019 Top DoD Management Challenges Applicable to USTRANSCOM:

A. Challenge: Implementing DoD Reform Initiatives. USTRANSCOM is fielding new IT systems (such as Transportation Management System) while also moving its legacy systems to a cloud-based environment. This, along with other ongoing efforts, will make USTRANSCOM more resilient and secure in the face of continuous cyber-attacks. Our efforts to harness the power of Artificial Intelligence, Machine Learning, and advanced data analytics will also give us an advantage in mission assurance despite adversary competition. However, as the DoD IG asserted in describing the Department-wide challenges, change is hard and often faces cultural resistance.

USTRANSCOM is aware of the aging maritime and air refueling fleets and is committed to working with Congress and its component commands to recapitalize as required to ensure full-spectrum readiness for the high-end fight. Some of the recapitalization efforts include fostering successful partnerships to obtain new maritime assets. Additionally, capability comes in large part from military-to-civilian exchanges and relationships to include commercial maritime and land based transportation partners as well as the civil reserve fleet. As the fleets are recapitalized and new technologies introduced, cyber security and capabilities will become and increasing challenging task that must be addressed to help ensure mission success.

B. Challenge: Countering China, Russia, Iran, and North Korea. Much of the data that buttresses USTRANSCOM's challenge in this category are classified. The unclassified version is that USTRANSCOM is cognizant of the challenges of deploying and sustaining to fight these adversaries in an environment where anti-access/area denial capabilities disrupt logistics and non-kinetic and other gray zone activities can degrade our capabilities, even in CONUS.

The ability to deter U.S. lines of communication are challenged globally every day. USTRANSCOM works diligently to be aware of the strength and competition of adversaries as they gain footholds in strategic areas worldwide. USTRANSCOM also continues to support the nuclear triad to maintain an appropriate level of nuclear deterrence.

C. Countering Global Terrorism. The way in which the DoD IG characterizes the challenge of countering global terrorism does not have any direct application to USTRANSCOM. However, there are a couple of indirect references in the DoD IG summary which do implicate USTRANSCOM challenges. Specifically, we rely on partner nations for access to logistics nodes such as airports and seaports; the global nature of the threat stresses our logistics systems and we see competition for scarce logistics resources such as aerial refueling platforms; and the gray zone threat to our systems, even in CONUS applies to this category just as it does to the previous category (e.g., terrorist hackers can target our cyber systems just as state-sponsored hackers can).

D. Financial Management: Implementing Timely and Effective Actions to Address Financial Management Weaknesses Identified During the First DoD-Wide Financial Statement Audit. Although this category is specific to the DoD-wide financial statement audit and USTRANSCOM is not accountable for the remediation of deficiencies identified in that audit, USTRANSCOM shares some of the same issues. For example, USTRANSCOM has many distinct IT programs, many of which perform similar functions, and which share information inefficiently or not at all. USTRANSCOM is trying to resolve this problem through its migration to a cloud-based environment and the development of advanced data analytics.

In relation to replacing unserviceable or unusable maritime assets USTRANSCOM is funded to replace ships for 2021 and 2022. Further acquisitions into later years bring a significant challenge the command and will require work to get through fundamental financial issues to pay the bill.

E. Improving Cybersecurity and Cyber Capabilities. This is a persistent challenge for us. USTRANSCOM has a distinct challenge in that it presents a lucrative target to the enemy. If the enemy can disable our power projection capability through a cyber-attack, then it can defeat the United States without ever having to engage in kinetic warfare. USTRANSCOM must continually improve under the assumption that, in Phases 0 and 1 of a contingency, the enemy will prioritize USTRANSCOM as the main effort for cyber operations.

USTRANSCOM faces a unique set of cyber threats because of the command's extensive network with private sector entities in the transportation and shipping industries. USTRANSCOM has introduced language into cyber contracts requiring self-assessments that are given a level of analysis in an effort to improve resiliency. However, if an advanced and persistent threat actor were on their systems today, it would be problematic. Cyberspace as a war-fighting domain creates an area of vulnerability across what is largely an unclassified surface of employment.

F. Enhancing Space-Based Operations, Missile Detection and Response, and Nuclear Deterrence. As the DoD's single manager for transportation, USTRANSCOM is ready to assist the DoD and Services in addressing this challenge. USTRANSCOM's priorities are in line with those of the NMS and NDS and supports the nuclear triad through its component commands, particularly with regard to aerial refueling assets. Efforts to keep up with utilization of logistics assets are challenged by capability and availability of assets in addition to aging equipment and fleets.

G. <u>Acquisition and Contract Management: Ensuring that the DoD Gets What It Pays for On Time, at a Fair Price, and with the Right Capabilities.</u> USTRANSCOM executes acquisition and contract management through its own Acquisition Directorate, and the challenges it faces mirror the challenges outlined in the DoD IG report. One example of a USTRANSCOM challenge that is not explicitly mentioned in the DoD IG report is the Jones Act, which constrains USTRANSCOM from using non-U.S. owned/operated shipping in moving cargo by sea from one U.S. port to another.

3. POC for TCIG's input to the FY2019 Annual Financial Report is Kathy Hahn, (618) 220-6630.

CHAD A. CALLIS
COL, USA
Inspector General

Payment Integrity

In accordance with the Improper Payments Information Act of 2002, as amended (31 U.S.C. § 3321 note), and Appendix B of the Office of Management and Budget Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements," dated August 27, 2019, DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD Agency Financial Report. For detailed reporting on DoD payment integrity, refer to the Other Information section of the consolidated DoD AFR at: https://comptroller.defense.gov/ODCFO/afr2019.aspx

Fraud Reduction Report

The FRDAA was enacted on September 30, 2016, to help improve federal agencies' financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purposes of preventing, detecting, and responding to fraud. The FRDAA requires agencies to (1) conduct an evaluation of fraud risks and use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; (2) collect and analyze data on detected fraud to monitor fraud trends and use the data and information to continuously improve fraud controls; and (3) use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response.

In FY 2018, in support of its FRDAA compliance efforts, the DoD developed an enterprise-wide fraud risk management framework to assist DoD Components with implementing the requirements of the FRDAA. The framework is a set of guidance and toolkits which will assist DoD Components in achieving the following outcomes:

- Implementing the fraud risk principle in the GAO Green Book and the leading practices identified in the July 2015 GAO Report No. GAO-15-593SP, *A Framework for Managing Fraud Risks in Federal Programs*;
- Identifying existing control activities that relate to fraud risk management, opportunities for expanding the scope of those control activities, and fraud risk areas that require the implementation of new control activities; and
- Identifying risks and vulnerabilities to fraud, including with respect to payroll; beneficiary payments; grants; large contracts; information technology and services; purchase, travel, and fleet cards; and commissary.

Once fully implemented, the framework will help raise the maturity level of fraud risk management efforts across the DoD and help facilitate the development of an enterprise-wide fraud risk profile. The fraud risk profile, which includes an analysis of the types of internal and external fraud risks, the perceived likelihood and impact of fraud risks, management's risk tolerance, and a prioritized inventory of fraud risks, will assist the DoD in the development of an enterprise-wide anti-fraud strategy.

In addition to the steps taken to develop and implement the fraud risk management framework, the DoD revised its Enterprise Risk Management and Internal Control Program policies and procedures to align with the updated guidance provided by OMB Circular A-123. This effort included developing an Internal Control Guide to assist DoD Components with strengthening their internal controls and updating the Statement of Assurance Handbook to incorporate FRDAA requirements.

USTRANSCOM is still in the early stages of implementing fraud reduction efforts. USTRANSCOM is heavily reliant on self-reporting, decentralized operations and haphazard testing strategies regarding their MICP. Although USTRANSCOM received positive feedback from OSD for developing best-in-class Entity Level ELCs, and continues to monitor and test 111 ELCs, challenges remain in the internal control structure at the Assessable Unit level. Due to the lack of internal controls and related transparency across USTRANSCOM, the quality and consistency of internal control programs varies greatly from directorate to directorate and from component to component. Over the next five years, with oversight and guidance from the Program Analysis and Financial Management Directorate (TCJ8), USTRANSCOM can design and implement a robust MICP program across the command, the results of which can be relied upon to provide timely and accurate information to multiple individuals including command leadership, the DoD, external auditors, and other interested parties. By separating the construction of the internal controls process into distinct and measurable phases or "milestones," USTRANSCOM can build a comprehensive internal controls program and deploy it across the command.

Abbreviations and Acronyms

ADA	Anti-deficiency Act
AFR	Agency Financial Report
AMC	Air Mobility Command
AOB	Annual Operating Budget
AOR	Accumulated Operating Result
ARA	Airlift Readiness Account
CAP	Corrective Action Plan
ATARES	Air Transport & Air-to-Air Refueling and other Exchanges of Services
CBY	Charge Back Year
CCMD	Combatant Command
CIP	Construction-in-Progress
CFR	Code of Federal Regulations
CMD	Command Staff
COLA	Cost of Living Adjustment
COTS	Commercial Off-the-Shelf
CPIM	Consumer Price Index Medical
CRAF	Civil Reserve Air Fleet
COINS	Commercial Operations Integrated System
CUEC	Complementary User Entity Controls
DATA	Digital Accountability and Transparency Act of 2014
DCBS	Distribution Component Billing System
DCD	Defense Courier Division
DCIA	Debt Collection Improvement Act of 1996
DEAMS	Defense Enterprise Accounting and Management System
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DoD	Department of Defense
DOL	Department of Labor
DTS	Defense Travel System
DWCF	Defense Working Capital Fund
ELC	Entity Level Control
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFMIA	Federal Financial Management Improvement Act
FFS	Federal Financial System
FIAR	Financial Improvement and Audit Readiness
FISCAM	Federal Information System Controls Audit Manual
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act
FMR	Financial Management Regulation

FRDAA	Fraud Reduction and Data Analytics Act of 2015
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GATES	Global Air Transportation Execution System
GDSS	Global Decision Support System
GMRA	Government Management Reform Act of 1994
IBS	Integrated Booking System
ICO	Internal Controls over Operations
ICOFR	Internal Controls over Financial Reporting
ICOFS	Internal Controls over Financial Systems
IG	Inspector General
IPA	Independent Public Accountant
IPERA	Improper Payment Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payment Information Act of 2002
IT	Information Technology
ITR	International Tariff Rate
IUS	Internal Use Software
JDDC	Joint Deployment and Distribution Coordinator
JDDE	Joint Deployment and Distribution Enterprise
JECC	Joint Enabling Capabilities Command
JTRU	Joint Transportation Reserve Unit
MICP	Managers' Internal Control Program
MSC	Military Sealift Command
MRF	Military Retirement Fund
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NIST	National Institute of Standards and Technology

NFR	Notice of Finding & Recommendations
NOR	Net Operating Result
OCO	Overseas Contingency Operations
ODCFO	Office of the Deputy Chief Financial Officer
OMB	Office of Management & Budget
OM&S	Operating Materiel & Supplies
OSD	Office of the Secretary of Defense
OUSD-C	Office of the Under Secretary of Defense (Comptroller)
PBR	Program/Budget Review
P.L.	Public Law
PP&E	Property, Plant, and Equipment
PPA	Prompt Payment Act
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDDC	Military Surface Deployment & Distribution Command
SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost

SPS	Standard Procurement System
SSAE 18	Standards for Attestation Engagements No. 18
SOFA	Status of Forces Agreement
TCC	Transportation Component Commands
TFMS	Transportation Financial Management System
TI	Treasury Index
TMS	Transportation Management System
TWCF	Transportation Working Capital Fund
UCP	Unified Command Plan
UDO	Undelivered Orders
USSGL	U.S. Standard General Ledger
USTRANSCOM	United States Transportation Command
WinIATS	Windows Integrated Automated Travel System
WCF	Working Capital Fund

TOGETHER, WE DELIVER