Transportation Working Capital Fund

AGENCY FINANCIAL REPORT

FISCAL YEAR
2022

About the Agency Financial Report

The United States Transportation Command (USTRANSCOM) Transportation Working Capital Fund (TWCF) 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, United States (U.S.) Generally Accepted Accounting Principles (GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); as well as other guidance provided by the Office of Management and Budget (OMB) Circular A-136 and the Department of Defense (DoD) Financial Management Regulation (FMR).

This AFR is prepared pursuant to the following guidance which requires USTRANSCOM to prepare an AFR:

- Chief Financial Officers Act of 1990 (CFO Act, Public Law [P. L.] 101-576, codified as 31 United States Code [U.S.C.] § 501 note) as amended by the Government Management Reform Act of 1994 (GMRA, P. L. 103-356, codified as 31 U.S.C. § 3301 note);
- DoD FMR, Volume 6B, *Form and Content of the DoD Audited Financial Statements*; and
- Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) Memo, Fiscal Year (FY) 2022 DoD Reporting Entities.

This AFR uses the financial reporting requirements of the following:

- OMB Circular A-136, Financial Reporting Requirements;
- OMB Bulletin 22-01, Audit Requirements for Federal Financial Statements;
- Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 4700, Federal Entity Reporting Requirements for the Financial Report of the U.S. Government; and
- OUSD(C) DoD Financial Reporting Guidance Attachment 103, Standard Note Disclosures.

The AFR may be viewed online at https://www.ustranscom.mil/cmd/audit.cfm. The AFR consists of three primary sections:

Management's Discussion & 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 Information

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, payment integrity, and a summary of financial statement audit and management assurances.

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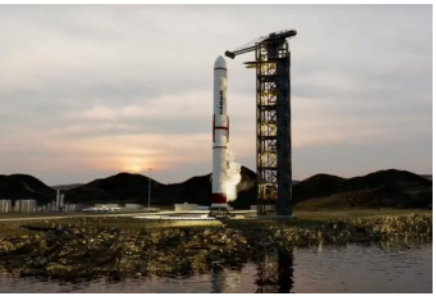
Message from the Commander

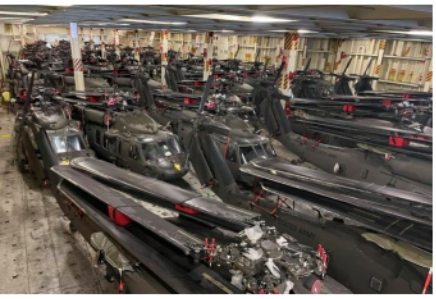
On behalf of United States Transportation Command (USTRANSCOM), I present our Fiscal Year 2022 USTRANSCOM Transportation Working Capital Fund (TWCF) Agency Financial Report. This report provides an overview of our mission, organization, challenges, and management's accountability for the resources entrusted to us by the American public. USTRANSCOM exists as a warfighting Combatant Command to provide our Nation with one of its most important strategic and asymmetric advantages over our adversaries: the ability to rapidly project and sustain joint combat power at strategically relevant speeds, distances, and scale at the time and place of our Nation's choosing. We are facing challenges across all domains in ways we have never seen before. It is more important than ever to understand the criticality of our mission and how USTRANSCOM is vital to the success of the Joint Force and the Nation.

This year, USTRANSCOM underwent our fifth financial statement audit for the TWCF. The complexity and size of USTRANSCOM's budget and the current state of our financial systems and processes led our independent public accounting firm, Cotton & Company Assurance and Advisory, LLC, to issue a disclaimer of opinion. Our auditors reported deficiencies in key areas involving information technology controls, financial reporting, transactional controls, budgetary controls, and the completeness of transactional-level populations. As we continue to learn from each audit, I am pleased to announce we made significant strides in developing remediation efforts aimed at improving internal controls and resolving all significant deficiencies and material weaknesses reported by our auditors. USTRANSCOM is fully committed to improving our ability to provide transparency and to report timely, accurate, and reliable financial and performance information related to USTRANSCOM's challenging mission. We continue to develop solutions to enhance operations and accounting accuracy by working with our Component and Subordinate Commands to improve and standardize data and business processes on an enterprise-wide level. These improvements will drive effective and efficient operations that will increase the speed, value, and support that USTRANSCOM provides to the warfighter.

In addition to our focus on achieving a clean audit opinion, we remain committed to providing a mobility enterprise ready to deliver the immediate force, and the decisive force when needed to ensure the U.S. military retains a competitive advantage. In everything we do, our number one priority is, and will always remain, warfighting readiness. Together, We Deliver!

Jacqueline D. Van Ovost
General, USAF
Commander





MANAGEMENT'S DISCUSSION & ANALYSIS

Purpose, Responsibility, and Scope

Command Purpose: USTRANSCOM exists as a warfighting Combatant Command (CCMD) to project and sustain combat power at a time and place of the Nation's choosing.

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

Warfighting Framework: The key to conducting globally integrated mobility operations is the dynamic synchronization of our Global Mobility Posture (GMP), global mobility capacity, and global command, control, and integration.

Command Priorities:

1. Ready Now and in the Future – Warfighting Readiness is our absolute cornerstone – we must never forget that our Command exists to project and sustain combat credible forces whenever and wherever our Nation requires. The expectation is complete commitment to maintaining our "fight tonight" readiness. Simultaneously, we must adapt our operations, shape our capabilities, evolve our operational concepts, and make the investments required to fight and win against a near-peer competitor in the future strategic environment. These imperatives – ready for today's missions while evolving to meet tomorrow's challenges – are mutually supporting and non-negotiable. We operate as a Total Joint Force, harnessing the unique skills resident in our Reserve, National Guard, Merchant Marine, and Civilian teammates to bolster Warfighting Readiness. Likewise, the JDDE's readiness, and our relationships with allies and partners, remain vital to our ability to project a decisive force at a time and place of our Nation's choosing. We will remain Ready…to Fight, Deliver, and Win.

2. Empower a Competitive and Resilient Warfighting Team – People are our most valuable resource and will make the difference between victory and defeat. Leaders must prioritize investing in our People to build and hone the critical skills required to compete and win. A competitive and resilient team is one which thrives on challenge and "stays hungry" – focused on improving every day, and constantly striving to add value. Our leaders will empower those on our team by providing clear intent and guidance, fostering, and rewarding innovative approaches, and using honest mistakes as

opportunities to learn and improve. Investing in our People includes fostering an environment in which all are treated with dignity and respect, and in which resilience is strengthened by demonstrating that we value the families in our Command, as well as the personal wellbeing of all. One of our key strengths is the diversity of our team. We will maintain an inclusive environment where we welcome differing backgrounds and encourage varied perspectives.

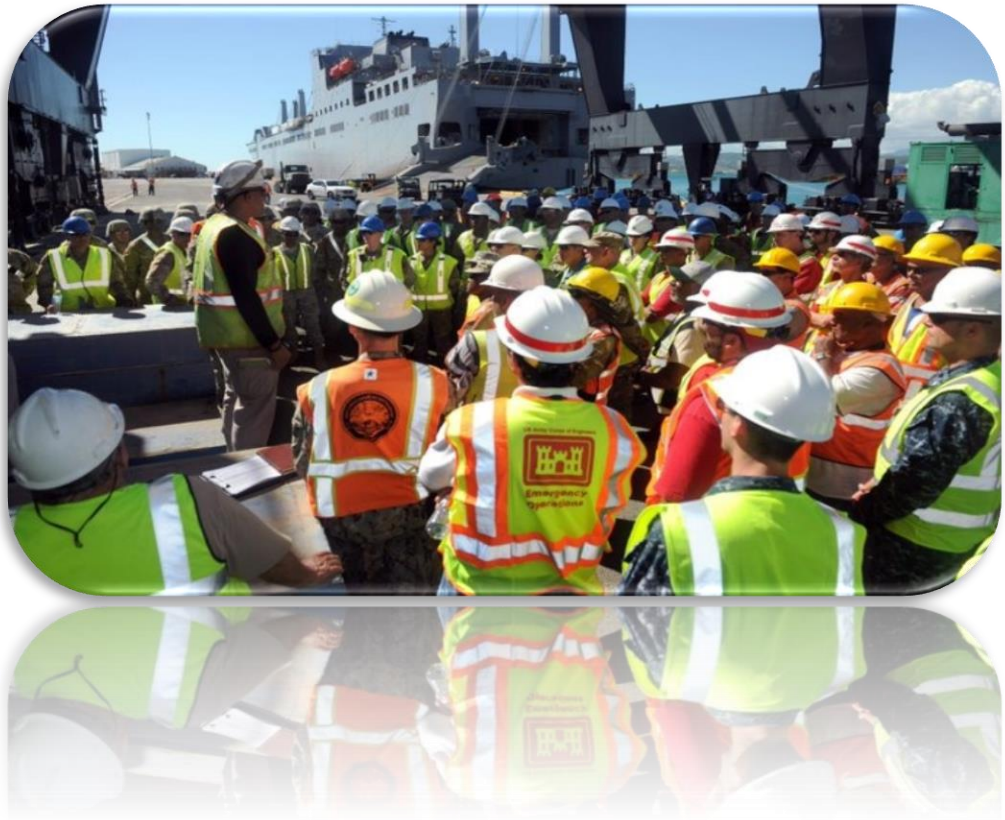
3. Drive Cyber Domain Mission Assurance – Make no mistake, today malign actors pose a real and persistent threat across our networks…and our global enterprise rests, in large part, on the connectivity these networks provide. "Driving" mission assurance in this domain starts with everyone on our team embracing the individual responsibility to be a cyber defender, maintaining cyber discipline and vigilance as we operate every day. We will continue to adapt to the evolving cyber space domain with modernization efforts to afford us competitive advantages in the digital operating environment. Finally, our cyber defense efforts must encompass the entire JDDE, to include our industry partners, strengthening weak links while maintaining a robust menu of mitigation options.

4. Create Decision Advantage – Our ability to transform data into knowledge rapidly enables timely decisions and remains critical in outpacing our competitors. Retaining the advantage in decision-making begins by treating data as a strategic asset and transforming ourselves from largely experience-based decision makers to better-informed, data-driven decision makers. Employing data available through sensor networks and logistics information systems, and then applying machine learning and other advanced analytics to transform that data into actionable information, will provide our leaders time, space, and options in decision-making. Our Command must sense, make sense, decide, and act faster than the pacing threat.

USTRANSCOM has guiding principles that establish the core values of who USTRANSCOM is as a command, and how the command will meet and succeed with the mission and priorities. The guiding principles are:

- **Our Business is Warfighting**. USTRANSCOM exists to support the joint warfighter across the full spectrum of joint operations. We must never forget the primacy of warfighting effectiveness, while remaining responsible stewards of our Nation's resources.
- **We are Biased to Action**. The global operating environment is changing. The stakes are high, and USTRANSCOM is essential for the DoD's strategy to succeed in this new environment. We rise to the challenge, and we are results-oriented, working diligently to sharpen our ability to deploy the Joint Force, increasing our capacity to sustain those forces, and hardening our capabilities in every domain.

- **We are Future Focused**. The enormous success of the Joint Force over the past several decades does not guarantee success in the future. We continuously evaluate today's global operating environment with a critical eye toward the future security environment in order to retain our comparative advantage. Our strengths include our operational agility, our ability to adapt and innovate, and our ability to allocate scarce resources to create strategic effects. We encourage a culture of innovation throughout our workforce and our vital partnership with industry to ensure the JDDE remains both effective and efficient.
- **We Collaborate to Win.** Our primary focus is on ensuring the success of others, which makes us unique as a CCMD. We are strategic mobility experts, we communicate clearly with unity of purpose, and we deliver anywhere, 'flattening the globe' to remain predictable in our connection to our allies and partners while we allow the Joint Force to be unpredictable in where and when it operates.
- **Together, We Deliver.** Our mission is the cornerstone of the Joint Force's ability to meet national policy objectives. The men and women of USTRANSCOM create unparalleled expeditionary capability to deliver and sustain combat power around the world, 24 hours a day, 7 days a week, 365 days a year.



Mission and Organizational Structure

USTRANSCOM is one of 11 warfighting CCMDs[1] in the DoD. Our enduring purpose is to project and sustain military forces anywhere around the globe at a time and place of our Nation's choosing. The ability to move forces transoceanic distances is a national strategic comparative advantage, to advance national security interests, deter adversaries, assure allies, and respond to crises. 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 the 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 (UCP) 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 force today and a 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 (P. L. 99-433, codified as 10 U.S.C. § 111 note) was a sweeping reorganization of the DoD, which produced the operational chain of command structure we know today. Pursuant to that Act, Title 10, Part 1, Chapter 6 of the U.S.C. provides the legal basis for the roles, missions, and organization of CCMDs. On April 18, 1987, President Ronald Reagan directed Secretary of Defense Caspar Weinberger to establish USTRANSCOM in accordance with that statutory authority.

The 2020 UCP, signed by the President Donald Trump pursuant to his authority as Commander in Chief, established the missions, responsibilities and, where appropriate, the geographic areas of responsibility for commanders of CCMDs. The UCP is reviewed, at a minimum, every two years by the Chairman of the Joint Chiefs of Staff, who recommends changes to the President as needed. All Combatant Commanders (CCDRs) are responsible for the following:

- Detecting, deterring, and preventing threats and attacks against the U.S.; its territories, possessions, and bases; and employing appropriate force across the full spectrum of competition and conflict to defend the Nation;
- Carrying out assigned missions and tasks, and planning for and executing military operations, as directed;
- Assigning tasks to and directing the coordination among Subordinate Commands to ensure unified action;
- Designating and establishing the readiness requirements of assigned Service headquarters to be a Joint Task Force-capable headquarters;

[1] For further information about CCMDs, visit: https://www.defense.gov/Our-Story/Combatant-Commands/

- Providing trained and ready Joint Forces to other CCMDs, as directed;
- Maintaining the security of and carrying out force protection responsibilities for the command, including assigned or attached commands, forces, and assets, in compliance with policy applicable to forces physically located in a geographic area of responsibility;
- Planning, conducting, and assessing security cooperation activities that support CCMD responsibilities as assigned in the UCP, and making priority recommendations to the Secretary; and
- Supporting other CCDRs in the planning and execution of military support to stabilization, humanitarian assistance, disaster relief, and countering threat networks, as directed.

With global responsibilities and capabilities that transcend air, land, and sea, USTRANSCOM is uniquely postured to fulfill five specific responsibilities within the most recent UCP, which was modified in 2020:

1. Mobility Joint Force provider responsible for identifying and recommending global joint sourcing solutions to the Chairman of the Joint Chiefs of Staff in coordination with the Services and other CCMDs and supervising the implementation of sourcing decisions.

2. DoD single manager for transportation responsible for providing common-user and commercial transportation, terminal management, and aerial refueling to support the global deployment, employment, sustainment, and redeployment of U.S. forces. This also includes planning, allocating, routing, scheduling, and tracking assets to meet validated Joint Force Commander deployment distribution requirements.

3. Responsible for JDDE planning and operations across all domains and will collaborate with other CCMDs, the Services, and as directed, U.S. government agencies and commercial entities. This includes providing JDDE-wide analysis and assessment, developing and implementing process improvements, and advocating for global deployment and distribution capabilities; leading collaborative planning efforts to align and harmonize logistics functions and recommend sequencing of logistic actions across the JDDE; integrating, developing, and aligning capabilities necessary to conduct JDDE operations; developing and implementing process improvements for information systems that provide key capabilities of distribution-related activities (i.e., force movement, sustainment, patient movement); providing military representation to U.S. Government agencies, U.S. commercial entities, and internal agencies for global distribution

operations, as directed; and integrating DoD strategies, plans, and intelligence priorities for global deployment and distribution operations.

4. USTRANSCOM is the DoD single manager for patient movement, providing DoD global patient movement through the Defense Transportation System in coordination with other CCMDs, and as directed, appropriate U.S. government agencies.

5. Joint enabling capabilities is responsible for providing mission-tailored joint capability packages of communications, planning, and public affairs support for short-notice, limited-duration deployments to assist CCMDs by accelerating the establishment, organization, and operation of a Joint Force headquarters.

Components, Subordinates & Activities

USTRANSCOM skillfully coordinates missions worldwide using both military and commercial transportation resources in coordination with the other 10 CCMDs: seven CCMDs with geographic responsibilities – U.S. Northern Command (USNORTHCOM), U.S. Central Command (USCENTCOM), U.S. Southern Command (USSOUTHCOM), U.S. Indo-Pacific Command (USINDOPACOM), U.S. European Command (USEUCOM), U.S. Africa Command (USAFRICOM), and U.S. Space Command (USSPACECOM); and three CCMDs with functional responsibilities – U.S. Special Operations Command (USSOCOM), U.S. Strategic Command (USSTRATCOM), and U.S. Cyber Command (USCYBERCOM).

USTRANSCOM executes missions and global responsibilities through Transportation Component Commands (Component Commands), Subordinate Commands, and a Courier Division.[2] Like all CCMDs, USTRANSCOM constitutes a headquarters element (i.e., Command (CMD) and Defense Courier Division (DCD)) without any military units permanently assigned. USTRANSCOM operates with Component Commands – one for each of the following U.S. Armed Services: the U.S. Army's Military Surface Deployment and Distribution Command (SDDC), the U.S. Navy's Military Sealift Command (MSC), and the U.S. Air Force's Air Mobility Command (AMC). The Component Commands are assigned to the USTRANSCOM Commander to accomplish USTRANSCOM's UCP mission and specific responsibilities, most of which are funded by the TWCF. The Component Commands are funded by the TWCF for their costs associated with the performance of TWCF missions; however, the Component Commands also execute non-TWCF missions for their respective Service. For TWCF missions, the Component Commands' funds come from the revenue generated by the TWCF when intragovernmental and public customers are billed for transportation services rendered in accordance with published rates and/or reimbursement of direct and indirect costs.

The Subordinate Commands, the Joint Transportation Reserve Unit (JTRU) and the Joint Enabling Capabilities Command (JECC), differ because they do not report to a military department; instead, they report directly to the USTRANSCOM Commander. The Subordinate Commands are not used for TWCF missions and are therefore not funded with TWCF dollars; however, there is an option for the JTRU to be TWCF-funded based on mission needs. As such, they are not included in the TWCF financial statements. The JTRU is made up of individual Reserve elements from the Army, Navy, Air Force, Coast Guard and Marines, and each Reserve element funds their own members. The JECC is funded by appropriated Operations and Maintenance (O&M) funds and currently is reported on the Air Force financial statements.

USTRANSCOM also has a strong relationship with commercial industry partners because they provide important augmentation to day-to-day and surge operations. Utilizing the connection with commercial partners allows an expansion of USTRANSCOM's global reach, along with access to valuable commercial intermodal transportation systems and freight management capabilities.

Military Surface Deployment and Distribution Command (SDDC)

SDDC provides integrated and synchronized Global Deployment and Distribution capabilities to the point of need, delivering innovative transportation solutions to the right place at the right time, every time. Whenever and wherever Soldiers, Sailors, Airmen, Marines, Guardians, and Coast Guardsmen are deployed, SDDC is involved in planning and executing the surface delivery of their equipment and supplies. As both the Army Service Component Command to USTRANSCOM and a Major Subordinate Command to U.S. Army Materiel Command, SDDC connects and synchronizes surface warfighting requirements through distribution network nodes to the point of need, responsively projecting power and delivering desired effects in support of CCMDs and the Total Joint Force. The command also partners with the commercial transportation industry as the coordinating link between DoD surface transportation requirements and the capability industry provides. SDDC provides both TWCF and non-TWCF activities based on mission needs.

[2] For further information about Components and Subordinate Commands, visit: https://www.ustranscom.mil/cmd/component.cfm

Military Sealift Command (MSC)

MSC is responsible for providing sealift and ocean transportation for all Military Services as well as for other government agencies and exists to support the joint warfighter across the full spectrum of military operations. MSC provides both TWCF and non-TWCF activities based on mission needs, working seamlessly with key partners to master the maritime and cyber domains, providing agile logistics, strategic sealift, and specialized missions anywhere in the world, under any condition, 24 hours a day, 7 days a week, 365 days a year. MSC's mission is to provide essential logistics and service support to the warfighters around the globe.

Air Mobility Command (AMC)

AMC executes Rapid Global Mobility enabling Global Reach – the ability to respond anywhere in the world in a matter of hours. Air mobility operations are executed through the Global Air Mobility Support System, consisting of fixed en route support locations, infrastructure, equipment, and deployable contingency response forces. AMC is a Major Command of the Air Force and provides both TWCF and non-TWCF activities based on mission needs. AMC provides four core mission areas – Airlift, Air Refueling, Air Mobility Support, and Aeromedical Evacuation – to USTRANSCOM capabilities, serving as a Component Command to USTRANSCOM. AMC also provides support to the nuclear enterprise. Airlift provides the capability to deploy U.S. armed forces anywhere in the world and help sustain them in a conflict. Air refuelers are the backbone of Global Reach, increasing coalition and U.S. aircraft's range mid-air. AMC also supports presidential and senior leader airlift. Aeromedical evacuation ensures wounded warriors and disaster victims get the care they need.

Joint Transportation Reserve Unit (JTRU)

JTRU is a Subordinate Command responsible for providing trained, ready, and relevant operational forces to augment USTRANSCOM's active component forces for global air, land, and sea transportation in times of both peace and war. Comprised of Air Force Reserve, Army Reserve, Coast Guard Reserve, Marine Reserve, and Navy Reserve personnel, JTRU members are organizationally aligned per the Joint Table Manning Document, trained and equipped to seamlessly execute USTRANSCOM's global distribution mission at a moment's notice. JTRU provides both TWCF and non-TWCF activities based on mission needs.

Joint Enabling Capabilities Command (JECC)

JECC, a Subordinate Command, provides mission-tailored capability packages on short notice for limited duration to assist CCDRs to plan, prepare, establish, and operate Joint Force Headquarters in globally integrated operations. JECC is not TWCF funded.

Defense Courier Division (DCD)[3]

DCD provides secure, timely, and efficient end-to-end global distribution of classified and sensitive material for the U.S. and its allies. The division oversees and synchronizes transportation activities of 25 courier stations and sub-stations worldwide to service over 2,400 accounts. Each courier station is assigned responsibility for providing courier service to customers within a defined geographic region. DCD is funded by the TWCF.

[3] The 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. To ensure overhead is properly attributed to the TWCF lines of business, the DCD's accounting is segregated from the Component Command's accounting. As a result, from an accounting perspective, the DCD is treated as a separate division on the TWCF financial statements, even though it is part of the USTRANSCOM headquarters.

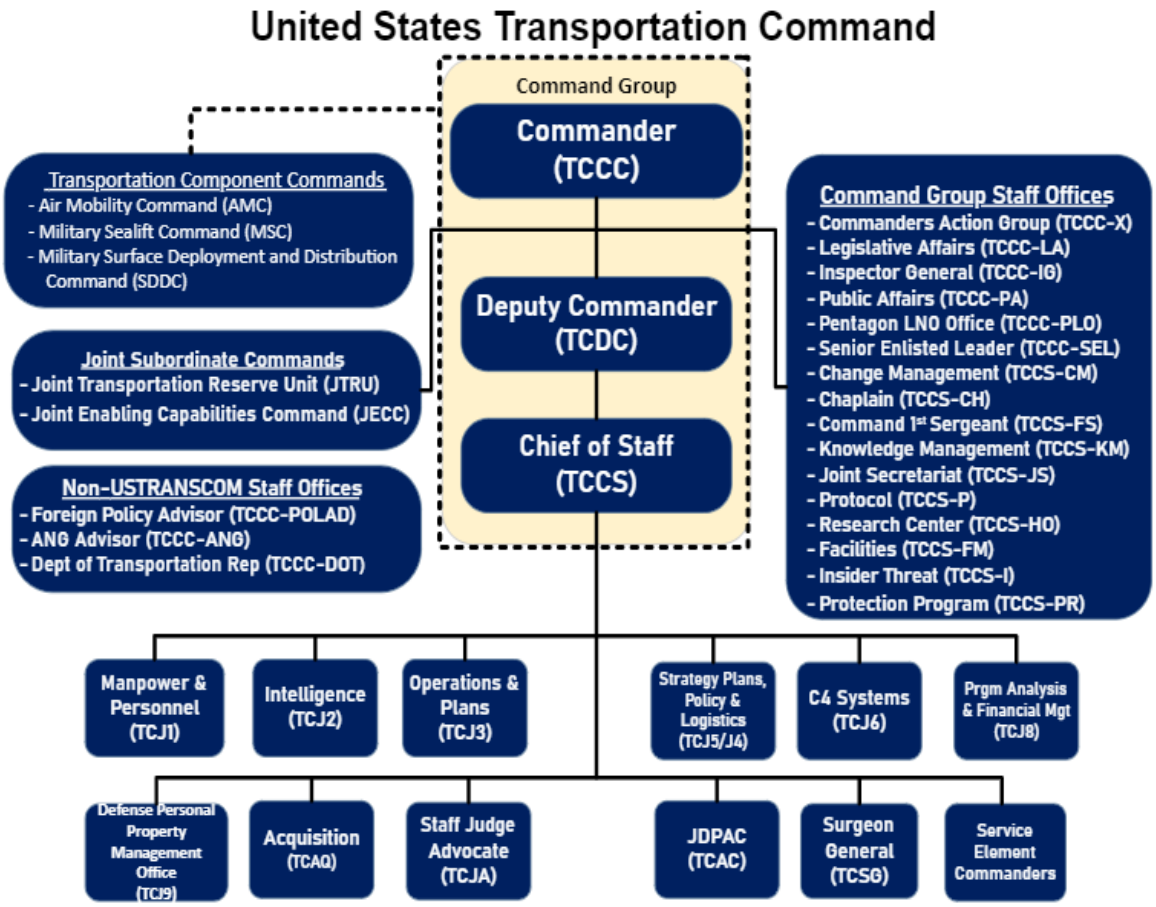
Command Leadership Organization Chart

Gen. Jacqueline D. Van Ovost
Commander

LTG John P. Sullivan
Deputy Commander

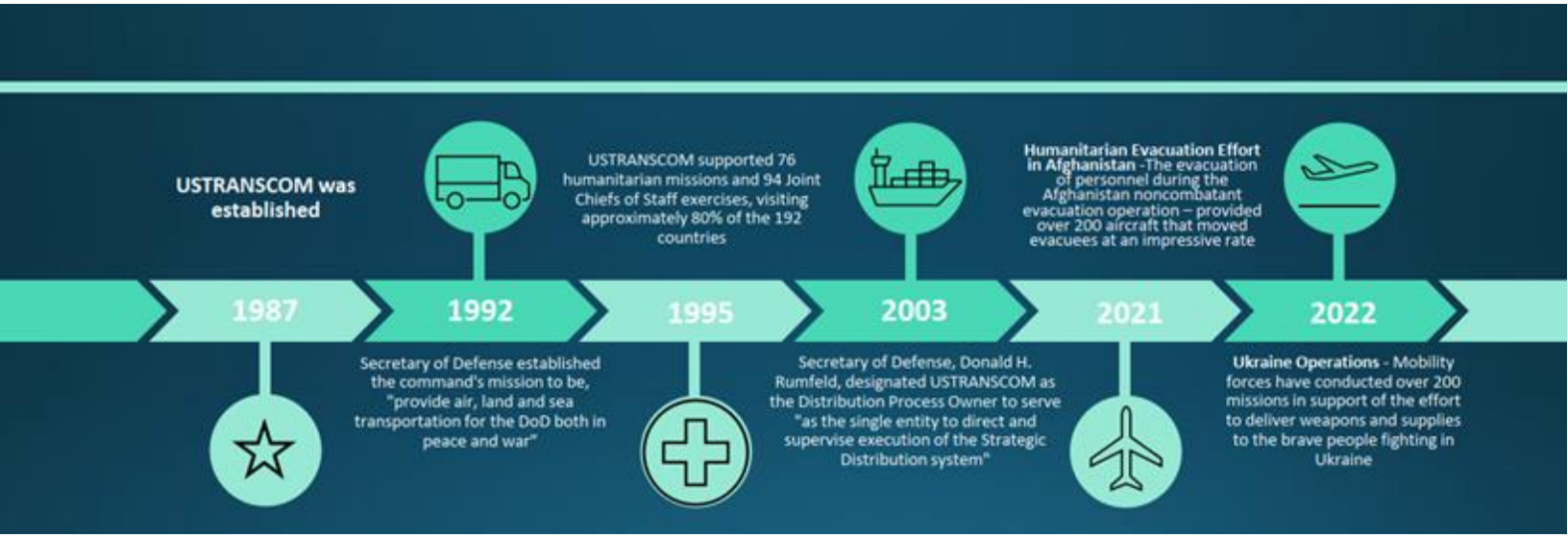
MG Vince Barker
Chief of Staff

FLTCM Donald O. Myrick
Senior Enlisted Leader



*Dotted lines indicate TCCC exercises Combatant Command authority

USTRANSCOM 35 YEARS OF MOBILITY OPERATIONS



EVOLVING FOR THE FUTURE

At USTRANSCOM, we believe the complexity of future logistic operations will be immense, and the demands will be exponential. Logistics in a contested environment necessitate we return to a doctrinal, World War II-type approach to maneuver. Furthermore, our success in a contested environment hinges on an agile, adaptable, and resilient workforce, capable of addressing complex challenges. Leaders must create and foster a culture in which the force understands the need to evolve both the concepts and the mindset required to compete, deter, and win.

USTRANSCOM Today

Since its establishment in 1987, USTRANSCOM has existed to project and sustain military power at a time and place of our Nation's choosing. USTRANSCOM possesses the unique capability to deploy, sustain, and redeploy forces and equipment to anywhere on the globe by air, land, or sea. Powered by a dedicated, diverse workforce, the logistics enterprise underwrites the global lethality of the Joint Force, advances American interests around the world, and provides our Nation's leaders with strategic flexibility, all while creating multiple cognitive dilemmas for our adversaries. By maintaining favorable global posture, sufficient transportation capacity, and the ability to command and control global mobility operations, USTRANSCOM secures the Joint Force's ability to project an immediate and credible force required to meet U.S. strategic objectives. America now, however, faces direct challenges across all domains. Our adversaries clearly recognize the United States' ability to rapidly scale and deliver the Joint Force globally as a strategic comparative advantage, and they are actively attempting to degrade or deny our ability to project power. If we are to maintain this advantage for our Nation, we simply must evolve for tomorrow.

USTRANSCOM Tomorrow

America's challengers are competing through all instruments of national power and posturing to gain a positional advantage across all domains. They are using economic, diplomatic, and technological power to coerce other nations, challenge the stable and open international system, and attack democratic principles. Even more concerning, America's homeland is now no longer a sanctuary; force elements

may have to "fight to get to the fight." To maintain our strategic advantages, the JDDE must overcome this complexity.

USTRANSCOM's ability to command and control mobility forces is contingent on secure networks and continuous information technology (IT) and platform modernization efforts to retain the advantages needed in the cyber and space domains. America's competitors recognize this fact and are actively maneuvering in these nontraditional spaces, to deny, disrupt, and degrade our mobilization and force projection capabilities. As a warfighting CCMD, USTRANSCOM must remain agile enough to shift modes, nodes, and routes and be resilient enough to meet the volume and tempo of warfighters' demands. Further, resilient, agile, and integrated command and control allows us to overcome mission disruption and maintain decision advantage, which are essential to enabling Joint Force operations at the speed of need.

Equally important to evolving concepts is the evolution of our mindset. The success of USTRANSCOM's warfighting framework and the JDDE's ability to project combat power are underpinned by our collective ability to innovate and overcome formidable problems. Maintaining deterrence requires the Joint Force be biased to action, setting conditions for a forward-looking and forward-leaning posture. To do so, it is imperative that we develop a competitive mindset - hungry, determined, and focused.

A workforce with a competitive mindset is continually creating advantages for tomorrow by innovating and experimenting with more effective ways to operate. A competitive mindset encourages imaginative ideas and challenges antiquated concepts and processes. It develops a resilient force that has the courage to take disciplined risks and accept lessons of failure as learning opportunities. Competitive leaders link their mission to national objectives and empower others with commander's intent. Competitive thinkers value continued learning and self-improvement to ward off obsolescence. Competition sets the conditions for innovation, creates advantages, and enables faster, more effective decision-making. A competitive force keeps pace with emerging challenges and evolves to meet the needs of tomorrow.

We must confront the rapidly changing methods of waging war. Time is of the essence; we cannot cling to yesterday's successes. Logistics in a contested environment necessitate a renewed emphasis on maneuver and an evolution of how we apply the concept across domains. Furthermore, we must develop a competitive mindset to maintain advantage in this rapidly changing strategic environment. It is evident the traditional methods of today are not sufficient to solve the new and complex challenges of tomorrow. In 1947, President Harry Truman stated "America was not built on fear. America was built on courage, imagination, and an unbeatable determination to do the job at hand." Together, we will rise to meet these complexities; the Total Force and our partners possess the talent and capabilities to overcome any challenge. [4]

[4] A Journal of Strategic Airpower & Spacepower

Performance Goals, Objectives, and Results

USTRANSCOM provides the DoD with the ability to project and sustain the Joint Force, deploying combat power to the right place, at the right time, and at the necessary scale to be immediate, lethal, and decisive. Operating around the globe and around the clock, our ability to project military force is a distinct advantage unmatched by any other nation, which assures allies and adversaries alike that we are prepared to respond and win.

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

USTRANSCOM's Strategic Lines of Effort (LOE)

USTRANSCOM has five priorities that are supported by strategic LOEs: Warfighting Readiness, Cyber Domain Mission Assurance, Evolve for Tomorrow, Advance Decision-Making, and Take Care of the Troops. With each priority, there are initiatives in place focused on making sure each is met to allow USTRANSCOM to support its mission.

1. Warfighting Readiness

1.1 – Develop the GMP. Evolve GMP to ensure that access, basing, and overflight is sufficient and resilient to respond to contingencies and support Globally Integrated Base Plans (GIBP).

1.2 – Mobility Capacity. Ensure mobility capability and capacity is sufficient to support priority challenge contingencies and GIBPs.

1.3 – Global Mobility Command and Control. Ensure mobility operations are globally integrated in order to allocate scarce mobility resources in line with strategic priorities and ensure command and control nodes (operation centers, etc.) and supporting communications/IT systems are both resilient and reliable under attack.

1.4 – Joint Exercise and Training Program. Improve the integration of mobility training objectives and readiness through joint training events to maximize the returns on investments.

1.5 – Enable Joint Warfighting. Enhance the Joint Force Commander's ability to command and control joint operations through planning and communications support.

2. Cyber Domain Mission Assurance

2.1 – Cyber Culture. Foster a cyber culture of accountability and operational focus at echelon.

2.2 – Cyber Defense, Security, and Hygiene. Sustain the ability to operate the JDDE under cyber-attack or degradation.

2.3 – Cyber Threat. Understand adversarial cyber capabilities and intent to target JDDE attack surface.

2.4 – Commercial Industry. Mitigate cyber risks associated with commercial dependencies.

3. Evolve for Tomorrow

3.1 – Adapting to Win. Continue to evolve the JDDE to ensure USTRANSCOM can project and sustain Joint Force under persistent all-domain attack.

3.2 – Mobility Platform Modernization. Advocate for mobility platform modernization.

4. Advance Decision-Making

4.1 – Resilient and Reliable Global Command and Control. Strengthen the ability to plan, coordinate, synchronize, control, and monitor global operations and activities at echelon to enable the management of scarce resources against priorities to achieve strategic objectives.

4.2 – IT Portfolio Modernization to Strengthen Command and Control at Echelon. Implement the Digital Modernization Strategy to employ a modernized and optimized IT portfolio, characterized by a service-oriented, cloud architecture, with infrastructure, communications, and functionality realigned for an enterprise approach to the use of data to improve command and control at echelon and enables the deployment and sustainment of the Joint Force.

4.3 – Enterprise Data Management Architecture. Implement and operationalize a cloud-based enterprise data environment that capitalizes on big data in order to facilitate machine learning, artificial intelligence, and advanced analytics to empower decision-making at echelon.

5. Take Care of the Troops

5.1 – Keep Faith with the Force and Families.

5.2 – Human Capital Stewardship.

5.3 – Inclusion and Diversity.

5.4 – Enterprise-wide Fiscal Stewardship.

5.5 – Defense Personnel Property Program Reform.

Humanitarian Evacuation Effort in Afghanistan

During FY 2021, in support of the Department of State (DoS)-led Afghanistan Operation Allies Refuges (OAR) and special immigrant visas (SIV) retrograde effort, USTRANSCOM received orders to commence deployment of forces. The first movement of forces occurred three hours after receipt of this order, enabling the U.S. to rapidly secure the Kabul International Airfield. Simultaneously, USTRANSCOM commenced support to the OAR, operating around the clock to ensure the safe evacuation of American citizens and those cleared by the State Department. USTRANSCOM provided over 200 aircraft that moved evacuees at an impressive rate. To carry out this mission, the Secretary of Defense authorized Stage One activation of the Civil Reserve Air Fleet (CRAF), demonstrating our inextricable linkage with the commercial industry. Activating CRAF increased the velocity and capability of passenger movement beyond organic capability and allowed military aircraft to focus on operations in and out of Kabul. The U.S. is the only nation capable of rapidly deploying forces and providing nonstop airlift operations at this scale.

As a result of the Afghanistan OAR effort, DoD transferred, with congressional concurrence, $389 million in FY 2021 to support TWCF operations, and collected $37 million from the DoS. In FY 2022, USTRANSCOM fully executed the Afghanistan OAR funds received.

Ukraine Operations

The international community has united in a way not seen in generations and USTRANSCOM is playing a critical role in this effort. USTRANSCOM's vital contribution to integrated deterrence is evident in the ongoing support to Ukraine and the USEUCOM effort in support of our North Atlantic Treaty Organization (NATO) allies. As part of the USEUCOM effort, the President signed the Consolidated Appropriation Act on March 15, 2022, that provided the Defense Working Capital Funds (DWCF), to include USTRANSCOM, a $409 million appropriation to respond to the situation in Ukraine.

To support the USEUCOM effort, USTRANSCOM coordinates the JDDE, creating a strategic comparative advantage through logistics that no other nation can achieve. USTRANSCOM operates an agile and resilient logistics enterprise comprised of our military components, commercial partners and industry teammates delivering for our Nation, our allies, and partners around the world. The JDDE's agility and responsiveness allowed for the rapid deployment of troops and equipment to the USEUCOM area of responsibility as an assurance and deterrence effort, as well as the delivery of security assistance to Ukraine authorized under the Presidential Drawdown Authority. Our mobility forces have conducted over 200 missions in support of the effort to deliver weapons and supplies to the brave people fighting in Ukraine. We work very closely with USEUCOM as they integrate with the Ukrainians and prioritize the needs of Ukraine. This allows us to be able to ship and get supplies as close to Ukraine as possible, as well as into Ukraine as quickly as possible. This is possible because we manage not only the airports and seaports to get supplies there, but the people who work there and the incoming flow. USTRANSCOM's ability to execute these complex moves within days and even hours of authorization clearly communicate our Nation's resolve to our allies and adversaries alike.

Operation Fly Formula

In the domestic shortfall of baby formula that resulted in empty shelves across the country, Operation Fly Formula was promptly established as an emergency airlift operation to expedite the delivery of overseas infant formula to the U.S. in need of the crisis. On May 22, 2022, the first airplane importing 132 pallets, or 78,000 pounds of specialty infant formula arrived at Indianapolis International airport. Typically, the process to transport this product from Europe to the U.S. would take two weeks, but when Operation Fly Formula was announced on May 18, 2022, the task was executed immediately. In an effort to support the critical shortage, USTRANSCOM, understanding the urgency of the situation and the timeline that would have been required for contract acquisition, developed alternate solutions. Whether the needs are in Ukraine, India, or even right here at home; from deploying combat-credible forces, to providing vaccines, food, water and supplies during a pandemic or natural disaster, USTRANSCOM works tirelessly to deliver. Together with our industry partners, and allies and partners, we not only project and sustain the Joint Force to help ensure national security, but we continue to deliver hope, whenever and wherever.[5]

[5] USTRANSCOM's motto embodied in Operation Fly Formula

Bulk Fuel Initiative

In accordance with the intent of FY 2022 National Defense Authorization Act (NDAA) (10 U.S.C. § 2927), USTRANSCOM will become the "element responsible for Bulk Fuel Management and Delivery of the DoD on a global basis" by February 1, 2023, through a new single manager. Single manager authority for Global Bulk Fuel Management and Delivery (GBFMD) is oriented towards synchronization and advocacy for global bulk petroleum planning, posture, and execution. As the DoD's single manager for GBFMD, USTRANSCOM will lead key bulk fuel synchronization and governance processes and represent the joint petroleum enterprise (JPE) on behalf of the DoD. These new single manager responsibilities define a new role that does not exist today. Using an agile development process, USTRANSCOM will work with OSD, the Joint Staff, Defense Logistics Agency, CCMDs and the Services to address known gaps in the JPE.

Analysis of Financial Statements

The primary financial mechanism to accomplish the USTRANSCOM mission is the TWCF. The TWCF is a Working Capital Fund (WCF) for defense transportation which was established to provide full-spectrum global mobility solutions and related enabling capabilities to support customers' requirements in peace and war. It models a buyer-seller relationship between the provider (USTRANSCOM) and the customer (Military Services, CCMDs, other government agencies, partner nations and allies, and based on other statutes, the public). Whether delivering global combat power at a time and place of our Nation's choosing, including the evacuation of personnel during the OAR in Afghanistan, or the ongoing effort to support Ukraine, the TWCF enables USTRANSCOM to adapt to-a dynamic operational environment and perform at the best value for the taxpayer.

The TWCF ensures resources are available for USTRANSCOM to carry out its mission successfully. Under the WCF concept, an appropriation, known as a corpus, was used to finance the initial TWCF. Collections from customers for services performed are then used to sustain the transportation working capital investment and support a continuous cycle of operations, minimizing the need for additional appropriations by Congress. Maintaining TWCF Fund Balance with Treasury (FBwT) is the key enabler in giving USTRANSCOM's Commander the flexibility to respond to a crisis at a moment's notice, even before supplemental funds become available. This was critical in FY 2022, when USTRANSCOM was able to respond to the Ukraine crisis before receiving a $409 million supplemental transfer approved by Congress.

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 and is measured for budgeting and rate-setting purposes by the Accumulated Operating Result (AOR). The calculation for AOR is defined in the DoD FMR, Volume 2B, Chapter 9, *Defense Working Capital Fund Budget Justification Analysis,* Exhibit Fund-14, *Revenue and Expenses.*[6] Achievement of this goal is occasionally complicated by the goal for TWCF lines of operations to provide stabilized rates for budget-driven prices for services to protect customers from unforeseen price fluctuations. Rates are set to drive AOR to zero at the end of the budget cycle.

Analysis of Financial Statements

The accompanying financial statements and related disclosures represent USTRANSCOM's commitment to fiscal accountability and transparency. Through the DoD Financial Improvement and Audit Remediation 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 through FY 2022, USTRANSCOM's Independent Public Accountant (IPA) was unable to express an opinion on the TWCF financial statements.

The USTRANSCOM financial statements reflect and evaluate the execution of its TWCF mission, which is the primary fund type for these statements. Due to an anomaly in normal annual TWCF activities, USTRANSCOM received a direct appropriation to support Ukraine operations. Execution of the Ukraine appropriation is recorded in the principal financial statements.

The following sections provide a brief description of the nature of each financial statement.

Consolidated Balance Sheets

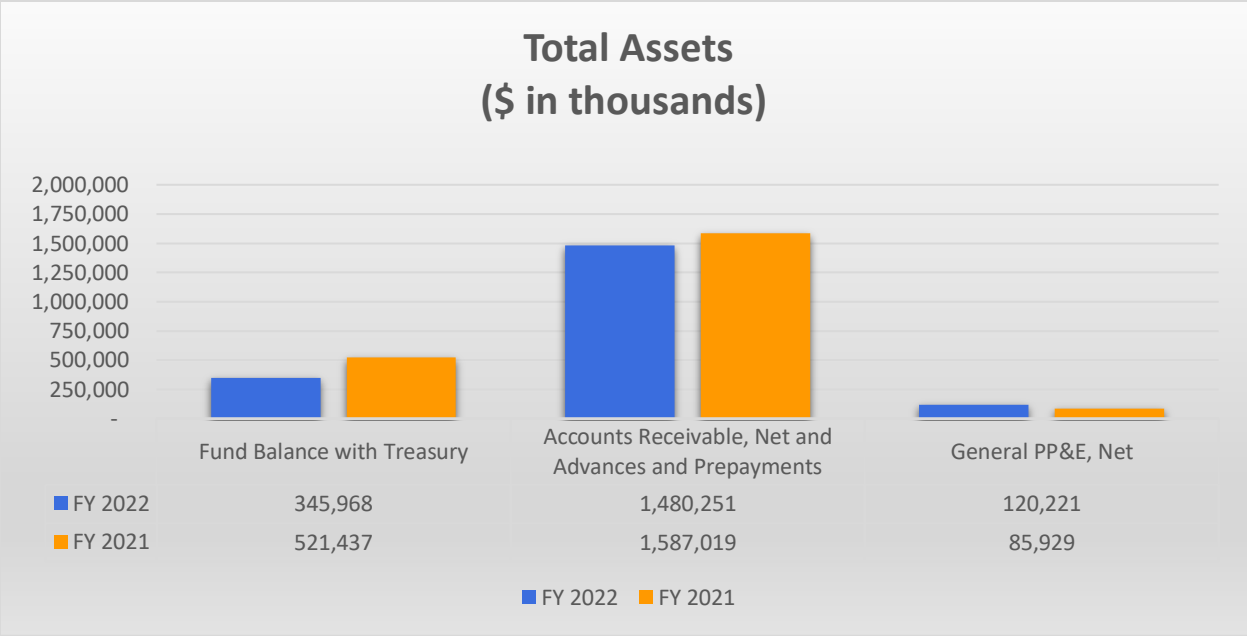
The Balance Sheets reflect the TWCF's financial position as of September 30, 2022 and 2021, and detail resources owned or managed by USTRANSCOM that have future economic benefits (assets), and the amounts owed that will require future payments (liabilities), and the difference between them (net position). The table below summarizes the fluctuations in the Balance Sheets from FY 2022 to FY 2021. See the following pages for information on fluctuations.

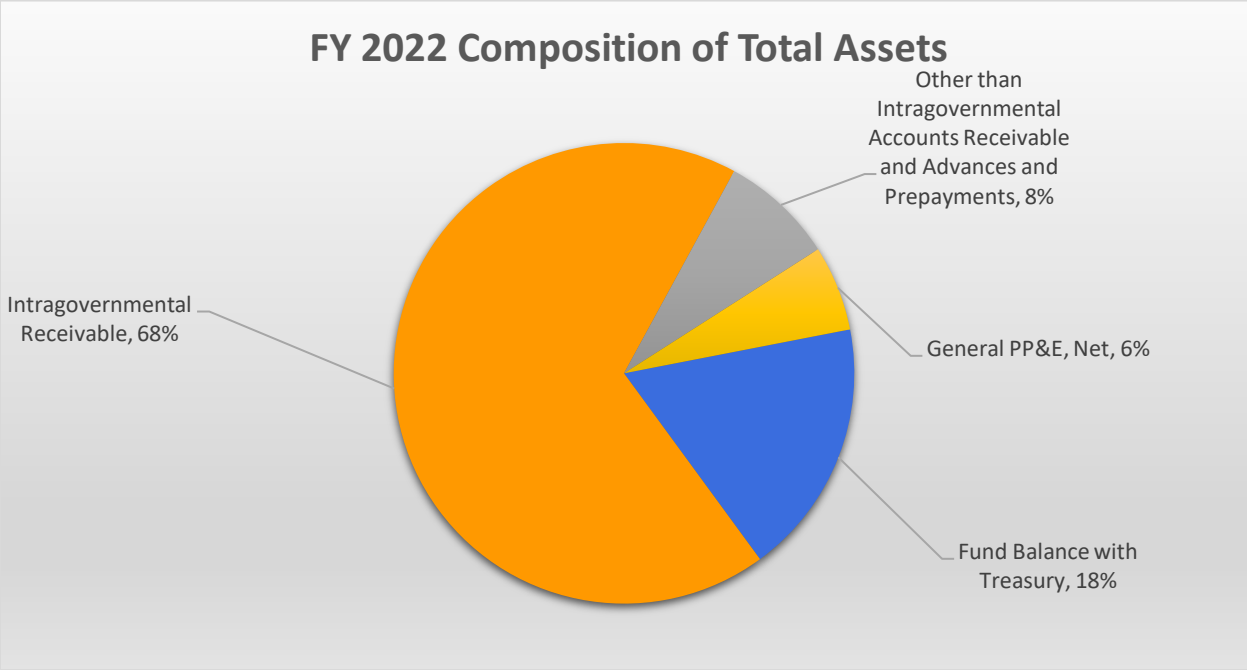
Consolidated Balance Sheets *(dollars in thousands)*	***Unaudited***			
As of September 30	**FY 2022**	**FY 2021**	**Increase (Decrease)**	**% Change**
Assets	$ 1,946,440	$ 2,194,385	$ (247,945)	-11%
Liabilities	$ 1,180,769	$ 1,015,728	$ 165,041	16%
Net Position	$ 765,671	$ 1,178,657	$ (412,986)	-35%

[6] The Net Operating Result (NOR) and AOR calculations can be found in the DoD FMR Volume 2B, Chapter 9, Exhibit Fund-14

Assets – What We Own and Manage

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

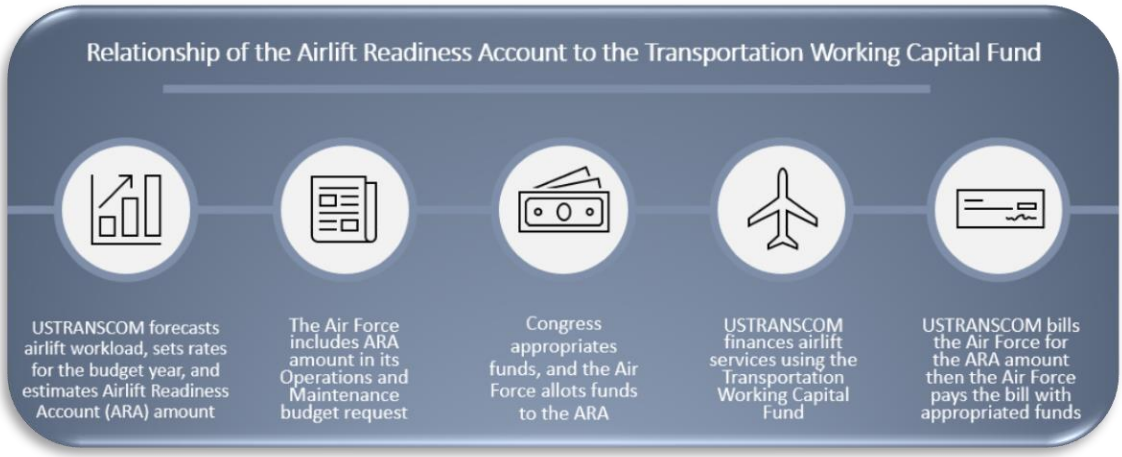




Accounts Receivable, Net and *Advances and Prepayments* are the TWCF's largest assets and comprise 76% of Total Assets. Accounts Receivable represents the amount due from other entities. Of the total Accounts Receivable, 97% is due from federal entities and 3% is due from non-federal entities. In FY 2022, USTRANSCOM reported non-federal receivables of $36 million compared to $32 million in FY 2021, representing a net increase of $4 million. This increase is primarily attributed to reclassing accounts receivable from federal to non-federal. Advances and Prepayments includes assets such as employee pay and travel advances. In FY 2022, USTRANSCOM reported Advances and Prepayments of $117 million in FY 2022 compared to $138 million in FY 2021. This $21 million decrease is primarily driven by MSC processing reclassifications between Accounts Payable and Advances and Prepayments due to a system processing issue where the invoice receipt is posted prior to the goods receipts for Military Standard Requisition and Issue Procedures transactions.

DoD WCFs, such as the TWCF, are authorized to charge amounts necessary to recover the full costs of goods and services provided as well as amounts for depreciation of capital assets, set in accordance with GAAP.[7] However, the TWCF is directed to establish airlift channel 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. For example, if fuel costs decrease, USTRANSCOM is not able to pass along these reductions to customers at the time of the market decline because rates are set two years in advance of budget execution. Therefore, fluctuations in market prices for items like fuel are not seen in the current year, but instead in subsequent years when rates are readjusted. As a result of 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 DoD FMR states the Air Force shall provide appropriated funds to TWCF to cover the shortfall from the Airlift Readiness Account (ARA). An estimated amount for the ARA is included in the Air Force's annual O&M budget. Payment for the ARA is initiated through an invoice from USTRANSCOM to the Air Force to reimburse the TWCF for expenses not covered by customer revenue. Amounts requested, allotted, and expended vary from year-to-year, in part because of the amount of airlift services provided by USTRANSCOM.[8] For information related to revenue and other financing sources, see Note 1U, Revenue and Other Financing Sources. As of September 30, 2022, $63 million is remaining in the ARA. Below is an illustration of the relationship of the ARA to the TWCF.



[7] 10 U.S.C. § 2208
[8] Source: GAO-18-557

General Property, Plant, and Equipment (GPP&E), Net comprises 6% of Total Assets. GPP&E 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 (GE). In FY 2022, USTRANSCOM reported GPP&E of $120 million compared to $86 million in FY 2021, representing a net increase of $34 million. This increase is primarily attributed to USTRANSCOM discontinuing the IUS write-off in FY 2022.

Management of Fund Balance with Treasury

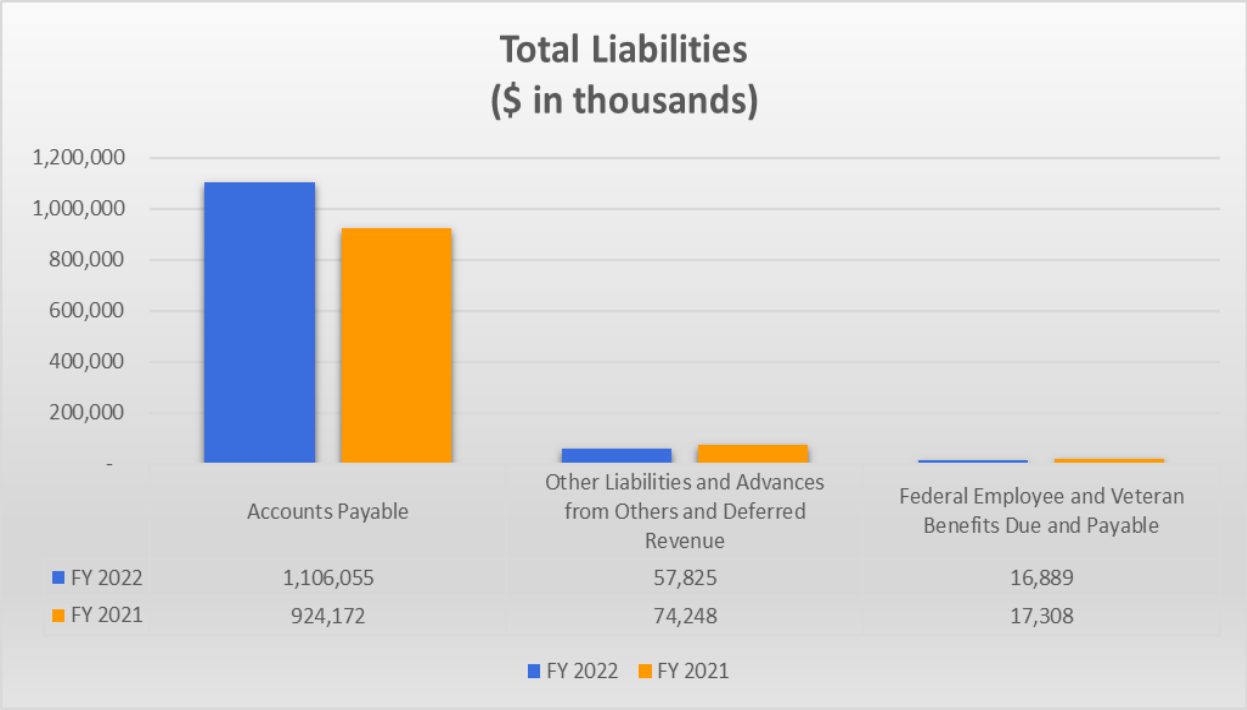
FBwT is maintained by the Department of the Treasury (U.S. Treasury) and comprises 18% of Total Assets. In FY 2022, USTRANSCOM reported FBwT of $346 million compared to $521 million in FY 2021, representing a net decrease of $175 million. This is primarily attributable to a $334 million decrease in AMC's FBwT due to increased fuel costs and services related to Ukraine. The $334 million decrease is offset by a $159 million increase in collection of Accounts Receivable for services performed. In determining required FBwT cash policy levels, USTRANSCOM calculates average disbursements and the expected range of volatility, adjusted to accommodate seasonality, known changes in the business environment, and the inherent risk associated with estimation error 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 defined operating ranges to ensure balances are sufficient for disbursements in support of the operating and capital programs, as required by the DoD FMR, Volume 2B, Chapter 9, *Defense Working Capital Funds Budget Justification Analysis,* Section 1.4, *Cash Management Policy*. At OUSD(C)'s instruction in July 2015, USTRANSCOM began using DoD FMR guidance as the updated cash policy. The TWCF FY 2022 lower range goal was $797 million, and the upper range goal was $1.5 billion.[9] As of September 30, 2022, operating FBwT was outside the goal range at $600 million.[10]

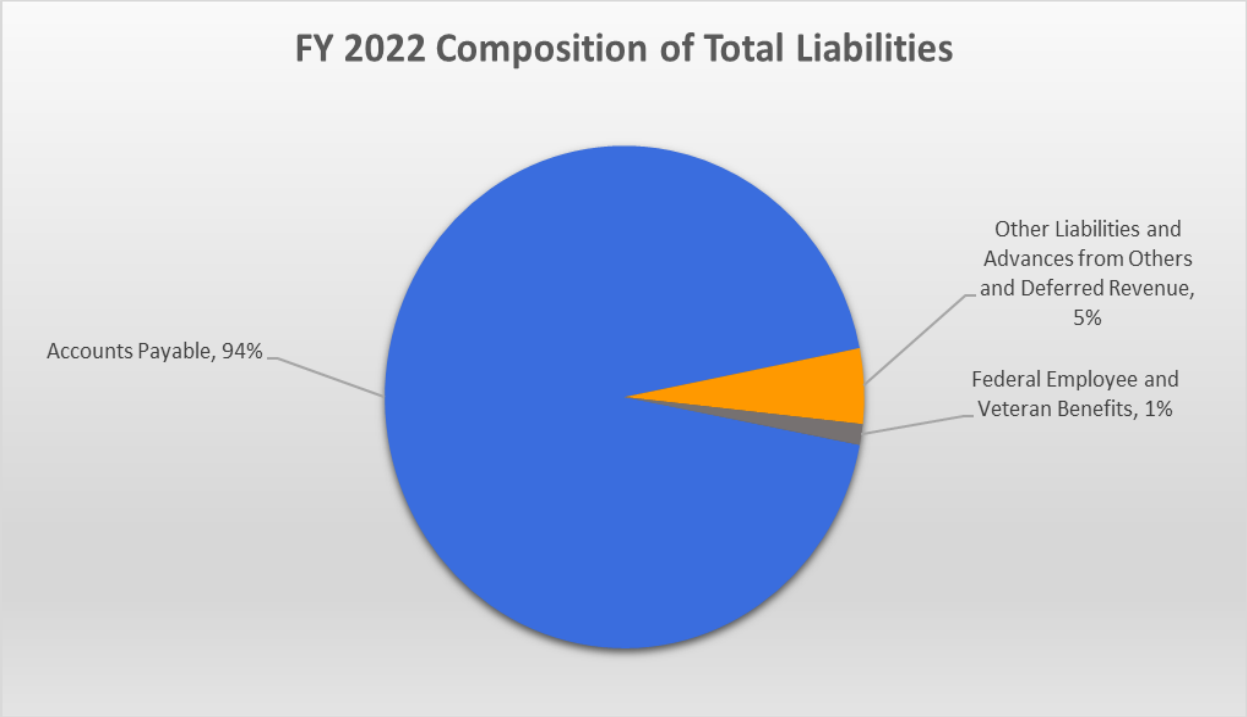
[9] Calculated in accordance with DoD FMR guidance and submitted via Exhibit Fund 13b - Cash Requirements, to OUSD(C) for review and approval during the Program/Budget Review.

[10] $600 million represents the TWCF FBwT portion. This amount does not include the supplemental appropriation because if USTRANSCOM fails to obligate the funds by the end of the period of availability the funds become expired.

Liabilities – What We Owe

Liabilities are the amounts owed to the public or other federal agencies for goods and services provided but not yet paid.



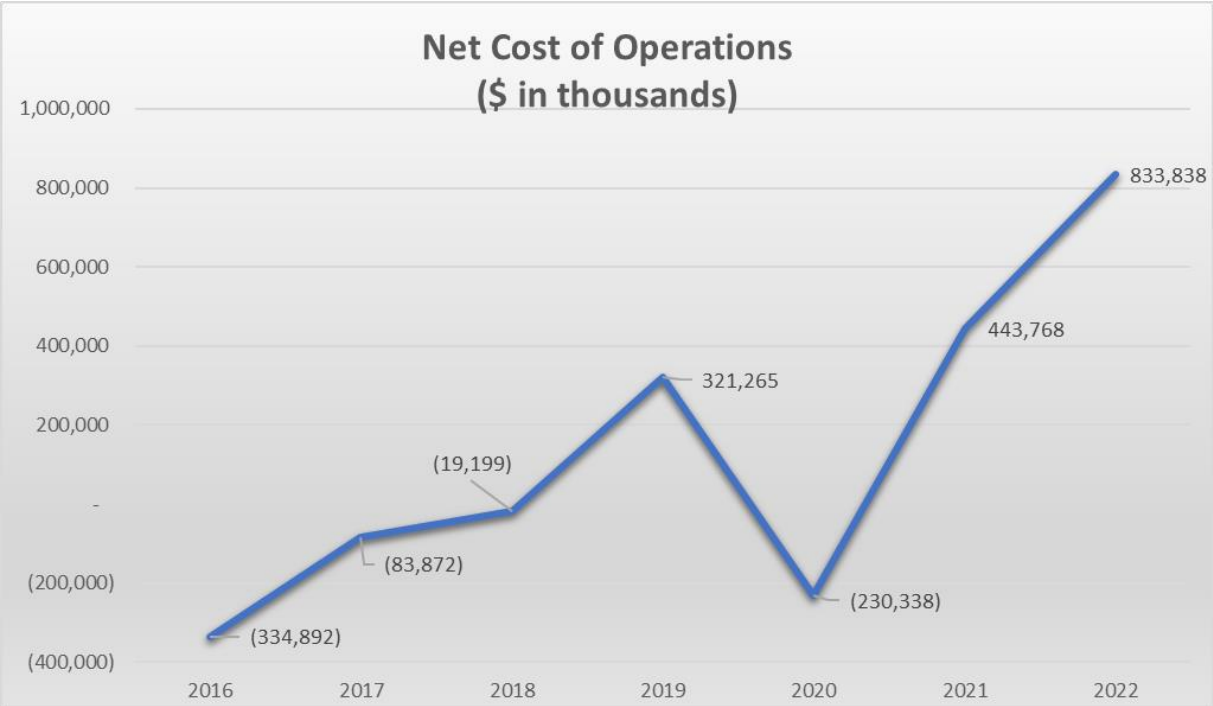


Accounts Payable is the TWCF's largest liability and comprises 94% of Total Liabilities. Accounts Payable includes amounts owed to others for good and services received by USTRANSCOM. Funds owed to the non-federal entities make up 90% of the total Accounts Payable, while 10% is owed to federal entities. In FY 2022, USTRANSCOM reported Intragovernmental Accounts Payable of $106 million compared to FY 2021 of $124 million. This $18 million decrease is primarily attributable to the crisis in Ukraine. In addition, USTRANSCOM reported Other than Intragovernmental Accounts Payable of $1 billion compared to FY 2021 of $800 million. This $200 million increase is primarily attributable to increased billing from the crisis in Ukraine and the completion of MSC's migration to Navy ERP.

Other Liabilities and *Advances from Others and Deferred Revenue* comprise 5% of Total Liabilities. Other Liabilities consist of items such as employer contributions and payroll taxes payable, accrued payroll and leave, contract holdbacks, and International Tariff Rate (ITR) receivables charged to customers on behalf of other agencies. In FY 2022, USTRANSCOM reported Intragovernmental Other Liabilities of negative $27 million compared to FY 2021 of negative $13 million. This $14 million decrease in Intragovernmental Other Liabilities is primarily attributed to AMC's ongoing financial data cleanup efforts to correct transactions that caused an overstatement of the liability. As this process continues, transactions deemed inappropriately recorded will be adjusted accordingly.

Consolidated Statements of Net Cost

The Statements of Net Cost present the annual cost of operations for USTRANSCOM. The net cost of USTRANSCOM's operations equals the program's Gross Cost less Earned Revenue from external sources for services provided to customers. The graph below illustrates the change in Net Cost of Operations year over year. A positive Net Cost of Operations amount means that the TWCF's Gross Costs exceeded the amount of Earned Revenue received. The years with negative Net Cost of Operations were planned/budgeted to reduce AOR based on lower rates.



Net Cost of Operations increased $390 million because of a reduction in the operating workload across TWCF and an increase in operational expense related to the Ukraine operations.

Consolidated Statements of Changes in Net Position

The Statements of Changes in Net Position present the Total Cumulative Results of Operations since inception. The statements focus 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 appropriations used, non-exchange revenue, transfers of FBwT and property, and imputed financing costs absorbed by other federal agencies on the TWCF's behalf. A positive Net Cost of Operations amount means that the TWCF's Gross Costs exceeded the amount of Earned Revenue received. The years with negative Net Cost of Operations were planned/budgeted to reduce AOR based on lower rates.

Consolidated Statements of Changes in Net Position

(dollars in thousands)	*Unaudited*			
Periods Ended September 30	**FY 2022**	**FY 2021**	**Increase (Decrease)**	**% Change**
Beginning Balance, as Adjusted	$ 943,889	$1,220,312	$ (276,423)	-23%
Changes in Accounting Principles (+/-)	-	(41,903)	41,903	100%
Appropriations Used	625,364	174,435	450,929	259%
Non-Exchange Revenue (Note 18)	(40)	(126)	86	-68%
Transfers In/Out without Reimbursement	(2,944)	(2,034)	(910)	-45%
Donations and Forfeitures of Property	-	22,638	(22,638)	100%
Imputed Financing	14,796	14,209	587	4%
Other	40	126	(86)	68%
Less: Net Cost of Operations	833,838	443,768	390,070	-88%
Change in Cumulative Results of Operations	$ (196,622)	$ (234,520)	$ 37,898	-16%
Total Cumulative Results of Operations	747,267	943,889	(196,622)	-21%
Net Position	$ 765,671	$1,178,657	$ (412,986)	-35%

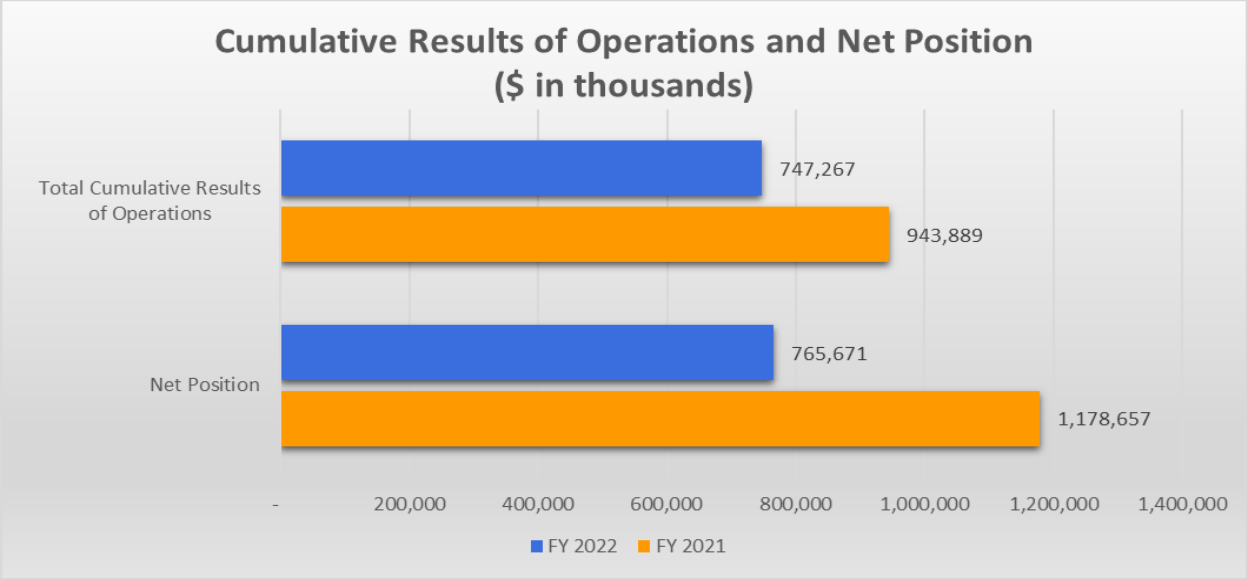
Cumulative Results of Operations decreased by $197 million compared to the prior fiscal year, because of the below changes:

- Beginning Balance decreased by $276 million from FY 2021 to FY 2022;
- $42 million increase in Changes in Accounting Principles is attributed to USTRANSCOM discontinuing the IUS write-off in FY 2022;
- $451 million increase in Appropriations Used is attributable to expending $406 million of the transfer for the Ukraine operations and $45 million for the mobility operation costs for the Afghanistan OAR effort. These costs for the Afghanistan OAR effort included troop deployment and redeployment, flights crossing multiple geographic locations, carrier claims, supplies, travel, and civilian overtime. After the last U.S. Service member departed Hamid Karzai International Airport in Kabul, Afghanistan, on August 31, 2021, USTRANSCOM continued moving evacuees from temporary safe havens onward to the United States through September 2021;
- $0.09 million increase in Non-Exchange Revenue is attributable to a decrease in the non-federal and federal receivables reported by U.S. Treasury;
- $0.9 million decrease in Transfers In/Out without Reimbursement is attributed to SDDC transferring all real property assets to the installation host in FY 2021;
- $23 million decrease in Donations and Forfeitures of Property is due to USTRANSCOM receiving donations of airlift services in FY 2021 from several foreign governments to support the State Department's efforts to transport Afghanistan SIV applicants, their dependent family members;

and other individuals at risk, as a result of the situation in Afghanistan, but not receiving these same donations in FY 2022;

- $0.09 million decrease in Other is attributable to the decreased non-federal and federal receivables reported by U.S. Treasury; and
- Offset by $390 million increase in Net Cost of Operations compared to the prior fiscal year, as described in the Consolidated Statements of Net Cost section above.

The chart below shows USTRANSCOM's Net Position, as well as the largest component of USTRANSCOM's Net Position, Total Cumulative Results of Operations, for FY 2022 and FY 2021.



Combined Statements of Budgetary Resources

The Statements of Budgetary Resources present the Total Budgetary Resources available to the TWCF for use in FY 2022 and FY 2021, the status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. These are the only financial statements exclusively derived from the budgetary general ledger in accordance with budgetary accounting guidelines. 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, capital obligation authority and spending authority from offsetting collections) from the OMB to OUSD(C). OUSD(C) further allocates the authority to USTRANSCOM through the Annual Operating Budget (AOB).

Combined Statements of Budgetary Resources *(dollars in thousands)*	*Unaudited*			
Periods Ended September 30	**FY 2022**	**FY 2021**	**Increase (Decrease)**	**% Change**
Unobligated Balance from Prior Year Budget Authority, net	$1,198,117	$ 962,731	$ 235,386	24%
Appropriations	409,000	309,328	99,672	32%
Contract Authority	50,454	68,313	(17,859)	-26%
Spending Authority from Offsetting Collections	7,345,051	7,391,583	(46,532)	-1%
Total Budgetary Resources	$9,002,622	$8,731,955	$ 270,667	3%
Agency Outlays, Net	$ 584,470	$ 396,242	$ 188,228	48%

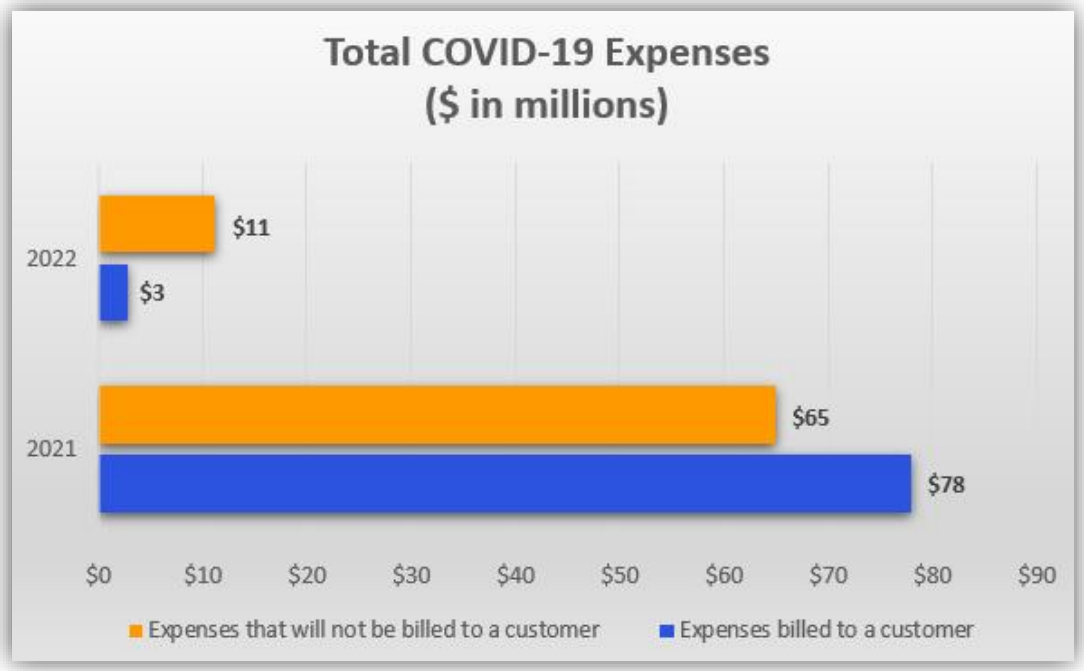
The Statements of Budgetary Resources fluctuation between FY 2022 and FY 2021 were as follows:

- Budgetary Resources increased by $271 million compared to the prior fiscal year. This increase is driven by:
  - $235 million increase in Unobligated Balance from Prior Year Budget Authority, net is attributed to the unobligated customer order balance carried forward and a posting logic error identified in MSC's financial system prior to the conversation of Navy ERP. The error was corrected when MSC converted to Navy ERP;
  - $100 million increase in Appropriations is attributed to the direct appropriation received for Ukraine operations;
  - $18 million decrease in Contract Authority is primarily attributed to SDDC posting a correction to Contract Authority for FY 2016 that didn't take into effect until the beginning of FY 2022; and
  - $46 million decrease in Spending Authority from Offsetting Collections.
- $188 million increase in Agency Outlays, Net is attributed to the timing of when disbursements and collections are processed.

COVID-19

COVID-19 Related Expenses

USTRANSCOM did not receive any direct appropriation in FY 2022 related to COVID-19. As of September 30, 2022, USTRANSCOM has incurred a total of $14 million in COVID-19 expenses. Of the $14 million, $3 million of those expenses were reimbursable expenses that have been billed and collected from customers. $11 million is non-reimbursable expenses that will not be billed to a customer but will be reimbursed through the rate-setting process. The reimbursable expenses are made up of federal responses to COVID-19, patient movement, and student transportation. The non-reimbursable expenses include air fees and Patriot Express expansion buys, which are air travel routes that USTRANSCOM needed to purchase as a result of other routes not being feasible with COVID-19 restrictions and spacing requirements. See Note 18, COVID-19 Activity for further information.



Limitations of the Principal Financial Statements

The financial statements are prepared to report the financial position, financial condition, and results of operations, consistent with the requirements of 31 U.S.C. § 3515 (b). The statements are prepared from the records of USTRANSCOM and based on the format prescribed by OMB. The accompanying financial statements account for all resources for which USTRANSCOM TWCF is responsible unless otherwise noted. USTRANSCOM is unable to fully implement all elements of 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 records. Users of the statements are advised that the statements are for a component of the DoD within the U.S. government-wide financial statements.

Analysis of Systems, Controls, and Legal Compliance

Management Assurances

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

12 September 2022

MEMORANDUM FOR OFFICE OF THE UNDERSECRETARY OF DEFENSE (COMPTROLLER) DEPUTY CHIEF FINANCIAL OFFICER

FROM: Deputy Commander, United States Transportation Command

SUBJECT: Annual Statement of Assurance for Fiscal Year (FY) 2022

1. As Deputy Commander of the United States Transportation Command (USTRANSCOM), I recognize that USTRANSCOM and the Transportation Component Commands (TCCs) are responsible for managing risks and maintaining an effective internal control system to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The USTRANSCOM and TCCs conducted their assessment of risk and internal control in accordance with the OMB Circular A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." As USTRANSCOM matures its internal control environment, it will continue to improve and refine its controls to support the reliability and accuracy of financial reporting; effective and efficient programmatic operations; and compliance with applicable laws and regulations, to include requirements of Federal financial management systems.

2. USTRANSCOM and the TCCs conducted their assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. USTRANSCOM can provide reasonable assurance, except for the operational deficiencies identified by the independent auditor, that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2022.

3. USTRANSCOM and the TCCs conducted their assessment of the effectiveness of internal controls over financial reporting (including internal and external financial reporting) in accordance with OMB Circular No. A-123, Appendix A. While USTRANSCOM's internal controls continue to improve, the results of the assessment concluded that USTRANSCOM is unable to provide assurance that internal controls over financial reporting are operating effectively as of September 30, 2022, to ensure the financial statements are fairly stated in all material respects.

4. USTRANSCOM and the TCCs conducted their internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with the FMFIA and OMB Circular No. A-123, Appendix D. While USTRANSCOM continues to achieve progress in the implementation of corrective actions to address various systems limitations, based on the results of this assessment, USTRANSCOM is unable to provide assurance that the internal controls over the financial systems are in compliance with Sections 4 and 803 of the FMFIA; and OMB Circular No. A-123, Appendix D, as of September 30,

2022.

5. USTRANSCOM assessed entity-level controls to include fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. Based on the results of the assessment, we concluded 110 of 113 entity level controls (ELCs) were operating effectively; however, three ELCs were not operating effectively. Therefore, USTRANSCOM is unable to provide assurance all entity-level controls are operating effectively as of September 30, 2022.

6. In FY22, USTRANSCOM and the TCCs, underwent its fifth Transportation Working Capital Fund financial statement audit, and as expected, the auditors provided a Disclaimer of Opinion. While the annual financial statement audit findings provide valuable insight critical to achieving USTRANSCOM's business reform goals, the associated material weaknesses are impediments to obtaining an unmodified audit opinion and positive assurance over internal controls. Cost effective remediation efforts focus on ensuring lasting compliance and demonstrating our continued commitment to financial accountability and transparency. As a result, USTRANSCOM has developed an enterprise approach and an Integrated Master Schedule to monitor progress towards auditability, identify opportunities to gain efficiencies of effort, and to expedite the remediation of findings. USTRANSCOM remains committed towards significant and measurable improvements in its ability to provide reliable, timely, and useful financial and managerial information to support management decisions.

7. If you have any questions regarding this Statement of Assurance for FY22, my point of contact is Ms. Sara Clary at sara.a.clary.civ@mail.mil.

JOHN P. SULLIVAN
Lieutenant General, USA

USTRANSCOM is committed to instituting and maintaining an effective system of internal controls to provide reasonable assurance that it achieves its mission. By appropriately assessing internal controls, USTRANSCOM can identify opportunities to improve business operations and support effective financial stewardship.

As a component of the DoD, USTRANSCOM's management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA, P. L. 97-255, 31 U.S.C. § 902 and 3512 note), the Federal Financial Management Improvement Act of 1996 (FFMIA, P. L. 104-208, codified as 31 U.S.C. § 3512 note), the Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* (commonly known as the 'Green Book'), and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control,* are met. To meet these objectives, USTRANSCOM's Risk Management Internal Control (RMIC) Program is responsible for the oversight and monitoring of organization's system of internal controls.

The RMIC Program uses a continuous, cyclical, approach to ensure both operational and financial managers effectively managing risks and internal controls in their areas of responsibility. The RMIC Program and the financial statement audit are complementary processes that provide management with the information needed to accelerate and sustain the audit remediation posture.

Summary of Material Weaknesses

The IPA contracted to perform USTRANSCOM's audit of its financial reporting requirements has identified 16 material weaknesses that include:

- Reporting Entity Definition and Imputed Costs
- Entity-Level Controls
- Completeness Controls
- Unsupported Accounting Adjustments
- Intragovernmental Transactions and Eliminations
- FBwT
- Unfilled Customer Orders
- Earned Revenue
- Accounts Receivable and Related Estimates
- Obligations
- Gross Costs
- Accounts Payable and Related Estimates
- GPP&E
- Oversight of Service Providers
- IT Controls
- Inability to Produce Complete or Accurate Populations for MSC

Specific details regarding the IPA identified material weaknesses can be found in the Independent Auditors' Report.

USTRANSCOM utilizes an Integrated Master Schedule to monitor progress towards auditability employing an enterprise approach to identify opportunities to gain efficiencies of effort, and to expedite the remediation of findings. Remediation of these identified deficiencies are dependent on multiple limiting factors to include required financial system updates, financial service provider updates, and DoD remediation efforts. USTRANSCOM continues to achieve progress in the implementation of corrective actions to address identified control deficiencies and plans to remediate all current identified material weaknesses by FY 2028.

Summary of Internal Control Assessments

The RMIC team coordinates with USTRANSCOM's major organizations to complete internal control assessments that support the annual Statement of Assurance (SOA).

For the FY 2022 SOA, USTRANSCOM evaluated its system of internal controls in effect during the fiscal year in accordance with OMB Circular A-123, the FMFIA, and the GAO Green Book. The objectives of the USTRANSCOM's system of internal controls are to provide reasonable assurance of:

- Effectiveness and efficiency of operations
- Reliability of financial reporting and non-financial reporting
- Compliance with applicable laws and regulations; to include financial information systems compliance with the FFMIA

The evaluation of whether USTRANSCOM's system of internal control is in accordance with OMB Circular A-123 included review of the following:

- an organizational assessment of Entity Level Controls (ELCs);

- results of internal risk-based activity-level control testing;
- evaluation of the results of all external reviews performed during the fiscal year;
- on-going monitoring of all current unmitigated Corrective Action Plans (CAPs) for identified material weaknesses and deficiencies; and
- management's opinion of the current control environment.

USTRANSCOM utilizes Risk Assessment (RA) and ELC assessment tools developed by OUSD(C) to evaluate organizational risks and ELCs relating to each of the five components of internal control: Control Environment, RA, Control Activities, Information and Communication, and Monitoring. In addition, in FY 2022, USTRANSCOM RMIC Program conducted OMB Circular A-123, Appendix A, Test of Design and Test of Effectiveness reviews for specified business processes and key controls; as well as, evaluated organizational risk identified within the RA to identify high, medium, and low-level control risks within the business processes. RMIC continues to focus its efforts on developing business process narratives at an enterprise level, documenting actual operations, and identifying key financial controls or gaps in the design of controls.

USTRANSCOM continues to adopt a prioritized risk-based approach to managing the control environment, leveraging reform efforts to enable more effective decision-making. The RMIC Program builds on sustainment activities to accelerate current audit remediation efforts, improving business process operations, and advances toward achieving an unmodified audit opinion.

Compliance with Laws and Regulations

Anti-Deficiency Act (ADA, P. L. 97-258, codified as 31 U.S.C. note prec. § 1341)

The ADA prohibits federal employees from obligating in excess of an appropriation or before funds are available, or from accepting voluntary services. In a WCF, such as USTRANSCOM's TWCF, a potential violation occurs when the WCF is apportioned, and obligations of the fund exceed the available amount of the apportionment. In addition, the ADA is implicated if there is a deficit cash balance in the TWCF's FBwT sub-account, or obligations exceed budgetary resources at the sub-account level. The TWCF is an activity group of the Air Force WCF sub-account. Finally, the TWCF may not exceed issued Contract Authority on its AOB.

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. In FY 2022 and FY 2021, USTRANSCOM had no ADA violations.

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

Title 5 of the U.S. Code contains 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 any errors are identified.

Prompt Payment Act (PPA, P. L. 97-177, codified as 31 U.S.C. § 3901-3907 note)

The PPA ensures federal agencies pay vendors in a timely manner, 30 days after receipt of a proper invoice. The Prompt Payment provisions in 5 Code of Federal Regulation 1315 (formerly OMB Circular A-125, *Prompt Payment*) requires USTRANSCOM to pay applicable invoices for supplies and services purchased by the federal government within certain periods and to pay interest penalties when payments are late. USTRANSCOM is potentially noncompliant with the source of funds provision of the PPA. USTRANSCOM does not have detailed procedures related to the payment of interest in accordance with the PPA, but there is a CAP in place to remediate this non-compliance.

Debt Collection Improvement Act of 1996 (DCIA, P. L. 104-134, codified as 31 U.S.C. § 3701 note)

The DCIA, updated April 30, 1999, and amended by the Digital Accountability and Transparency Act of 2014 (DATA Act, P. L. 113-101, codified as 31 U.S.C. § 6101 note), 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 DATA 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 U.S. that has been delinquent for a period of 120 days shall be turned over to the Secretary of the U.S. 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 U.S. Treasury. USTRANSCOM conducted a detailed review of its debt collection activities in FY 2021 under the Payment Recapture Audit and is correcting internal procedures for establishing and collecting validated public debts, ensuring compliance with Debt Collection statutes and regulations.

Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act, P. L. 112-194, codified as 41 U.S.C. § 101 note)

The 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 (IG) to conduct periodic RAs of government charge card programs. USTRANSCOM, through implemented internal controls, is committed to continued compliance with all aspects of the Charge Card Act.

Federal Information Security Modernization Act of 2014 (FISMA, P. L. 113-283, codified as 44 U.S.C. § 101 note)

The FISMA requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The 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 (FFMIA, P. L. 104-208, codified as 31 U.S.C. § 3512 note)

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 system requirements as clarified in OMB Circular A-123, Appendix D, applicable federal accounting standards promulgated by the FASAB, and the U.S. Standard General Ledger (USSGL) at the transaction level. Financial management systems include both financial and financially-related (or mixed) systems. USTRANSCOM's financial systems do 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 the 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 system controls.

USTRANSCOM has developed a series of CAPs, which includes documenting system processes and procedures, as well as addressing general control areas, that will remediate identified system findings causing FFMIA compliance issues. While some of these CAPs have been remediated and validated internally as closed, others remain open in either remediation by the programs or internal validation. The USTRANSCOM Program Analysis and Financial Management Directorate works closely with the

Program Managers for each system to ensure their CAPs are realistic and responsive to the conditions and recommendations cited in the Notice of Findings and Recommendations (NFR). Additionally, the USTRANSCOM's RMIC and Internal Controls over Financial Systems Teams continue to further assess design of internal control and effectiveness of key controls, as necessary. The USTRANSCOM Program Analysis and Financial Management Directorate in coordination with the Service Component Commands are performing a comprehensive analysis of corrective measures to ensure GAAP compliance with a target date of September 2028. To remediate USSGL compliance issues, USTRANSCOM has developed a series of CAPs with its components with target dates through March 2027.

Digital Accountability and Transparency Act of 2014 (DATA Act, P. L. 113-101, codified as 31 U.S.C. § 6101 note)

The DATA Act expands the Federal Funding Accountability and Transparency Act of 2006 (P. L. 109-282, codified as 31 U.S.C. § 6101 note) 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 website. The standards and website 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 recorded data, and to streamline and simplify reporting requirements through clear data standards. USTRANSCOM complies with DoD guidance on the DATA Act issued through the FY 2022 DoD SOA Execution Handbook.

Federal Managers' Financial Integrity Act of 1982 (FMFIA, P. L. 97-255, 31 U.S.C. § 902 and 3512)

The FMFIA requires Executive Branch agencies to establish and maintain effective internal controls. The heads of agencies must annually evaluate and report on the effectiveness of the internal control and financial management systems that protect the integrity of federal programs. USTRANSCOM supports the DoD as it continues to strengthen internal controls through expanded development of CAPs and internal control sustainment testing. In USTRANSCOM, financial management process narratives have been established along with a Risk Control Matrix that defines key internal controls and their associated effectiveness and risks to ensure continued compliance with DoD guidance concerning FMFIA.

Financial Management Systems Framework

USTRANSCOM understands its systems play a key role in the generation and auditability of the USTRANSCOM TWCF financial statements. USTRANSCOM is responsible for ensuring systems and controls comply with all applicable laws and regulations. USTRANSCOM is committed to improving financial and financial feeder IT operations across the command. USTRANSCOM relies on USTRANSCOM-owned systems, as well as many service provider systems, to support the TWCF's complete set of financial statements.

Current Financial Management System Framework

General Accounting and Finance System - **Reengineered (GAFS-R)** is the legacy system used by AMC and DCD. GAFS-R extends the capabilities of the accounting systems in use and includes transaction-level accounting data. The GAFS-R suite of modules maintains a portion of the accounting records for the Air Force customers that use the system.

Defense Enterprise Accounting Management System (DEAMS) is a financial management system that uses COTS ERP software, Oracle Enterprise Business Suite (EBS), to provide accounting and management services for both USTRANSCOM headquarters and AMC. DEAMS is intended to improve financial accountability by providing a single, standard, automated financial management system that is compliant with the CFO Act of 1990 and other mandates. DEAMS performs the following core accounting functions: Core Financial System Management, General Ledger Management, Funds Management, Payment Management, Receivable Management, Cost Management, and Reporting. DEAMS is owned by the Air Force and has received a FY 2022 System and Organization Controls Type 1 (SOC 1) report in which they received an adverse opinion. USTRANSCOM meets quarterly with the DEAMS Program Management Office to track issues identified in the FY 2022 SOC 1 Report.

Transportation Financial Management System (TFMS) is the financial management system solution in use by SDDC as its overall TWCF financial system. TFMS uses a COTS ERP product, Oracle EBS. All major lines of business utilize TFMS to conduct their operations, including the Ocean Liner, Port Operations, and Traffic Management. TFMS is also used to support numerous "back office" functions, including payroll timekeeping, travel, Accounts Payable, fixed asset accounting, and Accounts Receivable. TFMS serves a diverse customer base that includes all DoD components, various defense agencies, other federal agencies, foreign governments, and private sector entities.

Navy ERP - MSC recently completed a two-year system migration under the direction of the Assistant Secretary of the Navy (Financial Management and Comptroller), transitioning from its legacy financial system to the Navy ERP. Navy ERP uses Systems, Applications, and Products business management software to standardize acquisition, financial, and supply chain operations, providing improved management visibility and increased effectiveness and efficiency. This effort was an essential component of the Department of the Navy's Audit Relevant Systems Consolidation Plan, designed to achieve a more auditable systems environment. Navy ERP became MSC's financial system of record in mid-June 2021 and is presently being used to support both Navy WCF and TWCF, with each fund being separately managed. MSC custom financial reporting is currently being developed to replicate execution-level reports previously available in MSC's legacy system.

In addition to the four financial management systems in use by USTRANSCOM, six USTRANSCOM-owned financially relevant feeder systems are detailed below. The table shows what financial system is fed as well as what type of financial data is generated.

USTRANSCOM Feeder Systems		
USTRANSCOM System	**Feeds to Accounting System**	**Financial Information Type**
1. Commercial Operations Integrated System (COINS)	DEAMS	Purchase Order/Obligation
2. Distribution Component Billing System (DCBS)	DEAMS	Billing
3. Global Air Transportation Execution System (GATES)	DCBS to DEAMS & TFMS	Billing
4. Global Decision Support System (GDSS)	DCBS to DEAMS	Billing
5. Integrated Booking System (IBS)	TFMS	Billing
6. Standard Procurement System	DEAMS	Obligation

USTRANSCOM also relies heavily on service provider systems. When service provider systems have undergone a Standards for Attestation Engagements No. 18 examination and a SOC report over service provider is available, USTRANSCOM obtains the SOC report and performs an evaluation of the report. Progress on the remediation of findings detailed in the SOC reports are tracked. USTRANSCOM is also in the process of implementing Complementary User Entity Controls identified in the applicable SOC reports to address control objectives specified in management's description of the service provider system. In addition to GAFS-R, DEAMS, TFMS and Navy ERP, which are detailed above, below are examples of service provider systems that are key to the preparation of the TWCF financial statements.

Defense Departmental Reporting System (DDRS) - USTRANSCOM utilizes DFAS, a service organization, that is responsible for financial reporting. USTRANSCOM's service organization performs financial statement preparation and reporting within the DDRS – Budgetary and DDRS – Audited Financial Statements. DDRS standardizes the DoD reporting process and produces the annual and quarterly financial reports based on general ledger account codes and standard attributes.

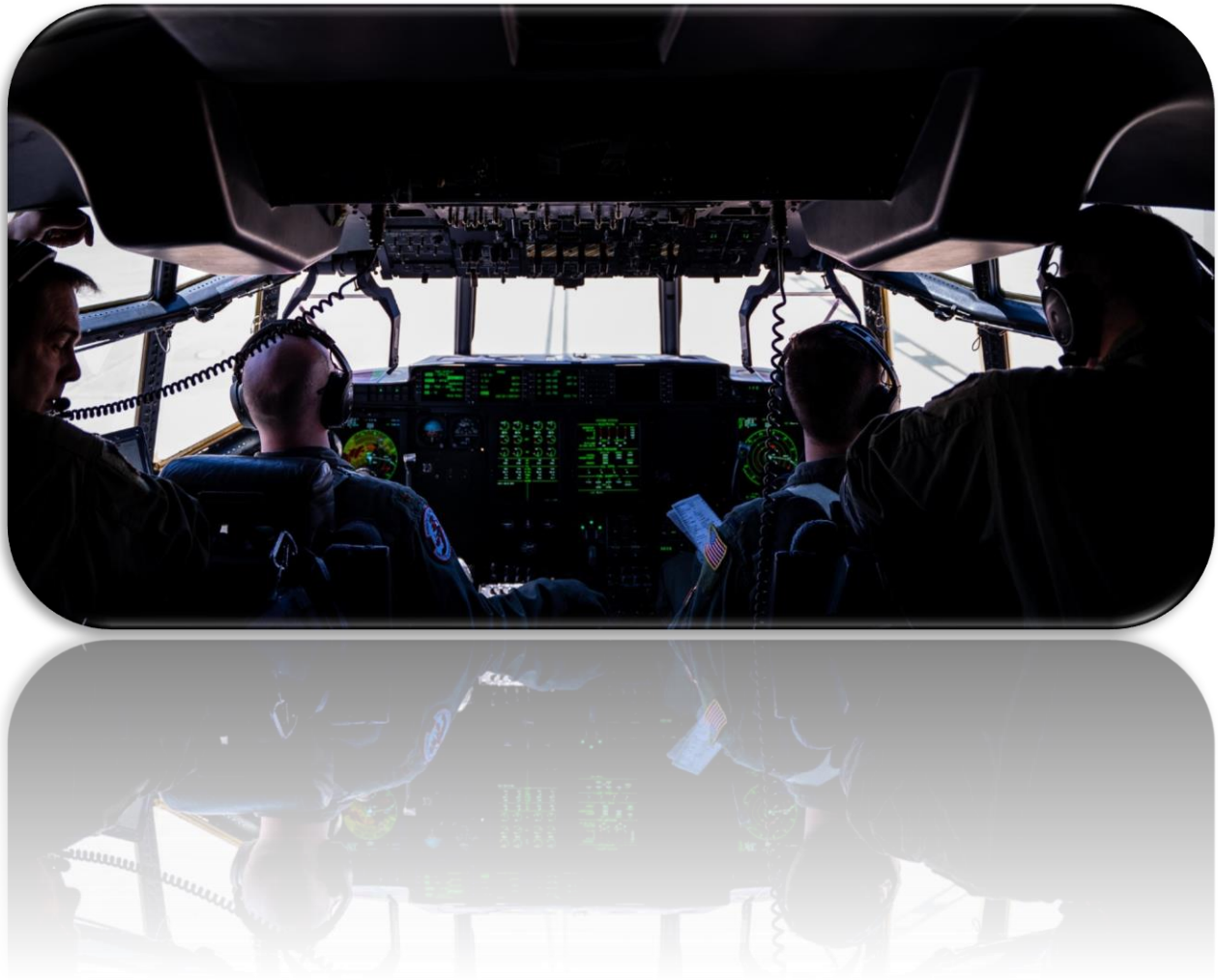
ADVANA is a technology platform which automates the collection, normalization, and tabulation of disparate sources of business and mission data, providing DoD's military and business decision-makers with decision support analytics, visualizations, and data tools. In the May 5, 2021 memorandum Creating Data Advantage, the Deputy Secretary of Defense outlined a plan to transform the DoD to a data-centric organization and named Advana as the DoD's single enterprise data analytics and visualization platform. USTRANSCOM is implementing a plan to increase the number of USTRANSCOM systems that provide data to Advana which will improve data access and quality. In doing this, USTRANSCOM will be building a single data source to optimize IT portfolio management, improve financial management, and provide enterprise-wide visibility that drives to action.

While USTRANSCOM lacks an integrated financial system that is fully compliant with the FFMIA, OMB Circular A-123, Appendix D, and the DoD FMR requirements for compliance under the FMFIA, USTRANSCOM is committed to improving the posture of the financial systems used across the command. 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.

Future Financial Management System Framework

USTRANSCOM's long-term vision is to move from our current IT environment to one characterized by uniformly effective internal controls, standardized business processes, integrated financial systems, and a workforce marked by human capital best practices. USTRANSCOM began an initiative in FY 2017 to move the IT systems to a cloud environment. The majority of USTRANSCOM systems have completed the migration to the cloud environment, with the few remaining anticipated to completely migrate by the end of FY 2023. USTRANSCOM has leveraged industry best practices with an aggressive timeline for migrating data and applications to the cloud, transitioning all systems to the Risk Management Framework, consolidating, or retiring systems and reducing infrastructure, executing on a future architecture, and achieving compliance with regulatory standards.



Forward-Looking Information

USTRANSCOM delivers global mobility solutions for deployment, employment, sustainment, and redeployment around the world. Trans-regional, 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 we must continue to defend against attempts to degrade our cyber security and command, control, and communications systems.

Global Mobility Capacity – Sealift and Air Refueling

Our Global Mobility Capacity includes conveyances and platforms that move troops, supplies, fuel, and equipment through global transportation networks. These include rail, motor transport, sealift, air refueling, and airlift. During times of war, 90% of our personnel are transported via commercially contracted air and 90% of our military cargo is transported by sealift vessels. In addition, more than 60% of USTRANSCOM's air transport aircrews reside in the Reserve Components, which include the National Guard and the Reserves, underscoring our reliance on the Total Force.

Sealift remains our top readiness concern. The sealift fleet is responsible for moving wartime cargo and has become a stressed capability because of a decline in vessel material condition and age. In 10 years, 70% of our government-owned surge sealift ships will approach the end of their service life and must be replaced. USTRANSCOM, together with DoD, the U.S. Department of Transportation, and the U.S. Navy, made initial progress in executing the strategy to recapitalize the fleet with used sealift ships from the

commercial market and are working through the process of the initial purchases. USTRANSCOM greatly appreciates the support on the authorization and funding for the U.S. Navy to begin sealift recapitalization efforts. The FY 2021 NDAA authorized the procurement of the first four used ships; FY 2021 Defense Appropriation provided funding for the first ship along with funding for two additional ships to be purchased this year**.** The Navy and Maritime Administration's recent purchase of two used roll-on roll-off vessels has been an important course of action in addressing one of USTRANSCOM's top priorities.[11] We seek continuing support for future recapitalization with funding for five new ships in the FY 2022 omnibus appropriations which will enable us to continue this vital process. We look forward to working with the Navy to satisfy restrictions in current law to execute these purchases.

The Air Refueling Fleet remains our most stressed fleet under wartime conditions. It is critical to rapid global mobility and is the lifeblood of the Joint Force's ability to deploy and employ the immediate and surge forces across all National Defense Strategy mission areas. The current air refueling fleet is comprised of the KC-135 and KC-10 aircraft, and the new KC-46. When the last KC-46 is purchased, the average age of the KC-135s will be 67 years. We must continue to modernize and recapitalize our aging air refueling assets to ensure that they remain agile, resilient, and relevant to the future fight. In FY 2022, General Mike Minihan, Commander, AMC approved the KC-46 to start refueling the F-35A and F-22 Raptor fighters during USTRANSCOM-tasked missions. AMC has now cleared the KC-46 Pegasus to support almost 85% of USTRANSCOM's air refueling tasks.[12]

Cyber Security

Cyber resiliency and digital modernization initiatives will remain a top priority for the command. USTRANSCOM is revising its contracts with commercial partners to address cyber threats, and funding research and development projects. We continue to modernize our IT systems by not only taking advantage of cloud computing services, but also through advancing our ability to manage data as a strategic asset to advance decision-making at all levels. We also continue to increase our cyber hygiene and harden our cyberspace terrain to impose costs on an adversary's ability to compromise our networks and systems. Cyber is an area of significant vulnerability for USTRANSCOM as we are inextricably linked to our commercial industry and 90% of our systems operate outside the DoD Information Network. We are improving our ability to proactively operate within our terrain and look for signs of compromise or unusual activity. In addition, in partnership with USCYBERCOM we are implementing Zero Trust security model principles on our classified network. In FY 2022, the basic maturity level has been completed. These actions have increased our cybersecurity posture as well as our ability to detect and mitigate adversarial activity.

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[11] Purchase of two used ROROs a critical step in sealift recapitalization

[12] U.S. Air Force, Boeing lock down design for KC-46 vision system upgrade

USTRANSCOM will remain focused on strengthening our partnerships with our transportation providers to mitigate cyber vulnerabilities. We are in our fourth year of having contractual cybersecurity compliance requirements in place and requiring annual cybersecurity self-assessments of NIST security controls. Compliance continues to improve each year, which highlights our partners' understanding of the importance of implementing sound cybersecurity practices. Last year we began a proof-of-principle contract to have a third-party assess commercial partner compliance with NIST security controls, and three companies have partnered with us on this initiative. The first assessment, on one of our CRAF partners, was completed this January and confirmed the company has robust security controls in place. The other two assessments will occur later this year. We have also increased information sharing and collaboration initiatives with our commercial partners and have a couple of special projects that link providers with defense intelligence agencies to help them mitigate risks.

Joint Transportation Management System (JTMS)

Office of the Secretary of Defense is exploring the feasibility of adopting a commercial software to improve efficiency, reduce overall costs, and close identified capability gaps. Currently, defense transportation financial management activities are sub-optimized by incongruous business processes, resulting in long-standing financial management deficiencies characterized by constant management through numerous, disparate IT systems; recurrent, non-standard, and manual processes; incomplete transactions that hinder record-keeping and delay timely financial information; forced balance adjustments; and unknown funds availability. DoD needs a standardized business process to link transportation action tasks and transportation business-related tasks across the full spectrum of financial activity. USTRANSCOM is initiating a solution analysis at the end of FY 2022 to identify the most feasible, cost-informed way to close material weaknesses and improve financial management of defense-wide transportation operations.

Space

USTRANSCOM is using Cooperative Research and Development Agreements (CRADAs) – unpaid, voluntary research partnerships - to team industry, academia, and their specific technologies with DoD future thinkers to anticipate uses, feasibility, value, and costs. The rapid advances in commercial space transportation could provide an innovative alternative to shift the way the DoD considers logistics response options. Development of spaceships that can operate in the Mars environment is providing lessons for scientists exploring rockets that could deliver cargo across the Earth in an hour.[13] Today, industry is energetically shaping space into a practical transportation mode - a trustworthy complement to our traditional global mobility options. Not every operation will call for logistics through space, but when we need to respond faster, or assure access in challenging environments, we recognize that space now offers a toolkit, not just a concept. At USTRANSCOM, we want our logistician's understanding of space transportation's potential to keep pace with the technical

[13] Understanding Mars Helps Rocket Cargo on Earth, Military Official Says

and operational realities that are being built now.[14] While industry is maturing a variety of launch capabilities, their integration with existing DOD supply chains and decision processes is the responsibility of USTRANSCOM, the Services, and the supported CCMDs. From December 2021 through July 2022, USTRANSCOM entered into five active CRADAs with industry to explore the possibility of using rockets to transport cargo and people. USTRANSCOM's industry research partners now include Blue Origin, Rocket Lab USA, Sierra Space Corporation, SpaceX, and Virgin Orbit National Systems. An earlier partnership with Exploration Architectures considered designs for spaceports. In addition, the Rocket Cargo program, directed by the Air Force Research Laboratory and the United States Space Force, will be informed by USTRANSCOM's CRADA-based industry research. In its proposed budget for FY 2022, the Air Force requested $48 million for research and rocket cargo tests.[15] What seemed purely futuristic is now rapidly evolving into a new mode of transportation. The growing reality of space transportation is why USTRANSCOM pursues multiple opportunities today to anticipate the placement and value of space transportation in tomorrow's global supply chain operations. It's a future that simply isn't distant anymore. [16]

Mitigating the Challenges of Contested Mobility

The DoD has begun to mitigate contested environment challenges through improved technology and related initiatives. The command pursues innovation through the collaborative investment of research and development funds in partnership with government, industry, and academia to address contested mobility concerns. USTRANSCOM has sponsored a game-changing capability under the JDDE Research, Development, Test & Evaluation Office, that offers greater flexibility to offload combat power known as the Rapidly Available Interface for trans-Loading (RAIL). The RAIL system, a modular ramp, offers the capability to offload heavy armor from the end and side of a railcar, allowing for instream discharge, a capability that currently does not exist.[17] The system was built to respond to a proficiency gap, yet it also acts as a deterrent; RAIL applies to many of the principles of war, including maneuver, surprise, economy of force, and simplicity. The innovation behind RAIL is a clear example of how USTRANSCOM is looking to logistics to be an integrated part of the maneuver force and deter adversaries.

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[14] USTRANSCOM expands cooperative research to explore space cargo
[15] Blue Origin has joined the United States military's 'rocket cargo' program
[16] USTRANSCOM and Blue Origin leaders meet to discuss space cargo
[17] New U.S. Expeditionary Rail Embarkation Capability

FINANCIAL INFORMATION

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

November 7, 2022

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
COMMANDER, U.S. TRANSPORTATION COMMAND
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
INSPECTOR GENERAL, U.S. TRANSPORTATION COMMAND

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Transportation Command Transportation Working Capital Fund Financial Statements and Related Notes for FY 2022 and FY 2021 (Project No. D2022-D000FL.0057.000, Report No. DODIG-2023-012)

We contracted with the independent public accounting firm of Cotton & Company Assurance and Advisory, LLC (Cotton) to audit the U.S. Transportation Command (USTRANSCOM) Transportation Working Capital Fund (TWCF) Financial Statements and related notes as of and for the fiscal years ended September 30, 2022, and 2021. The contract required Cotton to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the USTRANSCOM's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Cotton 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 2022, Volume 1, Volume 2 (Updated, June 2022), and Volume 3 (Updated, June 2022). Cotton's Independent Auditor's Report is attached.

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

opinion on the USTRANSCOM TWCF FY 2022 and FY 2021 Financial Statements and related notes.

Cotton's report discusses 16 material weaknesses related to the USTRANSCOM's internal controls over financial reporting.* Specifically, Cotton concluded that USTRANSCOM did not design or implement effective internal controls to:

- identify and accurately include consolidation and disclosure entities and imputed costs from USTRANSCOM components;
- monitor its financial management operations on a continual basis as part of its entity-level controls;
- ensure transactions and balances in the general ledger and financial statement reporting systems were completely and accurately recorded;
- properly review, record, support, and approve journal vouchers;
- identify and reconcile intra-TWCF transaction-level activity and balances;
- provide transaction-level populations to fully support undistributed collections and disbursements, statements of differences, and suspense accounts;
- provide sufficient unfilled customer orders populations and ensure stable and repeatable methods for recording its budget authority anticipated but not yet received;
- identify, accumulate, retain, and provide sufficient documentation in support of its recorded revenue-related transactions;
- record estimated accruals and ensure opening accounts receivable balances included only valid amounts;
- record complete, accurate, valid, and approved obligations;
- record accurate, timely, and supported operating expenses and disbursement transactions;

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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.

- verify that accounts payable balances included only valid amounts and analyze and validate its estimated accounts payable and expenses accrual methodologies;
- confirm existence and completeness of general property, plant, and equipment, and record and support the assets timely and accurately;
- identify, document, implement, and test Complementary User Entity Controls for which USTRANSCOM is responsible;
- execute and fully document information technology processes for effective security management, access controls, segregation of duties, and configuration management; or
- obtain Navy Enterprise Resource Planning system populations that support accounts receivable, unfilled customer orders, and undelivered orders.

Cotton's report also discusses two instances of noncompliance with certain provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, Cotton's report describes instances in which USTRANSCOM's financial management systems did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982. Additionally, Cotton's report describes instances in which USTRANSCOM potentially did not comply with the Prompt Payment Act and Purpose Statute as of September 30, 2022.

In connection with the contract, we reviewed Cotton's report and related documentation and discussed them with Cotton's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the USTRANSCOM TWCF FY 2022 and FY 2021 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the USTRANSCOM's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Cotton did not comply, in all material respects, with GAGAS. Cotton is responsible for the attached November 7, 2022 report, and the conclusions expressed within the report.

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

Lorin T. Venable

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

Attachment:
As stated

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INDEPENDENT AUDITORS' REPORT

Commander, United States Transportation Command (USTRANSCOM)

In our engagement to audit the fiscal years (FYs) 2022 and 2021 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 16 material weaknesses and 2 significant deficiencies in internal control over financial reporting as of September 30, 2022.
- Found noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) and the Federal Managers' Financial Integrity Act of 1982 (FMFIA), as well as potential noncompliance with the Prompt Payment Act and Purpose Statute as of September 30, 2022.

The following sections contain:

1. Our report on USTRANSCOM's TWCF financial statements and required supplementary 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 and other matters. This section also includes a summary of USTRANSCOM's comments on our report.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Disclaimer of Opinion

We were engaged to audit the accompanying financial statements of USTRANSCOM's TWCF, which comprise the consolidated balance sheets as of September 30, 2022 and 2021, the related consolidated statements of net cost, consolidated statements of changes in net position, and combined statements of budgetary resources for the fiscal years then ended, and the related notes to the financial statements (collectively, the basic financial statements).

We do not express an opinion on the accompanying financial statements of USTRANSCOM's TWCF. Because of the significance of the matters described in the Basis for Disclaimer of Opinion subsection of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

In our Report on Internal Control over Financial Reporting and on Compliance and Other Matters, we discuss material weaknesses and significant deficiencies. As a result of certain

elements of the material weaknesses, we were unable to determine the extent of adjustments necessary to the financial statements as of and for the fiscal years ended September 30, 2022 and 2021. Elements from the material weaknesses that contributed to our disclaimer of opinion are:

- USTRANSCOM has not implemented Statement of Federal Financial Accounting Standards 47, *Reporting Entity*, to help ensure the completeness of USTRANSCOM's TWCF financial statements and related notes to the financial statements (material weakness 1).
- USTRANSCOM was unable to provide supporting documentation for certain material recorded amounts (material weaknesses 3, and 7 through 13).
- USTRANSCOM self-identified adjusting journal vouchers (JVs) recorded in its financial systems for which it was unable to provide transaction-level supporting detail. These JVs primarily consisted of insufficiently supported balancing entries to prepare for eliminations in the Department of Defense financial statements, budgetary-to-proprietary adjustments, internal-use software adjustments, and component-level general ledger (GL) system direct feed adjustments (material weakness 4).
- USTRANSCOM was unable to provide populations for intra-USTRANSCOM activity that USTRANSCOM recorded in its detailed financial records but eliminated in preparing its TWCF financial statements (material weakness 5).
- USTRANSCOM provided unsuitable populations for certain GL accounts that comprise the balance sheet and statement of budgetary resources (material weaknesses 6 and 16).

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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' Responsibilities for the Audit of the Financial Statements
Our responsibility is to conduct an audit of USTRANSCOM's TWCF financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS); standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and guidance contained in Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditors' report. However, because of the matters described in the Basis for Disclaimer of Opinion subsection of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of USTRANSCOM and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America and OMB Circular No. A-136, *Financial Reporting Requirements,* require that the Management's Discussion

and Analysis (MD&A) and other required supplementary information be presented to supplement the basic financial statements. Such required supplementary information is the responsibility of management and, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) 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 subsection, we did not perform any procedures related to required supplementary information, including the MD&A; accordingly, we do not express an opinion or provide any assurance on the required supplementary information.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Internal Control over Financial Reporting

In connection with our engagement to audit USTRANSCOM's FY 2022 and 2021 TWCF financial statements, upon which we disclaimed an opinion because of the matters described above, we attempted to consider USTRANSCOM's internal control over financial reporting as a basis for designing 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. We did not consider all internal controls relevant to operating objectives broadly defined by the criteria established under FMFIA.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in Appendix A, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

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. We consider the first 16 deficiencies described in Appendix A to be material weaknesses.

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. We consider the last two deficiencies described in Appendix A to be significant deficiencies.

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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 due to fraud or error.

Compliance and Other Matters
In connection with our engagement to audit USTRANSCOM's FY 2022 and 2021 TWCF financial statements, we performed tests of USTRANSCOM's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. Our tests included testing whether USTRANSCOM's financial management systems substantially comply with the requirements of the FFMIA. These requirements are: (1) federal financial management systems requirements, (2) federal accounting standards, and (3) the U.S. Government Standard General Ledger (USSGL) at the transaction level. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in Appendix B. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

USTRANSCOM's Comments
USTRANSCOM's comments on this report 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 the "Other Reporting Required by *Government Auditing Standards*" is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This other reporting is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this other reporting is not suitable for any other purpose.

COTTON & COMPANY ASSURANCE AND ADVISORY, LLC

Steven M. Koons, CPA
Partner
Alexandria, VA
November 7, 2022

APPENDIX A: MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCIES

During our engagement to audit the fiscal years (FYs) 2022 and 2021 financial statements of the U.S. Transportation Command's (USTRANSCOM's) 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 16 material weaknesses and 2 significant deficiencies, as described in this Appendix.

For FY 2021, we reported six material weaknesses and one significant deficiency. The increase to 16 material weaknesses and 2 significant deficiencies is the result of an evolving control environment, as well as restructuring and updating the prior-year findings to (1) align more closely to those the Department of Defense (DoD) Office of Inspector General (OIG) reported for the DoD at the department level, and (2) reflect current conditions.

MATERIAL WEAKNESS 1: REPORTING ENTITY DEFINITION AND IMPUTED COSTS *(REPEAT FINDING, RESTRUCTURED)*

Condition: USTRANSCOM has not identified consolidation and disclosure entities and ensured it properly includes such entities in the TWCF financial statements and notes. In addition, although USTRANSCOM records imputed costs for employee benefits paid by the Office of Personnel Management, USTRANSCOM does not have sufficient processes in place to identify other imputed costs and calculate, record, and report those amounts.

Criteria: 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 United States Standard General Ledger [(USSGL)] at the transaction level."

Statement of Federal Financial Accounting Standards (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. SFFAS 4, *Managerial Cost Accounting Standards and Concepts,* as amended by SFFAS 55, *Amending Inter-entity Cost Provisions*, states:

> *Recognition of all significant inter-entity costs is important when those costs constitute inputs to government goods or services provided for a fee or user charge. Generally, the fees and user charges should recover the full costs of those goods and services. Thus, the cost of inter-entity goods or services needs to be recognized by the receiving entity in order to determine fees or user charges for goods and services sold by the federal government. Recognition of inter-entity costs supporting business-type activities… should be made in accordance with implementation guidance provided by [Federal Accounting Standards Advisory Board (FASAB)] through one or more Technical Releases.*

Cause: USTRANSCOM has not designed, documented, and implemented an assessment to determine whether it has any consolidation and disclosure entities that must be consolidated or disclosed in the TWCF financial statements and notes. In addition, although USTRANSCOM management has taken steps to obtain an inventory of imputed costs from the USTRANSCOM components and indicated that it has developed training on imputed costs, USTRANSCOM must prepare additional analysis and documentation to support its process for identifying and recording imputed costs.

Effect: USTRANSCOM lacks assurance as to whether its definition of the reporting entity for the TWCF financial statements is complete, and whether the notes accurately include consolidation and disclosure entities in accordance with accounting principles generally accepted in the United States of America (GAAP). In FY 2022, the Congress appropriated additional funding for Defense Working Capital Funds to respond to the situation in Ukraine, and this funding was ultimately made available to USTRANSCOM. USTRANSCOM's insufficient reporting entity definition impedes USTRANSCOM's ability to (1) effectively determine the proper financial reporting for such situations, and (2) determine whether it has imputed costs that require recognition. Incorrectly determining the imputed costs could cause USTRANSCOM to understate the gross costs line item on the statement of net cost and the imputed financing line item on the statement of changes in net position.

Recommendations: We recommend:

- USTRANSCOM conduct an assessment to determine whether it has omitted any consolidation and disclosure entities from the TWCF financial statements and disclosures and update its Agency Financial Report (AFR) disclosures accordingly.
- USTRANSCOM perform more detailed analyses of operational areas that potentially incur imputed costs. This should include defining the specific types of imputed costs that exist within USTRANSCOM's components and determining whether USTRANSCOM uses the TWCF to reimburse the providing entity for such costs.
- USTRANSCOM record material imputed costs and financing sources as necessary.

MATERIAL WEAKNESS 2: ENTITY-LEVEL CONTROLS *(REPEAT FINDING, RESTRUCTURED)*

Condition: Although USTRANSCOM has implemented a Risk Management and Internal Control (RMIC) program, USTRANSCOM has not effectively designed and fully implemented entity-level controls. USTRANSCOM management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior. Weaknesses in the entity-level control environment, however, do not provide an appropriate foundation for the other components of internal control. Moreover, USTRANSCOM has not yet incorporated ongoing monitoring procedures into its operations, begun performing these procedures on a continual basis, and ensured that these procedures are responsive to change. USTRANSCOM has also not yet begun fully evaluating and documenting the results of ongoing monitoring and separate evaluations to identify internal control issues and to determine the effectiveness of the internal control system, using the results of monitoring and evaluations. Weaknesses also exist in USTRANSCOM's risk assessment, as well as its information and communication.

Criteria: The Federal Manager's Financial Integrity Act (FMFIA), codified at 31 U.S. Code (U.S.C.) § 3512, states:

> *Consistent with standards the Comptroller General prescribes, the head of each executive agency shall establish internal accounting and administrative controls that reasonably ensure that-*
>
> *(A) obligations and costs comply with applicable law;*
>
> *(B) all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and*
>
> *(C) revenues and expenditures applicable to agency operations are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.*

The U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (2014) (commonly referred to as the Green Book) states, "The five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective." In addition, the Green Book notes, "The 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system."

Cause: USTRANSCOM's RMIC program does not yet fully consider enterprise-wide risks, including cross-cutting deficiencies in USTRANSCOM's system of internal control.

Effect: USTRANSCOM's ineffective entity-level controls hamper the effectiveness of specific internal control activities. In addition, the lack of effective entity-level controls renders USTRANSCOM's TWCF noncompliant with FMFIA requirements. Please see the separate discussion in Appendix B.

Recommendation: We recommend:

- USTRANSCOM, in continuing to develop its RMIC program, consider enterprise-wide risks, including cross-cutting deficiencies in the system of internal control, affecting each of the 17 principles underlying the five components of internal control.

MATERIAL WEAKNESS 3: COMPLETENESS CONTROLS *(REPEAT FINDING, RESTRUCTURED)*

Condition: USTRANSCOM lacks assurance that transactions and balances are completely and accurately recorded in component-level general ledger (GL) systems—i.e., Defense Enterprise Accounting and Management System (DEAMS), General Accounting and Finance System-Reengineered (GAFS-R), and Transportation Financial Management System (TFMS)—or in the Defense Departmental Reporting System (DDRS) used to prepare the TWCF financial statements. USTRANSCOM also lacks assurance that it completely and accurately reports activity and balances on the TWCF financial statements. Specifically, we noted:

- USTRANSCOM has not designed and implemented internal control activities related to the reconciliation of amounts recorded in significant feeder systems to amounts recorded in GL systems. Specifically, AMC, SDDC, CMD, and DCD have not designed and

implemented internal control activities related to the reconciliation of amounts recorded in significant feeder and supporting systems to amounts recorded in DEAMS and TFMS. Other similar conditions specific to certain USTRANSCOM components include:

- SDDC does not monitor whether the number of interface files received by the Managed File Transfer System (MFTS)—which SDDC uses to transfer various interface files to and from SDDC information systems, including TFMS—agrees to the expected number of files.
- USTRANSCOM can identify certain TWCF activity that is recorded in the DEAMS subsidiary ledger but not in the DEAMS GL; however, USTRANSCOM does not record periodic adjustments to account for the unrecorded activity in the DEAMS GL.
- USTRANSCOM has not provided sufficient evidence and explanation to support whether the DEAMS-to-DDRS interface is designed and implemented effectively.

- USTRANSCOM's unfilled customer orders, accounts receivable, and accounts payable populations include documents with material abnormal balances.

Criteria: Green Book, Principle 10, *Design Control Activities*, states, "Management should design control activities to achieve objectives and respond to risks." Section 10.03, *Design of Appropriate Types of Control Activities*, states, "Controls over information processing. A variety of control activities are used in information processing. Examples include edit checks of data entered; accounting for transactions in numerical sequences; comparing file totals with control accounts; and controlling access to data, files, and programs."

DoD Regulation 7000.14-R, *Department of Defense Financial Management Regulation* (DoD FMR), Volume 6A, Chapter 2, *Financial Reports, Roles and Responsibilities*, Section 2.5.1, 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. Reconcile subsidiary records to financial balances in accordance with the policies, requirements, and frequencies prescribed in this paragraph.*

Section 2.7.1.1 states:

> *Research and propose adjustments to correct abnormal balances. A GL balance is abnormal when the reported balance does not comply with the normal debit or credit balance established in the DoD Standard Reporting Chart of Accounts.*

Cause: Regarding the reconciliations between detail-level feeder systems and GL systems, as well as other related matters:

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

- AMC, SDDC, CMD, and DCD do not have established processes in place for assembling counts and amounts of revenues, collections, obligations, expenses, and outlays from feeder and supporting systems to facilitate reconciliations to DEAMS and TFMS.
- SDDC has not developed and implemented policies and procedures requiring internal control activities to monitor whether the number of interface files that MFTS receives agrees to the expected number of files.
- USTRANSCOM is unable to identify specific TWCF vendor payments that are recorded in the DEAMS subsidiary ledger but not in the DEAMS GL because the payments are missing information regarding the line of accounting.
- 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.

In addition, USTRANSCOM does not effectively monitor populations supporting its recorded GL account balances to identify any abnormal amounts at the document level. Further, it does not always have internal control activities in place to detect and correct these amounts.

Effect: USTRANSCOM's control deficiencies and gaps collectively impede its ability to help ensure that it has completely and accurately recorded all transactions and balances in GL systems and reported all transactions and balances on the TWCF financial statements. In addition, abnormal balances suggest specific financial statement line items are missing reclassification and other entries.

Recommendations: We recommend USTRANSCOM and its components:

- Implement TCJ8 oversight of components' implementation of policies and procedures for reconciling the amounts recorded in significant feeder systems to the amounts recorded in GL systems.
- Continue designing, implementing, and strengthening reconciliations between detail-level feeder and supporting systems and GL systems. Where USTRANSCOM and its components have not yet designed reconciliations, determine the extent to which they can design and implement reconciliations and the extent to which they can leverage other internal control activities to help ensure the completeness and accuracy of transactions recorded in GL systems.
- Design, document, and implement internal control activities for monitoring the number of files that MFTS receives or should receive.
- Enhance, document, and implement processes to identify TWCF-specific transactions recorded in the DEAMS subsidiary ledger but not in the DEAMS GL, including procedures to help ensure USTRANSCOM includes sufficient line of accounting information when recording vendor payments.
- Develop, document, and implement narratives documenting the strategy, design, and implementation of the DEAMS-to-DDRS interface in coordination with the service provider and the DEAMS Program Management Office.
- Develop, document, and implement internal control activities to review and resolve abnormal balances at the document level within populations supporting unfilled customer orders, accounts receivable, and accounts payable.

MATERIAL WEAKNESS 4: UNSUPPORTED ACCOUNTING ADJUSTMENTS *(REPEAT FINDING, RESTRUCTURED)*

Condition: USTRANSCOM and its components continue to have deficiencies in controls over the recording of journal vouchers (JVs) in GL systems and DDRS. Specifically, these deficiencies relate to:

- Not properly reviewing and approving JVs.
- Not providing sufficient documentation to support recorded JV amounts.
- Recording unsupported JVs.

Criteria: Green Book, Principle 10, states, "Management should design control activities to achieve objectives and respond to risks." Section 10.03 provides further information regarding the design of appropriate types of control activities for an entity's internal control system.

DoD FMR, Volume 6a, Chapter 2, Section 2.10.2.1, specifies that components may prepare JVs at the installation (execution) level or the departmental (reporting) level and must maintain documentation to support the validity and the amount of the transaction and to evidence that the component authorized, approved, and documented the JVs at the appropriate level of management or designee.

Cause: USTRANSCOM and its components' review and approval controls are not operating effectively to help ensure that JVs in GL systems and DDRS are warranted and accurate. Furthermore, USTRANSCOM and its components do not have effective processes in place to identify, accumulate, retain, and provide sufficient documentation to support JVs.

In addition, the service provider records certain unsupported JVs because USTRANSCOM has not been able to provide transaction-level detail for the JVs. This indicates USTRANSCOM does not have sufficient internal control activities over the preparation, review, and approval of these JVs.

Effect: USTRANSCOM and its components' JV control deficiencies collectively increase the risk that the TWCF financial statements are misstated.

Recommendations: We recommend USTRANSCOM, in coordination with its components:

- Strengthen, document, and implement internal control activities over the review and approval of JVs to help ensure they make appropriate and accurate adjustments to GL systems and DDRS.
- Continue to strengthen processes for identifying, accumulating, retaining, and providing documentation to support JVs recorded in GL systems and DDRS.
- Evaluate, in coordination with the service provider, the inability to provide transaction-level detail for certain JVs.

MATERIAL WEAKNESS 5: INTRAGOVERNMENTAL TRANSACTIONS AND ELIMINATIONS *(REPEAT FINDING, RESTRUCTURED)*

Condition: USTRANSCOM and its components were unable to provide populations to support intra-TWCF eliminations entries. In addition, controls related to the presentation of intra-TWCF transactions in the financial statements are inadequately designed. Specifically, USTRANSCOM records internal TWCF transactions as expenditure transfers even though they are within a single Treasury Appropriation Fund Symbol (TAFS) and do not constitute expenditure transfers.

Criteria: DoD's Financial Improvement and Audit Readiness (FIAR) Guidance (April 2017 revision), Section 2.C.4.1, *Wave 4 Key Capabilities, Capability Measures, and Success Criteria*, states that 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, *Capabilities,* prescribes several critical capabilities, including the ability to produce populations of transaction details that reconcile to each financial statement line item, accounting system, and feeder system.

In addition, GAO's *Principles of Federal Appropriations Law*, Third Edition (commonly referred to as the Red Book), Volume III, Chapter 12, *Acquisition of Goods and Services*, notes that statutory authority is necessary to create a revolving fund and that a revolving fund is an appropriation. It further states, "An intragovernmental revolving fund… is designed to carry out a cycle of business-type operations with other federal agencies or separately funded components of the same agency…."

Office of Management and Budget (OMB) Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, Section 20, *Terms and Concepts*, states, "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." It further states, "[TAFS] refers to the separate Treasury accounts for each appropriation title based on the availability of the resources in the account…." and "TAS includes all the component pieces of [TAFS] plus any sub-accounts established by Treasury."

Section 20 also 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.

Cause: USTRANSCOM does not have a process in place for identifying and reconciling transaction-level activity and balances that are eliminated from the TWCF financial statements.

Moreover, DoD FMR, Volume 6B, Chapter 13, *Adjustments, Eliminations, and Other Special Intragovernmental Reconciliation Requirements*, Section 6.0, states, "Present budgetary

information on a combined basis, with no elimination of budgetary accounts….” USTRANSCOM interpreted this language to mean that it should not eliminate intra-TWCF transactions for its statement of budgetary resources, but should instead present the gross amount. This interpretation does not take into account that OMB Circular No. A-136, *Financial Reporting Requirements,* calls for the statement of budgetary resources to aggregate TAFS-level information, or 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 that indicates expenditure transfers should occur only across separate TAFSs.

Effect: Without a process in place for identifying transaction-level activity and balances supporting the amounts eliminated from the TWCF financial statements, USTRANSCOM is unable to substantiate its elimination entries, rendering them not auditable. Moreover, the incorrect recording of transactions as expenditure transfers that are not eliminated by USTRANSCOM results in double-counting of spending authority from offsetting collections (discretionary and mandatory) and new obligations and upward adjustments (total) on the TWCF statement of budgetary resources.

Recommendations: We recommend USTRANSCOM:

- Design, document, and implement a process for identifying and reconciling transaction-level activity supporting TWCF financial statement eliminations, in coordination with its components and the service provider.
- Work with the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) and OMB to obtain clarification regarding guidance concerning statement of budgetary resources presentation for transactions within an individual TAFS.
- Review its accounting policies and procedures for preparing the statement of budgetary resources and, based on clarifications obtained from OMB, update these policies and procedures, as appropriate.
- Implement any policy and procedure updates necessary related to preparing the statement of budgetary resources.

MATERIAL WEAKNESS 6: FUND BALANCE WITH TREASURY *(REPEAT FINDING, RESTRUCTURED)*

Condition: Fund Balance with Treasury (FBWT) control deficiencies exist around USTRANSCOM’s undistributed collections and disbursements, statements of differences (SODs), and suspense accounts.

USTRANSCOM’s components are not able to provide transaction-level populations to fully support undistributed collections and disbursements. Undistributed collections and disbursements represent the difference between the amount of collections and disbursements reported in the Department of the Treasury’s (Treasury’s) Central Accounting Reporting System (CARS) and the amount of collections and disbursements recorded in USTRANSCOM’s GL systems. Additionally, for certain undistributed transactions, USTRANSCOM’s components were unable to demonstrate whether the collection or disbursement activity occurred, whether they performed related internal control activities, and whether the entries recorded for undistributed amounts were supported.

In addition, although the service provider has made progress preparing SOD populations, continued work is needed to help ensure the populations are complete and accurate. SODs arise from differences between the actual amounts disbursed and collected and the corresponding amounts reported to Treasury.

Finally, although a USTRANSCOM service provider has developed a suspense account estimation process, the process does not completely and accurately estimate the amount of DoD's overall combined suspense account balance attributable to USTRANSCOM's TWCF. Suspense accounts temporarily hold unidentifiable transactions until they are classified to the proper receipt or expenditure account.

Criteria: DoD FMR, Volume 4, Chapter 2, *Accounting for Cash and Fund Balances with Treasury*, Section 2.9.2, states, "Components must research the causes of the differences at the detail voucher level, identify undistributed amounts, and clear the aged undistributed amounts in accordance with [Volume] I [*Treasury Financial Manual* (TFM)] 2-5100, Section 5130."

Green Book, Principle 10, states, "Management should design control activities to achieve objectives and respond to risks." In addition, DoD's FIAR Guidance, Section 4.A.6, prescribes several critical capabilities, including the ability to produce populations of transaction details that reconcile to each financial statement line item, accounting system, and feeder system.

TFM, Volume 1, Part 2, Chapter 5100, *Fund Balance with Treasury Accounts*, Section 5135, *Budget Clearing Accounts*, states, "Agencies must reconcile budget clearing account balances on a monthly basis..."

DoD 7000.14-R, Volume 4, Chapter 1, *Financial Control of Assets* (January 2016), Section 3.1, states:

> *FBWT is an asset account that reflects the available funds in the entity's accounts with Treasury that authorizes the entity to make expenditures and pay liabilities. Collections and disbursements by the Department increase or decrease the balance of the account. Treasury requires all federal agencies to reconcile their FBWT accounts on a regular and recurring basis to assure the integrity and accuracy of their internal and Government wide financial data. Any differences identified during the reconciliation process must be researched and resolved. Reconciliation documentation (including support for any adjustments required) must be prepared and retained. Evidence of review and approval for the reconciliation and any adjustments must be contained in the documentation. Unresolved differences compromise the reliability of FBWT balances and Treasury's published financial statements. This, in turn, compromises the overall integrity and status of the Department's and Government wide financial position.*

Cause: USTRANSCOM's components do not have an effective process for clearing undistributed transactions, providing transaction-level populations to support the undistributed transactions, and identifying, accumulating, retaining, and providing sufficient documentation to support the undistributed transactions.

In addition, USTRANSCOM and its service provider have not yet fully implemented processes for preparing accurate and complete SOD populations attributable to the TWCF.

Finally, USTRANSCOM and its service provider have not yet developed an effective validation to retroactively confirm that the estimation methodology is producing a reasonable estimate of suspense account amounts attributable to the TWCF. They also have not fully implemented internal control activities to reconcile and reclassify amounts reported in suspense accounts.

Effect: USTRANSCOM is unable to assure itself that the FBWT line item on the TWCF financial statements is complete and accurate, including the impact of SODs and suspense accounts. In addition, these deficiencies may prevent USTRANSCOM and its components from recording the transactions underlying the undistributed JVs to the correct GL accounts.

Recommendations: We recommend:

- AMC, SDDC, MSC, CMD, and DCD, in coordination with the service provider, improve processes to clear undistributed disbursements and collections, and continue to develop and implement corrective actions to provide transaction-level undistributed collection and disbursement populations, as appropriate.
- AMC, SDDC, MSC, and CMD, in coordination with USTRANSCOM and the service provider, continue to strengthen their audit response processes for identifying, accumulating, retaining, and providing support for undistributed transactions.
- USTRANSCOM, in coordination with the service provider, continue to implement its process for identifying and obtaining specific SOD balances and transaction populations attributable to USTRANSCOM that support the completeness and accuracy of the FBWT line item on the balance sheet.
- USTRANSCOM, in coordination with the service provider, develop a process for retroactively validating that suspense account estimates are reasonable based upon the reporting entity to which the balance eventually cleared.
- USTRANSCOM design, document, and implement procedures for clearing and correcting suspense account balances in GL systems.

MATERIAL WEAKNESS 7: UNFILLED CUSTOMER ORDERS *(REPEAT FINDING, RESTRUCTURED)*

Condition: Control deficiencies related to unfilled customer orders exist across the USTRANSCOM enterprise. Specifically:

- Populations for AMC, SDDC, CMD, and DCD's unfilled customer orders are not sufficient. For example, certain populations contained items that did not have document identification numbers or contained data that do not represent items that actually comprise the recorded GL account balance.
- AMC does not have a stable, repeatable, and compliant method for recording its budget authority anticipated but not yet received. We have reported problems in this area since our FY 2019 audit. In one instance, AMC substituted an internal memorandum in place of valid authorizations to record 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. AMC has also recorded

insufficiently supported blanket end-of-year open unfilled customer orders. Further, AMC has recorded invalid unfilled customer orders using the internal USTRANSCOM Annual Operating Budget (AOB) as authorization, rather than relying on actual orders received.

- MSC does not have guidance requiring it to reject funding documents that do not align with the customer request amount. Further, 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 a written agreement with the customer to perform services, nor do they sufficiently evidence the customer's obligation.
- USTRANSCOM's opening unfilled customer orders balance includes invalid amounts. For example, AMC's FY 2022 opening balance contained about $19 million in errors identified and communicated during prior audits.
- USTRANSCOM does not always record unfilled customer order transactions for the correct amount or in the correct accounting period.
- USTRANSCOM does not consistently execute internal control activities when recording unfilled customer orders. For example, customer funding document acceptance does not always occur or the acceptance is sometimes performed by an individual lacking the requisite delegation of authority. Further, USTRANSCOM does not have sufficient internal controls in place to help ensure the completeness of transactions recorded based upon the receipt and acceptance of unfilled customer orders.
- USTRANSCOM sometimes cites multiple sources of statutory authority for accepting customer orders, such as the Economy Act and USTRANSCOM's authority as a working capital fund per 10 U.S.C. § 2208, even though each order is based on a single statutory authority. In addition, USTRANSCOM does not have sufficient internal control activities in place to help ensure that it documents the statutory basis for accepting orders and that it has support agreements when necessary.

Criteria: DoD's FIAR Guidance, Section 2.C.4.1, states that 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."

GAO's Red Book, Volume I, Chapter 5, *Availability of Appropriations: Time*, states, "A revolving fund may not count anticipated receipts from future customer orders as budget authority."

DoD FMR, Volume 3, Chapter 8, *Standards for Recording and Reviewing Commitments and Obligations*, Section 16.1, states:

> *The [Dormant Account Review Quarterly (DAR-Q)] … is effective for all DoD Components beginning Quarter 1, Fiscal Year 2020…. The purpose of implementing the quarterly review is the inherent ability to track the dormancy and or validity of the DoD Components obligations and [unfilled customer orders] ensuring proper actions are being taken to correct and or expedite the timely execution and full utilization of*

> *appropriated funds. DAR-Q is an integral component of exercising sound internal controls, the Department's objective in performing the DAR-Q is to increase each Component's ability to use available appropriations before they expire and ensure remaining open obligations are valid and liquidated before the cancellation of the appropriation which will enable increased mission readiness for the Department.…*

Green Book, Principle 10, states, "Management should design control activities to achieve objectives and respond to risks." Section 10.03 provides further information regarding the design of appropriate types of control activities for an entity's internal control system.

OMB Circular No. A-11, Section 20, states:

> *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, "This section does not…affect other laws about working funds" and "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…"

Further, OMB Circular No. A-11, Section 130, *SF 133, Report on Budget Execution and Budgetary Resources*, provides instruction to agencies performing under the Economy Act. It states, "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." It further states, "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 Treasury to establish annual and multi-year TAFSs, as needed, to accommodate Economy Act transactions.

Cause:

- USTRANSCOM and its components have not fully implemented corrective actions to generate populations at sufficient levels of detail for certain amounts reported on the TWCF financial statements.
- AMC has misinterpreted the AOB, OMB Circular No. A-11, the USSGL, the DoD FMR, and other related criteria when recording unfilled customer orders. For example, AMC has considered the economic events that trigger the recording of anticipated orders and unfilled customer orders to be the same and has based the recording of unfilled customer orders on the AOB. Additionally, AMC has cited specific DoD FMR guidance that allows exceptions to the normal requirements for recording unfilled customer orders without fully

considering the requirements for exceptions, including urgency and a letter of intent from an ordering agency. AMC management has also cited operational reasons for recording invalid unfilled customer orders, such as the loss of access to assets if funding was not in place on October 1 of each fiscal year. AMC's untimely process for recording unfilled customer orders at a transaction level exacerbates the challenges in this area.

- MSC's policies and procedures related to the acceptance of funding documentation and recording of unfilled customer orders are insufficient and do not provide comprehensive guidance for various scenarios, such as rejection threshold requirements for funding documents that exceed the amount requested.
- USTRANSCOM does not have effective internal controls (i.e., a fully operational DAR-Q process) to help ensure that the open unfilled customer order balances are valid and recorded at the correct amount.
- USTRANSCOM does not have an effective audit response process in place for identifying, accumulating, retaining, and providing documentation to support its recorded transactions, including documentation of internal controls. Additionally, supporting documentation lacked unique identifiers to link to the sampled items. Further, USTRANSCOM does not have sufficient internal control activities to help ensure transactions are recorded timely and in the correct accounting period. For example, customers typically request Special Assignment Airlift Missions (SAAMs) 30 to 60 days in advance of the anticipated mission date. Once AMC has completed the SAAM and it is closed in the Distribution Component Billing System (DCBS), a SAAM Billing Analyst processes the bill in DCBS. AMC typically bills SAAMs 1 to 2 months after the mission's execution date. DCBS does not interface with DEAMS until the monthly billing process, at which time AMC first records the unfilled customer order.
- USTRANSCOM and its components' policies and procedures lack 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.

Effect: Collectively, these deficiencies result in an increased risk of misstatements on the statement of budgetary resources and an increased risk of an Antideficiency Act violation at the Air Force Working Capital Fund level[1] in the event the actual orders (and the corresponding obligations on the customers' books) are less than the amounts recorded for unfilled customer orders, if fully obligated, for funding anticipated but not yet received.

Further, by incorrectly citing multiple sources of authority for a single order or not executing support agreements when necessary, 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 controls to help ensure compliance, USTRANSCOM personnel must understand and document which transactions are associated with a given statute.

[1] For budget purposes, the TWCF is an activity group within the Air Force Working Capital Fund; therefore, the greatest risk of Antideficiency Act violations exists at that higher level.

Recommendations: We recommend:

- USTRANSCOM continue to develop and implement processes to generate populations at sufficient levels of detail to support amounts reported on the TWCF financial statements.
- AMC when necessary, such as in an urgent situation, apply DoD FMR guidance and obtain letters of intent from customers before incurring costs to perform services.
- MSC develop, document, and implement policies and procedures related to the acceptance of funding documentation and recording of unfilled customer orders.
- USTRANSCOM and its components continue implementing DAR-Q requirements.
- USTRANSCOM and its components continue to strengthen their processes for identifying, accumulating, retaining, and providing documentation to support reported transactions and balances.
- USTRANSCOM develop, document, and implement policies and procedures to require or strengthen internal control activities to help ensure the existence or occurrence, completeness, accuracy, rights or obligations, and timeliness of recorded transactions and balances.
- AMC work with the operational community to develop, document, and implement internal control activities to record unfilled customer orders when accepting orders during the course of normal operations, including for its SAAM line of business.
- USTRANSCOM evaluate and update policies and procedures for making determinations as to which statutory authority applies to each of USTRANSCOM's various transaction types, to help ensure the policies and procedures are clear and compliant.
- USTRANSCOM properly establish support agreements and, for existing support agreements, cite the proper statutory authority and correct those instances in which an agreement cites multiple sources of statutory authority for a single transaction type.
- USTRANSCOM, for transaction types under the Economy Act, determine whether it has sufficient controls in place to address applicable deobligation requirements.

MATERIAL WEAKNESS 8: EARNED REVENUE *(REPEAT FINDING, RESTRUCTURED)*

Condition: USTRANSCOM does not accurately record revenue, contra-revenue, and collection transactions. Additionally, USTRANSCOM does not always record transactions timely or in the correct accounting period or fiscal year. Finally, USTRANSCOM does not properly execute internal controls when recording revenue, contra-revenue, and collection transactions. For example, we identified transactions without the appropriate approvals or with approvals by individuals who lack the requisite level of authority.

Criteria: DoD FIAR Guidance, Section 2.C.4.1, 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."

Green Book, Principle 10, states, "Management should design control activities to achieve objectives and respond to risks." Section 10.03 provides further information regarding the design of appropriate types of control activities for an entity's internal control system.

Cause: USTRANSCOM does not have an effective audit response process in place to identify, accumulate, retain, and provide sufficient documentation in support of its recorded revenue-related transactions, including documentation of internal controls. Additionally, AMC does not have internal control activities in place to help ensure amounts recorded in DEAMS correspond to supporting documentation.

Effect: These deficiencies result in an increased risk that revenue-related transactions are misstated on the TWCF financial statements.

Recommendations: We recommend:

- USTRANSCOM and its components continue to strengthen their processes for identifying, accumulating, retaining, and providing documentation to support reported revenue-related transactions and balances.
- USTRANSCOM and its components develop, document, and implement policies and procedures to require or strengthen internal control activities to help ensure the existence or occurrence, accuracy, and timeliness of recorded transactions and balances.

MATERIAL WEAKNESS 9: ACCOUNTS RECEIVABLE AND RELATED ESTIMATES *(REPEAT FINDING, RESTRUCTURED)*

Condition: AMC, MSC, and CMD's opening accounts receivable balances include invalid amounts. For example, AMC's FY 2022 opening balance contained $17 million in errors identified and communicated during prior audits, as well as an additional $8 million of receivables without activity since FY 2016.

In addition, SDDC does not always record estimated accruals to reflect accounts receivable and revenue earned but not billed for certain lines of business. Also, AMC and SDDC have not implemented internal control activities to analyze and validate estimated accounts receivable and revenue accrual methodologies for certain lines of business to help ensure the estimated accruals that they do record are appropriate, reasonable, and accurate.

Criteria: SFFAS 1: *Accounting for Selected Assets and Liabilities*, states, "A receivable should be recognized when a federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date, (e.g., taxes not received by the date they are due), or goods or services provided. If the exact amount is unknown, a reasonable estimate should be made."

SFFAS 1 also states:

> *… Losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected. The phrase more likely than not means more than a 50 percent chance of loss occurrence. An allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. The allowance for uncollectible amounts should be reestimated on each annual financial reporting date and when information indicates that the latest estimate is no longer correct. Losses due to uncollectible amounts should be measured through a systematic methodology. The systematic methodology should be based on analysis of both individual accounts and a group of accounts as a whole.*

Although not specific to accounts receivable accruals, DoD FMR, Volume 4, Chapter 9, *Accounts Payable*, Section 2.2.1, providers related guidance and states:

> *When DoD Components accept title to goods, whether the goods are delivered or in-transit, the Component must recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed must be estimated.*

Section 2.3.4 states:

> *Methods for calculating the accrual estimate must be periodically validated for reasonableness by comparing the estimate to actual data once available. … Performance of these reviews, as well as approval of the review, must be documented by the DoD Component. This documentation must be maintained for auditors to validate that the review was performed and that it was approved by management.*

Cause: AMC, MSC, CMD, and DCD do not have effective internal controls in place to provide assurance that accounts receivable balances are valid and recorded at the correct amount. An effective control environment should include monitoring aged accounts receivable, assessing collectability, and recording an allowance to reduce the accounts receivable to the net realizable value as appropriate. In addition, SDDC has not fully developed processes for calculating and recording certain significant accruals or for documenting, monitoring, and assessing the appropriateness of the accrual methodologies, including the comparison of estimated and actual amounts. AMC management has indicated that, due to the nature of certain AMC accruals, it is not necessary to implement a process for monitoring and assessing the appropriateness of the methodology.

Effect: These deficiencies result in an increased risk the TWCF financial statements are misstated. Specifically, recorded amounts may be invalid or inaccurate, or amounts may not be recorded at all. Further, estimated amounts may be unreasonable, and errors in processes or assumptions may go undetected.

Recommendations: We recommend:

- AMC, MSC, CMD, and DCD review their accounts receivable balances and confirm amounts reported are valid and recorded at the correct amount. The process for assessing collectability and determining the amount of an allowance should include developing, documenting, and validating a methodology that the entities can apply on a recurring basis, no less frequently than annually.
- SDDC design and implement methodologies for calculating and recording certain significant accruals and document the accrual methodologies and key assumptions used in estimating accrual amounts.
- AMC and SDDC strengthen their overall processes for monitoring and assessing the appropriateness of their accrual methodologies.

MATERIAL WEAKNESS 10: OBLIGATIONS *(REPEAT FINDING, RESTRUCTURED)*

Condition: Control deficiencies related to obligations exist across the USTRANSCOM enterprise. Specifically:

- USTRANSCOM's opening balance for undelivered orders (unpaid) includes invalid amounts. For instance, AMC's FY 2022 opening balance contained $46 million in errors identified and communicated during prior audits, as well as $28 million related to point-of-sale fuel transactions recorded more than 90 days in the past and $29 million in non-fuel transactions that were significantly aged. Similarly, SDDC's undelivered orders (unpaid) included invalid amounts.
- USTRANSCOM does not always record transactions for the correct amount or in the correct accounting period.
- AMC, MSC, and CMD do not consistently execute internal control activities when recording undelivered orders (unpaid). Specifically, required approvals do not always occur and approval is sometimes performed by an individual lacking the requisite delegation of authority.
- USTRANSCOM does not consistently record transactions in the correct GL accounts or in compliance with the USSGL. For instance, AMC and CMD do not always record upward and downward adjustments to prior-year obligations in DEAMS and GAFS-R in accordance with the USSGL.
- AMC has not sufficiently designed funds control across its GL systems to help ensure that obligations do not exceed its budgetary authority.

Criteria: DoD FMR, Volume 3, Chapter 8, Section 16, provides DAR-Q requirements for tracking the dormancy and validity of account balances as part of exercising sound internal control.

DoD FIAR Guidance, Section 2.C.4.1, 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."

Green Book, Principle 10, states, "Management should design control activities to achieve objectives and respond to risks." Section 10.03 provides further information regarding the design of appropriate types of control activities for an entity's internal control system.

Cause:

- USTRANSCOM does not have effective internal controls in place, such as a fully operational DAR-Q process, to help ensure that the open undelivered orders are valid and recorded at the correct amount.
- USTRANSCOM does not have an effective audit response process in place to identify, accumulate, retain, and provide sufficient documentation to support its recorded transactions, including documentation of internal controls. Additionally, supporting documentation lacks unique identifiers to link to the sampled item. Further,

USTRANSCOM does not have sufficient internal controls in place to help ensure transactions are recorded in the appropriate accounting period.

- Although AMC and CMD implemented downward and upward adjustment posting logic in DEAMS in FY 2022, the data indicate the posting logic does not adequately distinguish between changes in budget/accounting structure within a TAFS and true decreases and increases to existing obligations. Additionally, GAFS-R does not include posting logic to record downward and upward adjustments.
- GAFS-R does not have automated funds control checks, and AMC has not designed manual compensating controls. Further, AMC continues to carry an abnormal balance in the GAFS-R allotment GL accounts.

Effect: Collectively, these deficiencies result in an increased risk of misstatements on the statement of budgetary resources. Further, the lack of a properly designed funds control increases the risk that AMC and the TWCF could incur obligations in excess of amounts available on the internal AOB.

Recommendations: We recommend:

- USTRANSCOM and its components continue implementing DAR-Q requirements.
- USTRANSCOM and its components continue to strengthen their processes for identifying, accumulating, retaining, and providing support for reported transactions and balances.
- USTRANSCOM develop, document, and implement policies and procedures to require or strengthen internal control activities to help ensure the existence or occurrence, completeness, accuracy, rights or obligations, and timeliness of recorded transactions and balances.
- AMC and CMD updated posting logic to help ensure they record downward and upward transactions in the appropriate situations. In the interim, we recommend management develop and implement a methodology for identifying, quantifying, and recording adjusting entries to account for downward adjustments not recorded.
- AMC design, document, and implement funds control to prevent obligations in GAFS-R from exceeding allotments. This may be an automated process—which would require AMC to record a portion of its authority in GAFS-R—or a manual process.

MATERIAL WEAKNESS 11: GROSS COSTS *(REPEAT FINDING, RESTRUCTURED)*

Condition: USTRANSCOM does not accurately record operating expenses and disbursement transactions based on the supporting documentation provided. Additionally, USTRANSCOM does not always record transactions timely or in the correct accounting period or fiscal year. Finally, USTRANSCOM does not properly execute internal controls when recording operating expenses and disbursements. For example, we identified disbursement transactions without the appropriate approvals or with approvals by individuals who lack the requisite level of authority. We also identified operating expense transactions without evidence of the receipt and acceptance of the goods or services.

Criteria: DoD FIAR Guidance, Section 2.C.4.1, 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."

Green Book, Principle 10, states, "Management should design control activities to achieve objectives and respond to risks.".

Cause: USTRANSCOM does not have an effective audit response process in place to identify, accumulate, retain, and provide sufficient evidential documentation in support of its recorded transactions, including documentation of internal controls. Additionally, AMC does not have controls in place to help ensure expenditures for assets to be received in future periods are recorded in GAFS-R as advances.

Effect: These deficiencies result in an increased risk that expense-related transactions are misstated on the TWCF financial statements.

Recommendations: We recommend:

- USTRANSCOM and its components continue to strengthen their processes for identifying, accumulating, retaining, and providing documentation to support reported expense-related transactions and balances.
- USTRANSCOM and its components develop, document, and implement policies and procedures to require or strengthen internal control activities to help ensure the existence or occurrence, accuracy, and timeliness of recorded transactions and balances.
- AMC develop and implement internal controls to help ensure expenditures for assets to be received in future periods are recorded in GAFS-R as prepayments.

MATERIAL WEAKNESS 12: ACCOUNTS PAYABLE AND RELATED ESTIMATES *(REPEAT FINDING, RESTRUCTURED)*

AMC, SDDC, and MSC's opening accounts payable balances include invalid amounts. In addition, USTRANSCOM does not always record estimated accruals for accounts payable and expenses incurred but for which an invoice has not been received. In addition, USTRANSCOM lacks internal control activities to analyze and validate its estimated accounts payable and expense accrual methodologies for certain lines of business to help ensure the estimated accruals that it does record are appropriate, reasonable, and accurate.

Criteria: DoD FMR, Volume 3, Chapter 8, Section 16, provides DAR-Q requirements for tracking the dormancy and validity of account balances as part of exercising sound internal control.

SFFAS 1, states, "Accounts payable are amounts owed by a federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities." It further states, "When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed should be estimated."

DoD Regulation 7000.14-R, *DoD FMR*, Volume 4, Chapter 9, Section 2.2.1, states:

> *When DoD Components accept title to goods, whether the goods are delivered or in-transit, the Component must recognize a liability for the unpaid amount of the goods. If invoices for those goods are not available when financial statements are prepared, the amounts owed must be estimated.*

Section 2.3.4 states:

> *Methods for calculating the accrual estimate must be periodically validated for reasonableness by comparing the estimate to actual data once available. … Performance of these reviews, as well as approval of the review, must be documented by the DoD Component. This documentation must be maintained for auditors to validate that the review was performed and that it was approved by management.*

Cause: AMC, SDDC, and MSC do not have effective internal controls in place to help ensure that accounts payable balances are valid and recorded at the correct amount. An effective control environment should include a fully operational DAR-Q process. In addition, USTRANSCOM has not fully developed processes for calculating and recording certain significant accruals or for documenting, monitoring, and assessing the appropriateness of the accrual methodologies, including comparing estimated and actual amounts.

Effect: These deficiencies result in an increased risk the TWCF financial statements are misstated. Specifically, amounts recorded may be invalid or inaccurate. Further, estimated amounts may be unreasonable and errors in processes or assumptions may go undetected.

Recommendations: We recommend:

- AMC, SDDC, and MSC continue implementing DAR-Q requirements.
- USTRANSCOM continue designing and implementing methodologies for calculating and recording certain significant accruals, document the accrual methodologies and the key assumptions used in estimating the accrual amounts, and strengthen the overall process for monitoring and assessing the appropriateness of the accrual methodologies.

MATERIAL WEAKNESS 13: GENERAL PROPERTY, PLANT AND EQUIPMENT (*REPEAT FINDING, RESTRUCTURED*)

Condition: USTRANSCOM lacks assurance as to the existence and completeness of its general property, plant and equipment (PP&E). For example:

- AMC and CMD lack assurance as to the existence and completeness of their recorded general PP&E.
- AMC's controls for identifying capitalized assets and for timely and accurately creating the related capitalized asset record in GAFS-R and DEAMS are not effectively designed.
- AMC lacks assurance as to its recorded internal-use software in development costs.
- CMD is unable to fully support amounts recorded as internal-use software in development, nor is it able to demonstrate that the assets meet the capitalization requirements.

Criteria: DoD FMR, Volume 4, Chapter 25, *General Equipment*, Section 2.4 states:

> *All general equipment items acquired by DoD Components must be recognized for accountability in accordance with DoDI 5000.64 and financially reported as required by this guidance. Recognition requires the appropriate accounting treatment (expense or capitalization with depreciation) and the reporting of capitalized amounts and accumulated depreciation on the appropriate DoD Component's financial statements.*

Section 2.4.6.1 states:

> *For accounting consideration purposes, a bulk purchase is a single contractual/purchase arrangement of multiple like general equipment items within a fiscal year. For bulk purchases made on a single multiple year contractual/purchase arrangement, purchases should be aggregated and evaluated on an individual fiscal year basis. Each DoD Component should evaluate whether the amounts of bulk purchases are considered material. This evaluation should be documented in writing. Each DoD Component should establish guidance on applying DoD capitalization thresholds to their bulk purchases.*

Section 3.2 states:

> *Entries to record financial transactions in accounting system general ledger accounts and/or the [Accountable Property System of Record (APSR)] and/or other systems must: …Enable periodic, independent verification of the accuracy of the accounting and APSR and/or other systems through periodic physical counts/inventories of general equipment (existence and completeness--"book to floor and floor to book"). Such periodic inventories also must include reconciling the APSR and/or other systems with the general ledger accounts and physical counts.*

Green Book, Principle 10, states, "Management should design control activities to achieve objectives and respond to risks."

SFFAS 10, *Accounting for Internal Use Software*, states:

> *Entities should capitalize the cost of software when such software meets the criteria for general property, plant, and equipment (PP&E). General PP&E is any property, plant, and equipment used in providing goods and services.*
> *…*
> *…For internally developed software, capitalized cost should include the full cost (direct and indirect cost) incurred during the software development stage.*
> *…*
> *For [commercial "off-the-shelf" (COTS)] software, capitalized cost should include the amount paid to the vendor for the software. For contractor-developed software, capitalized cost should include the amount paid to a contractor to design, program, install, and implement the software. Material internal cost incurred by the federal entity to implement the COTS or contractor-developed software and otherwise make it ready for use should be capitalized.*

Cause: USTRANSCOM lacks sufficient policies and has data limitations for general equipment. Certain records in the population are considered to be a single asset; however, it is not possible to use USTRANSCOM's data to identify how assets relate to each other. Moreover, management indicated that it could not readily determine where all of its assets are physically located.

AMC has not documented its internal control processes related to general equipment and has reported that, due to the number of assets AMC has recorded in its APSR, management has experienced issues generating the necessary reports from the APSR; therefore, reconciliations between the APSR and DEAMS are being performed by equipment owners rather than in a centralized manner.

Although CMD has made progress with its internal controls, it has not initiated its plan to perform a two-way reconciliation between its APSR and DEAMS.

AMC does not have sufficient processes in place, including a process whereby the project managers notify the asset accountant at the time a software item is completed.

Although CMD has implemented changes to certain of its newer contracts for software—specifically, in terms of how it identifies and segregates capital and operational contract line items to facilitate capitalization—it is continuing to incur costs on older contracts.

Effect: Insufficient policies and procedures have caused USTRANSCOM to capitalize assets that do not meet the capitalization threshold, thereby overstating the amounts reported in the financial statements. In addition, without the ability to identify how assets relate to each other or to locate the assets, it is not possible to obtain reasonable assurance as to the fair presentation of the general equipment portion of general PP&E.

AMC's and CMD's recorded general equipment may not actually exist or may exist but not be recorded in the APSR, DEAMS, or both.

There is a risk that AMC will be unable to identify and timely and accurately transfer software costs from the in-progress account to the completed asset account upon project completion.

AMC's reported costs in the internal-use software in development account may not have actually occurred, may not be accurately recorded, and may not constitute costs that should have been recorded in—and should remain as—internal-use software in development.

CMD's recorded internal-use software, internal-use software in development, and accumulated amortization on internal-use software may be misstated.

Recommendations: We recommend:

- USTRANSCOM and its components evaluate and update policies for recording general equipment. We further recommend they review assets included in the reported general equipment balance and confirm that reported assets are valid, recorded at the correct amount, capitalized consistent with applicable requirements, and able to be located.
- USTRANSCOM and its components define a method for linking multiple records that constitute a single asset in the general equipment data and update the asset data as necessary.

- AMC develop, document, and implement internal controls over the existence and completeness of general equipment in DEAMS.
- CMD continue making progress in implementing its inventory and reconciliation controls.
- AMC strengthen its internal controls over capitalized software costs to help ensure it timely and accurately creates the related capitalized asset.
- CMD develop and implement a process for reclassifying software from in-development accounts when the software is placed in service.

MATERIAL WEAKNESS 14: OVERSIGHT OF SERVICE PROVIDERS *(REPEAT FINDING, RESTRUCTURED)*

Condition: USTRANSCOM and its components have not sufficiently identified, documented, implemented, and tested Complementary User Entity Controls (CUECs) for which USTRANSCOM is responsible.

Criteria: National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision 5, *Security and Privacy Controls for Federal Information Systems and Organizations,* SA-9, *External System Services*, states:

> *Control:*
>
> a. *Require that providers of external system services comply with organizational security and privacy requirements and employ the following controls: [Assignment: organization-defined controls];*
>
> b. *Define and document organizational oversight and user roles and responsibilities with regard to external system services; and*
>
> c. *Employ the following processes, methods, and techniques to monitor control compliance by external service providers on an ongoing basis: [Assignment: organization-defined processes, methods, and techniques].*

Green Book, Principle 10, Section 10.02, states:

> *Management designs control activities in response to the entity's objectives and risks to achieve an effective internal control system. Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives to achieve the entity's objectives and address related risks. As part of the control environment component, management defines responsibilities, assigns them to key roles, and delegates authority to achieve the entity's objectives. As part of the risk assessment component, management identifies the risks related to the entity and its objectives, including its service organizations; the entity's risk tolerance; and risk responses. Management designs control activities to fulfill defined responsibilities and address identified risk responses.*

Cause: USTRANSCOM management currently in the process of identifying, documenting, and testing CUECs for which USTRANSCOM is responsible.

Effect: The overall security and integrity of financial data within the third-party financial systems that USTRANSCOM uses are dependent on the effectiveness of controls

maintained by both the third party and USTRANSCOM. Without effective controls in place over CUECs, third-party financial systems and their data are at greater risk of inappropriate or unintentional access or modification.

Recommendations: We recommend USTRANSCOM:

- Clearly identify which CUECs USTRANSCOM is responsible for maintaining. Where management determines USTRANSCOM is not responsible for a specific CUEC, they should document how they arrived at that conclusion.
- Fully document how USTRANSCOM has implemented those CUECs for which it is responsible and clearly identify any relevant policies or procedures.
- Periodically test CUECs to determine whether they are in place and operating effectively.

MATERIAL WEAKNESS 15: INFORMATION TECHNOLOGY CONTROLS *(REPEAT FINDING, RESTRUCTURED)*

Condition: Since FY 2018, we have reported that USTRANSCOM has pervasive information technology (IT) control deficiencies related to security management, access controls, segregation of duties, and configuration management for the following 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

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. Specifically, USTRANSCOM:

- Has system security plans and related security documents that do not include information required by NIST.
- Does not have formally documented strategies or plans describing how it selected security controls for testing.

Access Controls
USTRANSCOM does not have effective access controls in place to provide reasonable assurance that access to computer resources is appropriately restricted to authorized individuals. Specifically, USTRANSCOM:

- Has not sufficiently documented and implemented policies, procedures, and/or plans for concurrent sessions, account authorization, provisioning, and termination.
- Does not obtain appropriate approval for user access requests and modifications to user accounts, as evidenced on the DD Form 2875, *System Authorization Access Request (SAAR)*.

- Has not consistently updated the access request form to help ensure user roles are accurately reflected in the system.
- Does not consistently perform periodic account reviews.
- Has not sufficiently documented its logging and monitoring policy and procedures; in particular, the policy and procedures do not identify auditable events at the application level.
- Has not provided evidence that it consistently reviews audit logs in a timely manner and appropriately investigates potential incidents.

Segregation of Duties
USTRANSCOM does not have effective segregation-of-duties controls in place to provide reasonable assurance that it has effectively segregated incompatible duties and implemented compensating controls where conflicting roles are granted. Specifically, USTRANSCOM:

- Does not have compensating controls in place for users that have segregation-of-duties conflicts.
- Has not consistently provided advance authorization for users with segregation-of-duties conflicts and does not always identify potential segregation-of-duties conflicts.
- Does not perform sufficient segregation-of-duties analysis to identify all potential segregation-of-duties conflicts.

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

- Has configuration management policies and procedures that do not consistently include sufficient detail to describe all aspects of the configuration management process.
- Does not appropriately request, test, and approve configuration changes.

Criteria:

- NIST SP 800-18, Revision 1, February 2006, *Guide for Developing Security Plans for Federal Information Systems*
- NIST SP 800-53, Revision 5, updated September 2020, *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*

Cause: USTRANSCOM has not fully implemented the NIST Risk Management Framework (RMF). RMF includes detailed requirements for security management, including the development of a formal system security plan that addresses NIST requirements.

In addition, USTRANSCOM has not fully developed and documented its security management, access management, logging and monitoring, segregation of duties, and

configuration management policies and procedures. Further, USTRANSCOM is not consistently carrying out those policies and procedures that are in place.

Effect: IT control deficiencies collectively impede USTRANSCOM's ability to help ensure the financial transactions and data processed through its financial systems are complete, accurate, and appropriately authorized. In addition, the deficiencies collectively limit USTRANSCOM's ability to help ensure it completely and accurately records the transactions and balances within its financial systems and appropriately reports the transactions and balances on the TWCF financial statements.

Recommendations: We recommend USTRANSCOM, in consultation with financial systems program management:

- Ensure its system security plans contain required information, including the system owner, a discussion of how management determined the system security categorization at the Federal Information Processing Standards level, detailed descriptions of how USTRANSCOM has implemented the security controls, and descriptions of system interconnections and segregation-of-duties controls.
- Develop, update, and implement policies and procedures related to security management, access management, logging and monitoring, segregation of duties, and configuration management. Where policies and procedures exist, verify that it has effectively implemented the internal control activities.

MATERIAL WEAKNESS 16: INABILITY TO PRODUCE COMPLETE OR ACCURATE POPULATIONS FOR MSC *(REPEAT FINDING)*

Condition: MSC's Navy Enterprise Resource Planning (ERP) system populations that support recorded account balances are unsuitable for selection or testing. Specifically, the accounts receivable, unfilled customer orders, and undelivered orders (unpaid and prepaid/advanced) populations provided by MSC contain material abnormal balances and material transactions without unique identifiers. In addition, there are discrepancies between MCS's JV log and the JVs in MSC's detail-level populations.

Criteria: DoD FIAR Guidance, Section 4.A.6, states that audit readiness requires USTRANSCOM to meet several critical and additional capabilities, including:

> *1. Universe of Transactions (UT) for … Statement of Budgetary Resources and Balance Sheet:*
>
> *A. Ability to produce population of transaction details, including sensitive activities, reconciled to each financial statement line item and accounting systems; and*
>
> *B. Ability to reconcile population of transaction details to feeder/source/originating systems.*
>
> *…*
>
> *4. Reconciliations, transaction populations, and supporting documentation can be provided in a timely manner.*

GAO's Green Book, Principle 13, *Use Quality Information*, Section 13.04, states:

> Management obtains relevant data from reliable internal and external sources in a timely manner based on the identified information requirements…. Reliable internal and external sources provide data that are reasonably free from error and bias and faithfully represent what they purport to represent. Management evaluates both internal and external sources of data for reliability. Sources of data can be operational, financial, or compliance related. Management obtains data on a timely basis so that they can be used for effective monitoring.

USSGL Bulletin No. 2022-16 Part 1 Fiscal Year 2022 Reporting (September 2022), Section II *Accounts and Definitions*, specifies whether a debit or credit balance is normal for each account, to include accounts receivable, unfilled customer orders, and undelivered orders (unpaid and prepaid/advanced).

Cause: MSC's data issues that persist relate to its migration from MSC-Financial Management System (FMS) to Navy ERP. For example, abnormal balances may exist because transactions are posting in Navy ERP without entries for predecessor accounting events being recorded, such as the liquidation of an account payable without the initial establishment of the payable. Additionally, MSC management stated that certain transactions had blank unique identifiers because they were JV transactions, and MSC was not able to systematically identify JVs in its population detail.

In addition, MSC recorded adjusting entries based upon reconciliations of the subsidiary ledgers to its trial balance. The need to record JVs related to invalid data indicated that MSC did not have effective internal controls to help ensure that balances were valid and recorded at the correct amount.

Effect: MSC's accounts receivable, unfilled customer orders, and undelivered orders (unpaid and prepaid/advanced) populations with abnormal balances are at significant risk for material misstatement. Further, material and pervasive data quality issues within populations impede the ability to provide assurance on the TWCF financial statements. Also, the lack of a suitable population of Navy ERP JVs increases the risk that the populations are incomplete, inaccurate, and do not agree to Navy ERP.

Recommendations: With support from relevant parties in the Department of the Navy, we recommend that MSC:

- Finalize migration-related activities, including:
    - Executing procedures to help ensure the completeness and accuracy of the transactions from migration.
    - Identifying root causes for any abnormal balances in accounts receivable, unfilled customer orders, and undelivered orders (unpaid and prepaid/advanced) populations.
    - Recording adjustments to accounts receivable, unfilled customer orders, and undelivered orders (unpaid and prepaid/advanced) in Navy ERP to correct abnormal balances and transactions without unique identifiers to help ensure they are suitable for selection and testing.

- Identify root causes of the delays and other issues encountered during the migration effort and communicate them as lessons learned to other Navy commands planning migration to Navy ERP.
- Develop and implement monitoring controls to help ensure that migration activities did not have unintended consequences, such as completeness errors related to the removal of amounts identified as invalid.
- Continue to develop and implement the newly-developed JV report and develop a methodology to systematically identify JVs in its detail-level populations.

SIGNIFICANT DEFICIENCY 1: FINANCIAL REPORTING *(REPEAT FINDING, RESTRUCTURED)*

Condition: USTRANSCOM has deficiencies regarding financial statement preparation. These deficiencies include:

- Instances of non-compliance with OMB Circular No. A-136 and with DoD FMR reporting and disclosure requirements, despite improvements to the AFR. For example, USTRANSCOM's presentation of the TWCF consolidated statement of net cost does not disclose the net cost of operations by major program, and USTRANSCOM does not disclose information regarding leases.
- Classification of assets and liabilities as intragovernmental and other than intragovernmental in the DDRS trial balance and financial statements cannot be reconciled to amounts reported in the component GL systems.
- USTRANSCOM and its components did not provide sufficient explanations in response to our inquiries regarding GL account balance fluctuations at the USTRANSCOM component level.
- The reconciliation of MSC's DDRS financial statements to the DDRS trial balance contains discrepancies regarding the amounts used in the reconciliation and classification of a certain GL account.

Criteria: OMB Circular No. A-136, Section II.3.3, *Statement of Net Cost*, states, "The [statement of net cost] should show the net cost of operations as a whole and by 'major' programs as defined by the entity. Programs not deemed 'major' should be grouped together." Section II.3.8.19, *Note 19: Leases*, calls for the disclosure of the reporting entity's lease information. In addition, Section II.3.2.2, *Balance Sheet Template*, separately presents certain asset and liability accounts as "Intragovernmental" and "Other Than intragovernmental."

Green Book, Principle 15, *Communicate Externally*, Section 15.02, states:

> *Management communicates with, and obtains quality information from, external parties using established reporting lines. … External parties include suppliers, contractors, service organizations, regulators, external auditors, government entities, and the general public.*

DoD FMR, Volume 6a, Chapter 2, Section 2.7.1.2, states that the DoD component must "research any unusual trends and comparisons with the prior year and/or prior period amounts to determine whether corrective action is required."

Section 2.5.1.6. states:

> *[The service provider] must reconcile changes in source data, made by the DoD Component, with reported balances. The reconciliation of source data with reported balances is a joint responsibility of [the service provider] and the DoD Component.*

Cause: USTRANSCOM has not fully prioritized corrective actions and remediated underlying departures from GAAP that give rise to missing disclosures. In addition, asset and liability amounts in the DDRS trial balance are generally classified as federal or non-federal. This classification drives the presentation of assets and liabilities as intragovernmental and other than intragovernmental on the TWCF financial statements; however, the reconciliations performed do not separately reconcile these classifications in DDRS to the component GL systems. Additionally, the component-level GL system trial balances do not include federal or non-federal indicators. Further, when federal or non-federal activity is represented by GL account descriptions or certain fields in transaction-level details, USTRANSCOM does not consistently use such indicators or does not identify federal or non-federal activity at a sufficient level of detail.

USTRANSCOM does not have an effective audit response process in place to provide sufficient explanation of fluctuations at the component level. Specifically, the responses evidence insufficient central coordination and evaluation by TCJ8 management of explanations provided by USTRANSCOM components to help ensure explanations and research were accurate and documented at a sufficient level of detail to identify and explain unusual or unexpected trends.

Although MSC has a process in place for performing certain reconciliations, MSC has not designed an effective process for reconciling amounts in its DDRS-produced financial statements. For example, when calculating financial statement amounts used in the reconciliation, MSC used the DDRS combined trial balance and did not account for eliminations that occur in preparing the DDRS financial statements.

Effect: USTRANSCOM and its components' deficiencies with regard to controls over the preparation of the financial statements and disclosures impede USTRANSCOM's ability to help ensure complete and accurate presentation and disclosure.

Recommendations: We recommend:

- TCJ8, in coordination with the USTRANSCOM components, determine the materiality of the GAAP departures giving rise to incomplete AFR disclosures, perform a comprehensive analysis of its accounting policies and procedures to determine what corrective measures are needed to help ensure compliance with GAAP, and prioritize these corrective measures.
- USTRANSCOM components, in coordination with the service provider, improve reconciliations to help ensure federal and non-federal balances reported in DDRS reconcile to component GL systems.
- TCJ8 review USTRANSCOM component and service provider explanations to help ensure explanations (1) are sufficiently detailed, (2) are supportable by documentary evidence, and (3) reasonably explain the variance.

- MSC, in coordination with the service provider, enhance, document, and implement the process for reconciling its balances reported in DDRS.

SIGNIFICANT DEFICIENCY 2: INCOMPLETE TRANSITION TO THE RISK MANAGEMENT FRAMEWORK *(REPEAT FINDING)*

Condition: Previous audits identified findings related to USTRANSCOM's transition of its COINS, DCBS, GATES, GDSS, IBS, and TFMS systems from the Department of Defense Information Assurance Certification and Accreditation Process (DIACAP) to RMF. DIACAP is the previous overarching certification and accreditation process for the DoD; however, the DoD has replaced DIACAP with RMF, which requires agencies to implement the controls prescribed by NIST SP 800-53, Revision 5. Although USTRANSCOM has begun RMF implementation, additional work in that area remains.

Criteria: OMB Circular No. A-130, *Managing Federal Information as a Strategic Resource*, dated 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.*

In addition, 40 U.S.C. § 11331, *Responsibilities for Federal Information Systems Standards*, Section b, in effect for FY 2022, stated:

> *(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.*

Cause: These conditions primarily occurred because DoD Instruction 8510.01, *Risk Management Framework (RMF) for DoD Information Technology*, dated 29 December 2020 (incorporating Change 3), Enclosure 8, Paragraph 5—the guidance in place at that time—USTRANSCOM Authorizing Officials granted USTRANSCOM accreditation extensions for DIACAP, as necessary, to provide additional time for transitioning to RMF and/or migrating to the cloud. This guidance conflicted with requirements presented in OMB Circular No. A-130 and 40 U.S.C. § 11331.

Effect: By not implementing RMF timely, USTRANSCOM faces missed opportunities to obtain benefits such as those identified in NIST SP 800-37, Revision 2. According to NIST SP 800-37, RMF:

- 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).

Recommendation: We recommend:

- USTRANSCOM fully implement RMF, as outlined in DoD Instruction 8510.01 and NIST SP 800-37, Revision 2.

APPENDIX B: NONCOMPLIANCE AND OTHER MATTERS

During our engagement to audit the fiscal years (FYs) 2022 and 2021 financial statements of the U.S. Transportation Command's (USTRANSCOM's) Transportation Working Capital Fund (TWCF), we identified instances of noncompliance and other matters, as described in this Appendix.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 *(REPEAT FINDING)*

Under the Federal Financial Management Improvement Act of 1996 (FFMIA), we are required to report whether USTRANSCOM's 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 2022, for each of the three FFMIA elements required by Section 803(a) and introduced above, we noted USTRANSCOM:

1. Federal Financial Management Systems Requirements

- Has not implemented effective controls related to the reconciliation of amounts recorded in significant feeder and supporting systems to amounts recorded in its general ledger (GL) systems; in addition, it recorded journal vouchers for which it did not provide transaction-level supporting detail.
- Had pervasive information technology (IT) control deficiencies surrounding the seven USTRANSCOM-owned systems; these deficiencies related to the following areas: security management, access controls, segregation of duties, and configuration management.

2. Federal Accounting Standards

- Did not define the TWCF reporting entity in accordance with accounting principles generally accepted in the United States of America.
- Disclosed that it did not record certain accounting transactions in accordance with accounting principles generally accepted in the United States of America.
- Did not develop a financial statement reporting package in full compliance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*; the *Department of Defense Financial Management Regulation*; and Federal Accounting Standards Advisory Board pronouncements.
- Recorded budgetary authority and customer funding without appropriate and sufficient documentation.
- Did not calculate, record, and monitor certain significant revenue and expense accruals.

3. USSGL at the Transaction Level

- Was unable to provide a population of all elimination entries at the transaction level to support amounts eliminated from the TWCF financial statements. This indicates that

USTRANSCOM does not sufficiently track the required trading partner data in its systems.

- Recorded intra-TWCF transactions as expenditure transfers when these transactions did not meet the criteria for expenditure transfers.
- Used posting logic that did not comply with the USSGL.

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

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 *(REPEAT FINDING)*

OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides implementation guidance to federal managers to improve program accountability and effectiveness, as well as mission support operations, by establishing, maintaining, and assessing the effectiveness of internal control. OMB issues Circular No. A-123 under the authority prescribed in the Federal Managers' Financial Integrity Act (FMFIA), codified at 31 U.S. Code (U.S.C.) § 3512.

Although USTRANSCOM has implemented a Risk Management and Internal Control program to help satisfy the requirements of FMFIA and OMB Circular No. A-123, as discussed in material weakness 2 in Appendix A, USTRANSCOM has not effectively designed and fully implemented entity-level controls consistent with FMFIA requirements. Namely, USTRANSCOM has not fully implemented the principles underlying the control environment, risk assessment, control activities, information and communication, and monitoring components of internal control, as prescribed by the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* (2014).

Additionally, because each of the material weaknesses and significant deficiencies described in Appendix A represents a deficiency in internal control, they also represent instances of noncompliance with FMFIA. Specific recommendations for corrective actions necessary to help ensure FMFIA compliance are provided in Appendix A.

PROMPT PAYMENT ACT AND PURPOSE STATUTE *(REPEAT FINDING)*

The Prompt Payment Act, codified at 31 U.S.C. § 3902, *Interest Penalties*, states:

> *The head of an agency acquiring property or service from a business concern, who does not pay the concern for each complete delivered item of property or service by the required payment date, shall pay an interest penalty to the concern on the amount of the payment due.*

In addition, 31 U.S.C. § 3902 prescribes the source of funds to pay interest penalties. Specifically, it states, "This section does not authorize the appropriation of additional amounts to pay an interest penalty. The head of an agency shall pay a penalty under this section out of amounts made available to carry out the program for which the penalty is incurred."

This requirement is consistent with 10 U.S.C. § 2208, *Working-capital Funds*, which states, "Charges for goods and services provided for an activity through a working-capital fund shall include… amounts necessary to recover the full costs of the goods and services provided for that activity."

In addition, 31 U.S.C. § 1301(a), commonly referred to as the Purpose Statute, states, "Appropriations shall be applied only to the objects for which the appropriations were made except as otherwise provided by law."

Notwithstanding these requirements, three USTRANSCOM components—Air Mobility Command (AMC), Military Sealift Command (MSC), and Command Staff (CMD)—did not use the TWCF Treasury Account Symbol (TAS) to pay interest. As a result, USTRANSCOM may be noncompliant with the source of funds provision of the Prompt Payment Act. Additionally, because these components paid the TWCF costs from a different TAS, USTRANSCOM may be noncompliant with the Purpose Statute at 31 U.S.C. § 1301(a). USTRANSCOM stated that these issues occurred due to system limitations.

In addition, during FY 2022, we discovered that MSC paid its TWCF payroll costs with non-TWCF funds for approximately nine months in FY 2021. MSC indicated this occurred due to its migration to a new GL system.

APPENDIX C: USTRANSCOM'S COMMENTS

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

4 November 2022

MEMORANDUM FOR COTTON & COMPANY ASSURANCE AND ADVISORY, LLC

FROM: USTRANSCOM/J8
203 WEST 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) 2022 Independent Auditors' Report

Reference: *Fiscal Year 2022 Independent Auditors' Report*

1. We would like to thank Cotton for their efforts and professionalism during the FY 2022 USTRANSCOM TWCF Financial Statement Audit. We also appreciate the opportunity to respond to the Audit Report.

2. USTRANSCOM concurs with the audit findings provided in the Independent Auditors' Report. We will continue efforts to remediate previous findings and will develop a methodical approach to design and implement corrective actions to address new findings. We acknowledge the material weakness restructuring, resulting in an increase from 6 to 16 material weaknesses, and greatly appreciate the effort Cotton took to align them to the Department of Defense material weaknesses. The restructuring of the material weaknesses was requested by USTRANSCOM Management with the expectation we would see a significant increase. However, the new structure allows USTRANSCOM to focus on high-risk areas, drive progress, and ultimately downgrade TWCF material weaknesses.

3. We are committed to furthering our audit remediation efforts and improving the accuracy of our financial reporting. The results of our corrective action plans and continued auditability efforts will help us progress toward resolving longstanding financial statement weaknesses and to identify risks for future audits. We look forward to working with Cotton in the future.

KEVIN P. RESZKA
Deputy 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.

The responsibility for the integrity of the financial information contained within these statements rests with USTRANSCOM management. Cotton & Company Assurance and Advisory, LLC, 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 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 financial statement components and Total 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. See Note 1W for definitions of the Budgetary Terms used within the Combined Statements of Budgetary Resources.

Notes to the Financial Statements

The 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 statements.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Consolidated Balance Sheets
As of September 30, 2022 and 2021
(dollars in thousands)

	Unaudited	
Assets (Note 2)	**FY 2022**	**FY 2021**
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 345,968	$ 521,437
Accounts Receivable, Net (Note 4)	1,326,966	1,416,766
Total Intragovernmental	$ 1,672,934	$ 1,938,203
Other than Intragovernmental:		
Accounts Receivable, Net (Note 4)	$ 35,841	$ 32,105
General Property, Plant, and Equipment, Net (Note 5)	120,221	85,929
Advances and Prepayments	117,444	138,148
Total Other than Intragovernmental	$ 273,506	$ 256,182
Total Assets	$ 1,946,440	$ 2,194,385
Liabilities (Note 6)		
Intragovernmental:		
Accounts Payable	$ 106,349	$ 123,709
Other Liabilities (Note 9)	(27,369)	(13,427)
Total Intragovernmental	$ 78,980	$ 110,282
Other than Intragovernmental:		
Accounts Payable	$ 999,706	$ 800,463
Federal Employee and Veteran Benefits Payable (Note 7)	16,889	17,308
Advances from Others and Deferred Revenue (Note 9)	752	812
Other Liabilities (Note 9)	84,442	86,863
Total Other than Intragovernmental	$ 1,101,789	$ 905,446
Total Liabilities	$ 1,180,769	$ 1,015,728
Commitments and Contingencies (Note 11)		
Net Position		
Unexpended Appropriations - Funds from Other than Dedicated Collections	$ 18,404	$ 234,768
Total Unexpended Appropriations (Consolidated)	$ 18,404	$ 234,768
Cumulative Results of Operations - Funds from Other than Dedicated Collections	747,267	943,889
Total Cumulative Results of Operations (Consolidated)	$ 747,267	$ 943,889
Total Net Position	$ 765,671	$ 1,178,657
Total Liabilities and Net Position	$ 1,946,440	$ 2,194,385

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 Years Ended September 30, 2022 and 2021
(dollars in thousands)

	Unaudited	
	FY 2022	**FY 2021**
Gross Program Costs (Note 12)		
Operations, Readiness & Support:		
Gross Costs	$ 8,197,768	$ 7,160,180
Less: Earned Revenue	(7,363,930)	(6,716,412)
Net Program Costs	$ 833,838	$ 443,768
Net Cost of Operations	$ 833,838	$ 443,768

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 Years Ended September 30, 2022 and 2021
(dollars in thousands)

	Unaudited	
	FY 2022	**FY 2021**
Unexpended Appropriations:		
Beginning Balance, as Adjusted	$ 234,768	$ 19,875
Appropriations Transferred In/Out (+/-)	409,000	389,328
Appropriations Used	(625,364)	(174,435)
Change in Unexpended Appropriations	$ (216,364)	$ 214,893
Total Unexpended Appropriations	$ 18,404	$ 234,768
Cumulative Results of Operations:		
Beginning Balances	$ 943,889	$ 1,220,312
Adjustments:		
Changes in Accounting Principles (+/-)	-	(41,903)
Beginning Balances, as Adjusted	$ 943,889	$ 1,178,409
Appropriations Used	625,364	174,435
Non-Exchange Revenue	(40)	(126)
Transfers In/Out without Reimbursement	(2,944)	(2,034)
Donations and Forfeitures of Property	-	22,638
Imputed Financing	14,796	14,209
Other	40	126
Net Cost of Operations	833,838	443,768
Change in Cumulative Results of Operations	$ (196,622)	$ (234,520)
Total Cumulative Results of Operations	$ 747,267	$ 943,889
Net Position	$ 765,671	$ 1,178,657

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 Years Ended September 30, 2022 and 2021
(dollars in thousands)

	Unaudited	
	FY 2022	**FY 2021**
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) (Note 14)	$ 1,198,117	$ 962,731
Appropriations (discretionary and mandatory)	409,000	309,328
Contract Authority (discretionary and mandatory)	50,454	68,313
Spending Authority from Offsetting Collections (discretionary and mandatory)	7,345,051	7,391,583
Total Budgetary Resources	$ 9,002,622	$ 8,731,955
Status of Budgetary Resources		
New Obligations and Upward Adjustments (total)	$ 9,190,259	$ 7,733,940
Unobligated Balance, end of year:		
Apportioned, Unexpired Accounts	(187,637)	998,015
Unexpired Unobligated Balance, end of year	(187,637)	998,015
Unobligated Balance, end of year (total)	$ (187,637)	$ 998,015
Total Budgetary Resources	$ 9,002,622	$ 8,731,955
Outlays, Net and Disbursements, Net		
Outlays, Net (total) (discretionary and mandatory)	$ 584,470	$ 396,242
Agency Outlays, Net (discretionary and mandatory)	$ 584,470	$ 396,242

The accompanying notes are an integral part of the statements.

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

USTRANSCOM executes missions through its Component Commands, Subordinate Commands, and a Courier Division. For specific information about each, see the Components, Subordinates & Activities section in the Management's Discussion and Analysis. USTRANSCOM has not yet completed an appropriate assessment in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, to be able to properly define its financial reporting entity.

B. Mission of the Reporting Entity

USTRANSCOM was established in 1987 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.

C. 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 applicable legislation. Unless otherwise noted, the accompanying financial statements account for all resources for which the USTRANSCOM TWCF is responsible to include the FY 2022 appropriated funding to support Ukraine operations. USTRANSCOM's TWCF is reported by the U.S. Treasury as part of the Air Force WCF from an administrative perspective; however, the TWCF financial statements are purposefully consolidated into the Other Defense Organization WCF financial statements and are not consolidated into the Air Force financial statements. Accounting standards require all reporting entities disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

The financial statements have been prepared from the accounting records of USTRANSCOM in accordance with the formats prescribed by OMB Circular A-136 and with GAAP for federal entities, as prescribed by the FASAB. USTRANSCOM is unable to fully comply with all elements of GAAP and the form and content requirements for federal government entities specified by OMB Circular A-136. This is a result of limitations of financial and nonfinancial management processes and systems that support the financial statements. USTRANSCOM derives reported values and information for major assets 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 GAAP. These systems were designed to support reporting requirements for maintaining accountability over assets and recording information on the budgetary basis, rather than preparing financial statements in accordance with GAAP. USTRANSCOM continues to implement process and system improvements addressing these limitations.

D. 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 which includes CMD, DCD, AMC, MSC, and SDDC. The underlying data is largely derived from budgetary transactions (i.e., funded customer orders, collections, obligations, and disbursements) from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, Accounts Payable, nonpayroll expenses, Accounts Receivable, and revenues.

USTRANSCOM presents the Balance Sheets, Statements of Net Cost, and Statements of Changes in Net Position on a consolidated basis which is the summation of the components less the intra-TWCF eliminations. The Statements of Budgetary Resources are presented on a combined basis which is the summation of the components; therefore, intra-TWCF activity has not been eliminated. The financial transactions, where possible, are recorded on the proprietary accrual and the budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds. Budgetary accounting is essential for compliance with legal requirements and controls over the use of federal funds. USTRANSCOM's continued effort towards full compliance with GAAP for the accrual method of accounting is encumbered by various systems limitations and the nature of USTRANSCOM activities.

USTRANSCOM and the DoD are continuing to evaluate the effects of fully adopting the below recent accounting standards and other authoritative guidance issued by FASAB:

- SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued August 4, 2016; Effective for periods beginning after September 30, 2016. USTRANSCOM does not yet have the systems and processes in place to ensure compliance with SFFAS 50. Therefore, USTRANSCOM is not making an unreserved assertion with respect to this line item.
- SFFAS 54, *Leases: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government and SFFAS 6, Accounting for Property, Plant, and Equipment*: Issued April 17, 2018. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023, under SFFAS 58*, Deferral of the Effective Date of SFFAS 54, Leases:* Issued June 19, 2020. Early adoption is not permitted.
- Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables:* Issued February 20, 2020; Effective upon issuance.

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

Departures from GAAP

USTRANSCOM records transactions on the accrual and budgetary basis of accounting, unless otherwise indicated below as departures from GAAP.

Financial management systems and operations continue to be refined as USTRANSCOM strives to record and report its financial activity in accordance with GAAP. Currently, USTRANSCOM has identified the

below departures from GAAP, some of which are pervasive problems within DoD that many 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*, 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 within Note 1D, Basis of Accounting, but a complete assessment of potential consolidation entities and disclosure entities for which USTRANSCOM and its components are accountable has not been completed.

Fund Balance with Treasury – USTRANSCOM is not yet able to fully provide an accurate and complete Statement of Differences Universe of Transactions, suspense accounts, or undistributed amounts to support the FBwT line item on the Balance Sheet. As a result, USTRANSCOM cannot determine the impact on the USTRANSCOM TWCF financial statements. In addition, USTRANSCOM is not able to identify its undistributed collections and disbursements in a timely manner because the proper reporting level of Treasury Index (TI)-97 has not been established. Undistributed amounts are amounts that have been reported to U.S. Treasury but have not been posted to the appropriate DoD component's general ledger. Unmatched amounts are transactions that have been received and accepted by an accounting office but have not been matched to the appropriate disbursement and collection accounts. See Note 1G, Fund Balance with Treasury, for further explanation.

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 and Concepts for Reconciling Budgetary and Financial Accounting,* 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, because intra-TWCF transactions would not otherwise be fully eliminated resulting in potentially misstating both Accounts Payable and Accounts Receivable. 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; and does not consistently comply with USSGL posting logic for recording credit memos for customer refunds. As a result, USTRANSCOM is currently not performing the ITR redistribution process until the financial data is cleaned up for Other Liabilities without Related Budgetary Obligations.

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 IUS and software in-development costs; (2) accounting for 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, *Accounting for Property, Plant, and Equipment,* and/or SFFAS 10, *Accounting for Internal Use Software*. As USTRANSCOM does not yet have SFFAS 6, *Accounting for Property, Plant,*

and Equipment, and SFFAS 10, *Accounting for Internal Use Software* compliant go-forward processes, supportable 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: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35.*

Additionally, USTRANSCOM does not have sufficient written policies to evaluate whether amounts of bulk purchases are considered material and does not have processes in place to readily determine where all assets are physically located.

Accounts Payable and Expenses – Accounts Payable, expenses, 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*. USTRANSCOM does not have sufficient internal controls in place to ensure the completeness and accuracy of Accounts Payable. Additionally, 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 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, USTRANSCOM's buyer-side Accounts Payable are adjusted to agree with the interagency seller-side Accounts Receivable.

Other Liabilities – Other Liabilities Without Related Budgetary Obligations reported at period end are not in full compliance with SFFAS 5, *Accounting for Liabilities of the Federal Government*. USTRANSCOM is not able to provide documentation and transaction populations of Other Liabilities Without Related Budgetary Obligations (both intragovernmental and other than intragovernmental) to support the balances reported in the financial reporting systems

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 lessee. Accordingly, USTRANSCOM is not compliant with 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.

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 Standards and Concepts,* 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 including intra-TWCF transactions to prevent overstatement of business with itself in the financial statements.

Consolidated Statements of Net Cost and Consolidated Statements of Changes in Net Position – USTRANSCOM does not have compliant processes in place to ensure its Consolidated Statements of Net Cost and Consolidated Statements of Changes in Net Position are presented in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and SFFAS 55, *Amending Inter-entity Cost Provisions*. DDRS 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. As a result, Gross Costs reported on the Statements of Net Cost and Imputed Financing Reported on the Statements of Changes in Net Position potentially may be understated.

Budgetary Resources Information – USTRANSCOM did not have compliant processes in place to account for contract authority carried forward in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. Additionally, USTRANSCOM is not yet able to support the Apportioned, Unexpired Account balance. As a result, Unobligated Balance from Prior Year Budget Authority, Net represents a potential misstatement to TWCF's financial statements.

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 and customer billings. In addition, USTRANSCOM has not put processes in place to effectively 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, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

Documenting Funds Realignment and Support Agreements – USTRANSCOM does not have effective controls in place over TWCF funds realignment to ensure proper approval of realignment requests. Additionally, USTRANSCOM does not have consistent processes in place to document the statutory authority and statutory basis for accepting customer orders.

Delivered and Undelivered Orders - Obligations – USTRANSCOM does not have effective internal controls to ensure that the opening balances for undelivered orders – obligations, unpaid are valid and recorded at the correct amount and in the appropriate fiscal year in accordance with OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*. Furthermore, USTRANSCOM has not implemented internal control activities to ensure that downward and upward adjustments to prior-year delivered and undelivered orders **-** obligations are recorded in the system at the correct amount. As a result, USTRANSCOM cannot currently ensure the existence and completeness of delivered and undelivered orders - obligations in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*."

Payroll - USTRANSCOM does not have effective internal controls in place over payroll actions to ensure that payroll expense transactions are complete and accurate as required by SFFAS 5, *Accounting for Liabilities of the Federal Government*. As a result, payroll costs and the relevant line item on the Statements of Net Cost could be potentially misstated.

Unsupported Journal Vouchers (JV) – USTRANSCOM is unable to fully support some amounts recorded in the financial statements with transaction-level detail and sufficient evidential documentation. Unsupported JVs represent potential misstatements to the TWCF financial statements.

Reconciliation of Balances Between Components and DDRS – USTRANSCOM does not have compliant processes in place to ensure sufficient reconciliation of balances between the general ledger systems of the components and the balances in the financial reporting system. USTRANSCOM is therefore, not in full compliance with SFFAS 1, *Accounting for Selected Assets and Liabilities*, SFFAS 5, *Accounting for Liabilities of the Federal Government,* and SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. As a result, TWCF financial statements could be potentially misstated.

E. Accounting for Intragovernmental and Intergovernmental 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.

The U.S. TFM, Volume I, Part 2**,** Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the U.S. Government*, provides guidance for reporting and reconciling intragovernmental balances. Intragovernmental cost and Exchange Revenue represent transactions made between two reporting entities within the federal government. Other than intragovernmental revenue represents exchange transactions made between the reporting entity and a non-federal entity. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. The DoD is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the DoD to correctly report, reconcile, and eliminate intragovernmental balances.

Goods and services are received from other federal agencies 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 costs in the Statements of Net Cost and are offset by Imputed Financing in the Statements of Changes in Net Position. Imputed Financing represents the cost paid on behalf of USTRANSCOM by another federal entity. In accordance with SFFAS 55, *Amending Inter-entity Cost Provisions*, the DoD recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including employee pension, post-retirement health, and life insurance benefits; post-employment benefits for terminated and inactive employees, to include unemployment and workers' compensation under the Federal Employees' Compensation Act (FECA); losses in litigation proceedings that are paid from the U.S. Treasury Judgement Fund; and for the use of real property assets. As indicated above, 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.

For additional information, see Note 12, Disclosures Related to the Statements of Net Cost.

F. Non-Entity Assets

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 Receivables.

For additional information, see Note 2, Non-Entity Assets.

G. Fund Balance with Treasury

The FBwT represents the aggregate amount of USTRANSCOM's budget spending authority available to pay current liabilities and finance future authorized purchases. The U.S. Treasury maintains and reports the DWCF balances at the TI-97 appropriation sub-numbered level. The TI- 97 DWCF appropriation sub-numbered level is an aggregate level that does not provide identification of the separate defense agencies, to include USTRANSCOM, reported by the U.S. Treasury.

USTRANSCOM's TWCF received its initial FBwT corpus through an appropriation and transfer of resources from existing appropriations or funds from the DWCF.

The DoD reports to the U.S. Treasury by Treasury Appropriation Fund Symbol (TAFS) (i.e., 97X4930.003 and 972022/20224930.003 for USTRANSCOM) on interagency transfers, collections received, and disbursements issued. USTRANSCOM's monetary resources of collections and disbursements are maintained in TAFS and the U.S. Treasury records these transactions to the applicable FBwT TAFS. The disbursing offices of DFAS, the Military Departments, the U.S. Army Corps of Engineers (USACE), and the DoS's financial service centers process the majority of the DoD's collections, disbursements, and adjustments worldwide. Each disbursing station reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

The Central Accounting Reporting System, which is the electronic system of record for the U.S. Treasury, accumulates financial data, compares collections, disbursements, and intra-governmental payment and collection transactions monthly and compares this data to what is reported to the U.S. Treasury by DoD components. The U.S. Treasury reports the differences between their payment and collections to the DoD components on the Statement of Differences. Suspense accounts are created as temporary holding accounts used to record unidentifiable general, revolving, special, or trust fund expenditures or collections that belong to the federal government. Unidentifiable transactions are held in suspense accounts until they can be reclassified to the proper receipt or expenditure accounts. Undistributed disbursements and collections represent the difference between disbursements and collections at the transaction level to specific obligations, payables, or receivables in the source systems and those reported to the U.S. Treasury. Unsupported, undistributed disbursements and collections do not have supporting documentation for the transactions and most likely would not be able to be substantiated.

As a result of 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 non-federal 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 non-federal categories based on the percentage of distributed federal and non-federal Accounts Payable and Accounts Receivable. Unsupported,

undistributed disbursements and collections are also applied to reduce Accounts Payable and Accounts Receivable accordingly.

For additional information, see Note 3, Fund Balance with Treasury.

H. Cash and Other Monetary Assets

Not applicable.

I. Investments

Not applicable.

J. 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 through reimbursable services. Receivables due from the public include amounts due from non-federal government agencies, as well as amounts due from foreign governments.

Allowances for uncollectible Accounts Receivable due from the public are based upon factors such as: aging of Accounts Receivable, debtor's ability to pay, and payment history. Claims for Accounts Receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the TFM.

For additional information, see Note 4, Accounts Receivable, Net.

K. Loans Receivable, Net and Loan Guarantee Liabilities

Not applicable.

L. Inventories and Related Property

Not applicable.

M. General Property, Plant, and Equipment

Real property in the federal government generally includes land, land improvements, buildings, facilities, and structures. USTRANSCOM does not own land. At the end of FY 2020, in accordance with FASAB Technical Bulletin 2017-2: *Assigning Assets to Component Reporting Entities,* and OUSD(C) *Real Property Financial Reporting Responsibilities Policy Update* memo dated March 15, 2019, USTRANSCOM transferred financial reporting and sustainment responsibilities of real property to the installation host.[18]

GE includes commercial vehicles, heavy-duty equipment, general office equipment, and computer hardware meeting the capitalization threshold and expected to be used in USTRANSCOM's operations. There are no known restrictions on GPP&E. Remediation activities are ongoing to identify the full population of impaired assets and design impairment tests that will facilitate GAAP accounting moving

[18] The installation host is defined by OUSD(C) as the military department or Washington Headquarters Service where the asset is located.

forward. As disclosed in Note 1D, Basis of Accounting, 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.

GPP&E assets are capitalized when an asset has a useful life of two or more years and the acquisition cost equals or exceeds the relevant capitalization threshold. The costs of modifications/improvements to existing GPP&E assets are capitalized if they (1) extend the asset's useful life by two or more years, increase the asset's capability, or increase its capacity or size, and (2) equal or exceed the relevant capitalization threshold.[19] The capitalization threshold for GPP&E assets is $250 thousand. The TWCF capitalizes all GPP&E purchased with TWCF capital funding in performance of its mission.

Cost for minor construction projects and IT hardware are recorded as 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. In accordance with FASAB Technical Bulletin 2017-2: *Assigning Assets to Component Reporting Entities,* and OUSD(C) *Real Property Financial Reporting Responsibilities Policy Update* memo dated March 15, 2019, a policy change issued by the OUSD(C) requires USTRANSCOM components that are allocated capital funds to record real property CIP projects on that component's books. USTRANSCOM reports CIP for real property (including improvements) in its CIP account until the asset or improvement is placed in service. Completed CIP projects are then transferred to Washington Headquarters Service or the respective Military Department that has jurisdiction when the asset is placed in service. USTRANSCOM relieves the CIP when the asset or improvement is placed in service and the asset is transferred to the installation host. USTRANSCOM also has an IT hardware CIP, which consists of items such as server components, video teleconference equipment, etc. When purchased, these items initially are recorded to CIP and then reclassified to the appropriate fixed asset USSGL account and depreciated.

IUS, identified in Note 5, General Property, Plant, and Equipment, Net, 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 GPP&E. USTRANSCOM has not fully developed and executed its accounting policy and related reporting for software and IUS.

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. Costs incurred during the preliminary design and post-implementation/operational phases are expensed in the period incurred.

USTRANSCOM has not fully developed and executed its accounting policy and related reporting requirements for its lease activity. USTRANSCOM is in the process of identifying the universe of leases and performing an analysis of its lease contracts; however, that work is not yet complete.

[19] DoD FMR, Volume 4, Chapter 25, Paragraph 2.5.1

Depreciation Method (Unaudited):

Asset Classes	Depreciation/Amortization Method	Service Life (years)
IUS	S/L*	2-5 or 10
GE	S/L*	5

*Straight-line (S/L)

USTRANSCOM starts to recognize depreciation expense once the asset has been placed in service. Depreciation is calculated using the S/L depreciation method for all asset classes over their estimated useful lives. Amortization of capitalized software is calculated using the S/L 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.

For additional information, see Note 5, General Property, Plant, and Equipment, Net.

N. Advances and Prepayments

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as Outstanding Contract Financing Payments.

O. Leases

USTRANSCOM has noted leases to be a departure from GAAP. See Note 1D, Basis of Accounting, for more information.

P. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by USTRANSCOM absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. 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.

For additional information, see Note 6, Liabilities Not Covered by Budgetary Resources.

Q. Environmental and Disposal Liabilities

Environmental and disposal liabilities are estimated costs for the anticipated remediation, cleanup, and disposal costs resulting from the use of the Department's assets or operations. Consistent with SFFAS 6, *Accounting for Property, Plant, and Equipment* recognition of an anticipated environmental disposal liability begins when the asset is placed into service. In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, non-environmental disposal liabilities are recognized when management decides to dispose of an asset. Any associated environmental and disposal liability resides with the installation host where the asset is located, as a result of USTRANSCOM transferring financial reporting and sustainment responsibilities of real property to the installation host.

R. Other Liabilities

Other Liabilities include the following:

Accrued payroll consists of estimates for salaries, wages, and other compensation earned by federal civilian employees and military employees but not disbursed as of the Balance Sheet date. USTRANSCOM uses Military Service members for various positions. When a Service member is employed by USTRANSCOM, USTRANSCOM will reimburse the respective Service member's military branch for their salary, wages, and other compensation.

Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheets. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used.

FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from USTRANSCOM for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL, but not yet reimbursed by USTRANSCOM. USTRANSCOM reimburses the DOL for the actual claims as funds are appropriated to DOL for this purpose. There is generally a two- to three-year lag between payment by the DOL and reimbursement by USTRANSCOM. The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The actuarial FECA liability is not covered by budgetary resources and will require future funding. See Note 7, Federal Employee and Veteran Benefits Payable, for further information.

Other Liabilities without Related Budgetary Obligations primarily represents liabilities established which offset ITR billed to AMC airlift customers posted to receivables. Also included in this amount is civilian retirement and post-retirement benefit costs. ITR is billed to both non-DoD federal and public customers based on the annual rates calculation (above stabilized DoD rates) to recover the full cost incurred by the DoD. Annually, DFAS publishes the redistribution schedule defining which appropriation and related percentages should be authorized to receive the redistribution. Collections of these costs are not retained by the TWCF but are redistributed regularly to the TAFS. ITR amounts are no longer considered a liability once redistributed.

Employer contributions and payroll taxes payable represent 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 eligible USTRANSCOM civilian employees. These programs include life and health insurance, and employee participation is voluntary. The life insurance program, Federal Employees' Group Life Insurance plan, is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees' Health Benefits program is comprised of different types of health plans that are available to federal civilian employees for individual and family coverage for

healthcare. OPM, as the administering 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.

For additional information, see Note 7, Federal Employee and Veteran Benefits Payable and Note 9, Other Liabilities.

S. Commitments and Contingencies

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's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments because of events such as aircraft, ship, and vehicle accidents; property or environmental damages; and contract disputes. USTRANSCOM recognizes contingent liabilities on the Balance Sheets for legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. When present, these legal actions are estimated and disclosed in Note 11, Commitments and Contingencies. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote, or the amount of potential loss cannot be estimated.

Additionally, USTRANSCOM has contractual agreements with various parties which may require future financial obligations. USTRANSCOM manages reimbursable and fixed-price contracts, some of which contain economic price adjustment factors used to adjust variable fuel costs and escalate contracted rates for future options or ordering periods. The fixed-price portion of a contract remains fixed, and the reimbursable elements have ceilings established at the start of each period of performance. Reimbursable costs may increase if operations change, or conditions require more work than anticipated. Costs associated with these increases require contracting officer pre-approval before they are incurred. Clauses are also included for dispute resolution that may result in a future outflow of budgetary resources. Payments for allowable costs related to claims arising from the dispute clause may require future financial obligations beyond typical payment for services provided. In addition, obligations for payment of legal fees associated with protests sustained by the GAO may also be incurred.

USTRANSCOM will disclose amounts for potential future obligations, including contracts where allowable interest may become payable based on contractor claims under the "Disputes" clause contained in contracts, when there are any. Amounts disclosed will represent future potential liabilities and will not include amounts that may already recognized as contingent liabilities in Note 9, Other Liabilities. Consideration will be given in disclosing the difference between the maximum or ceiling amounts and those amounts recognized when it is reasonably possible the maximum amount may be paid.

T. Federal Employee and Veteran 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.

For additional information, see Note 7, Federal Employee and Veteran Benefits Payable. For information on the civilian benefit program, see Note 1R, Other Liabilities.

U. Revenue and Other Financing Sources

USTRANSCOM's budgetary resources reflect past congressional action and enable the TWCF to incur budgetary obligations, but do not reflect assets to the government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, the U.S. Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements using some combination of receipts, other inflows, and borrowing from the public if there is a budget deficit.

The initial FBwT corpus financed initial operations. Since then, services have been provided to customers on a reimbursable basis to maintain the FBwT corpus. OMB apportions resources (capital obligation authority and spending authority from offsetting collection) via the Standard Form 132, Apportionment Reapportionment Schedule 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 USTRANSCOM 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 USTRANSCOM. For example, appropriations may be provided to finance USTRANSCOM costs for emergency or humanitarian transportation costs. Another example is the appropriation USTRANSCOM has received in the past to fund transportation of Fallen Heroes. The 2007 NDAA requires the use of military or military-contracted aircraft to transport Service members who die in a combat theater of operations to their final destination.

USTRANSCOM classifies revenue as either exchange revenue or non-exchange 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. The USTRANSCOM TWCF reports exchange revenues for resources that have been earned and these transactions occur when goods and services are received in return. Revenue is derived by using approved rates multiplied by workload measures (i.e., flying hours, ton miles, passenger miles, ship days, measurement tons, and vehicles). Non-exchange revenue, which is immaterial to USTRANSCOM, is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. Non-exchange 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 Financial Accounting*, USTRANSCOM recognizes non-exchange 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. Non-exchange revenue for USTRANSCOM is related to interest, penalties, and administrative 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 to a retired employee or an amount due to the U.S. Government but unpaid by a retired employee.

USTRANSCOM does not include nonmonetary support, such as the Air Transport and 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 Statements of Net Cost. The U.S. has cost-sharing agreements with countries, through mutual or reciprocal defense agreements, 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 NATO nations are part of the multinational ATARES arrangement. The exchange of services is credit based using the baseline of an equivalent flying hour, which is the cost of one C-130 E/H flying hour. All other aircraft types offered through ATARES are calculated based on the C-130 E/H flying hour rate. To enable the U.S. participation in ATARES, a method to monetize the U.S. credit balance was established. ATARES facilitates support for the exchange of services with partner nations, and the ATARES credit as the currency used among the member nations. This cashless exchange system enables partner nations to maximize capacities while optimizing aircraft load factors and fostering ally support for mission success.

USTRANSCOM is also required to maintain sufficient airlift capability to respond to transportation requirements for a wide variety of mobilization conditions. This requirement exists in both peacetime and contingency environments. See the Analysis of Financial Statements section for a description of the ARA.

SDDC plans for and maintains a reserve industrial capacity to transport personnel resources, materiel, and other elements required to satisfy a mobilization requirement. SDDC also plans and programs with the U.S. Army for installation or base operating costs at the Military Ocean Terminals, Concord and Sunny Point. This requirement may exist in both peacetime and contingency environments.

V. Recognition of Expenses

The DoD's 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. The ATARES program is not recognized as an expense.

See Note 1U, Revenue and Other Financing Sources, for more information.

W. Budgetary Terms [20]

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law.

The following budgetary terms are used within the Statements of Budgetary Resources:

Apportionment - A plan, approved by OMB, to spend resources provided by one of the annual appropriations acts, a supplemental appropriations act, a continuing resolution, or a permanent law (mandatory appropriations). The apportionment identifies amounts available for obligation and expenditure. It specifies and limits the obligations that may be incurred, and expenditures made (or makes other limitations, as appropriate) for specified time periods, programs, activities, projects, objects, or any combination thereof. An apportioned amount may be further subdivided by an agency into allotments, sub-allotments, and allocations.

Appropriations - A provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary Resources - Amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Contract Authority - A type of budget authority that permits one to incur obligations in advance of an appropriation, offsetting collections, or receipts to make outlays to liquidate the obligations. Typically, the Congress provides contract authority in an authorizing statute to allow you to incur obligations in anticipation of the collection of receipts or offsetting collections that will be used to liquidate the obligations.

Obligated Balance - The cumulative amount of budget authority that has been obligated but not yet outlaid.

Obligation - A binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Offsetting Collections - Payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend offsetting collections is a form of budget authority.

Outlay - A payment to liquidate an obligation. Outlays are the measure of Government spending.

Spending Authority from Offsetting Collections - A type of budget authority that permits obligations and outlays to be financed by offsetting collections.

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[20] OMB Circular No. A–11 Budget Terms

Unobligated Balance - The cumulative amount of budget authority that remains available for obligation under law in unexpired accounts.

X. Treaties for Use of Foreign Bases

USTRANSCOM uses land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the DoS. The DoD purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the DoD continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any irretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and considers the value of capital investments and may be offset by environmental cleanup costs, if applicable. Per DoD policy, this is reported at the consolidated DoD level and is not reported on USTRANSCOM's financial statements. The geographic CCMDs go to the DoS and request to use an individual base and the agreement or treaty is put in place for each individual situation that arises.

Y. 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, payroll accruals, contingent liabilities, depreciation expense, and actuarial liabilities related to workers' compensation (also known as FECA).

Z. Parent-Child Reporting

Not applicable.

AA. 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 and through Acquisition and Cross-Servicing Agreements in accordance with 10 U.S.C. § 2341-2350. Under the provisions of those statutes, DoD has authority to sell defense services to foreign countries and international organizations, generally at no profit or loss to the federal government.

Donated services are recognized as non-exchange revenue in accordance with SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. Non-exchange revenue are inflows of resources that the government demands or receives by donation. Donations are contributions to the government (i.e., voluntary gifts of resources to a government entity by a non-federal entity).

In FY 2021, several foreign governments made significant contributions of their resources to support the State Department. Under 10 U.S.C. § 2608, the State Department accepted the contributions of passenger airlift services from foreign governments for the use by the DoD to support State Department efforts to transport Afghanistan SIV applicants, their dependent family members, and other individuals at risk due to the situation in Afghanistan. The FY 2021 financial statements recognize the value of the donated airlift services.

AB. Fiduciary Activities

Not applicable.

AC. Tax Exempt Status

As an agency of the federal government, USTRANSCOM is exempt from all income taxes imposed by any governing body, whether it is a federal, state, commonwealth, local, or foreign government.

AD. Standardized Balance Sheet and Related Footnotes – Comparative Year Presentation

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this report to see how the amounts shown on the USTRANSCOM Balance Sheet are reflected on the DoD-wide Balance Sheet which are then reflected on the government-wide Balance Sheet, thereby supporting the preparation and audit of the financial report of the U.S. Government. The presentation of the FY 2021 Balance Sheet and the related footnotes were modified to be consistent with the FY 2022 presentation. The mapping of USSGLs, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, Section V: *Crosswalks to Standard External Reports for FY 2022 GTAS Reporting*. The footnotes affected by the modified presentation are Note 6, Liabilities Not Covered by Budgetary Resources, Note 9, Other Liabilities and Note 15, Reconciliation of Net Cost to Net Budgetary Outlays.

Note 2. Non-Entity Assets

As of September 30, 2022 and 2021 (dollars in thousands):

	Unaudited	
	FY 2022	FY 2021
Other Than Intragovernmental		
Accounts Receivable	$ 35	$ 75
Total Non-Entity Assets	$ 35	$ 75
Total Entity Assets	$ 1,946,405	$ 2,194,310
Total Assets	$ 1,946,440	$ 2,194,385

Non-Entity Assets represents interest, penalties, and fines receivable. Generally, USTRANSCOM cannot use the proceeds and must remit them to the U.S. Treasury unless permitted by law. There is an equal and off-setting liability for non-entity assets recorded to accurately reflect USTRANSCOM's Net Position. The liability represents the interest, penalties, and fines payable. See Note 9, Other Liabilities.

Note 3. Fund Balance with Treasury

As of September 30, 2022 and 2021 (dollars in thousands):

	Unaudited	
	FY 2022	FY 2021
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ (187,637)	$ 998,015
Obligated Balance not yet Disbursed	3,220,641	2,866,669
Non-FBWT Budgetary Accounts		
Unfilled Customer Orders without Advance	(1,271,185)	(1,858,186)
Contract Authority	(27,586)	(35,261)
Receivables and Other	(1,388,265)	(1,449,800)
Total	$ 345,968	$ 521,437

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.

The Status of FBwT, as presented in the table above, reflects the reconciliation between the budgetary resources supporting FBwT (largely consisting of Unobligated Balance and Obligated Balance not yet Disbursed) and those resources provided by other means. The total FBwT reported on the Balance Sheets reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable, see Note 1W, Budgetary Terms, for the definition of Unobligated Balance. The available balance consists primarily of the unexpired, Unobligated Balance that has been Apportioned and available for new obligations. In FY 2022, USTRANSCOM reported an abnormal balance in Unobligated Balance available of $188 million. For further information on the abnormal balance see Note 14, Disclosures Related to the Combined Statements of Budgetary Resources.

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 include accounts with budgetary authority. This amount represents reconciling adjustments to the status of budgetary resources for which there is no FBwT impact.

Unfilled Customer Orders without Advance provide budgetary resources when recorded. FBwT is only increased when unfilled customer orders without advance are collected, not when orders are accepted or have been earned.

Contract Authority does not increase the FBwT when initially recorded but does provide budgetary resources. FBwT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBwT upon receipt of the budget authority.

Receivables and Other includes the amount of reimbursements earned, but not collected, through the delivery of goods and performance of services.

The FBwT reported in the financial statements has been adjusted to reflect the USTRANSCOM balance as reported by the U.S. Treasury. The difference between FBwT in the USTRANSCOM general ledgers and FBwT reflected in the TAFS is attributable to transactions that have not been recorded to the individual detailed accounts in the USTRANSCOM general ledger, as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in the USTRANSCOM general ledger accounts. USTRANSCOM acknowledges departures from GAAP related to FBwT as disclosed in Note 1D, Basis of Accounting.

Note 4. Accounts Receivable, Net

As of September 30, 2022 (dollars in thousands):

	Gross Amount Due	*Unaudited* Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Accounts Receivable, Net			
Intragovernmental Receivables	$ 1,326,966	$ -	$ 1,326,966
Other than Intragovernmental	40,430	(4,589)	35,841
Total Accounts Receivable	$ 1,367,396	$ (4,589)	$ 1,362,807

As of September 30, 2021 (dollars in thousands):

	Gross Amount Due	*Unaudited* Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Accounts Receivable, Net			
Intragovernmental Receivables	$ 1,416,766	$ -	$ 1,416,766
Other than Intragovernmental	36,688	(4,583)	32,105
Total Accounts Receivable	$ 1,453,454	$ (4,583)	$ 1,448,871

See Note 1J, Accounts Receivable, for discussion related to Accounts Receivable. As of September 30, 2022, $63 million is remaining in the ARA. See the Analysis of Financial Statements section for the discussion of the ARA.

The allowance for estimated uncollectible accounts for intragovernmental receivables is $0 due to USTRANSCOM only recognizing an allowance for non-federal receivables. The allowance for estimated uncollectible public receivables is primarily attributable to AMC and is calculated at the beginning of each fiscal year by using the actual amount of public revenue for the fiscal year and applying the National Bad Debt Statistic recommended ideal rate of .2% or .002 of total revenue. This amount is compared to the prior two fiscal years to look for any anomalies that would cause a significant increase or decrease. The amount derived from this calculation is divided and recorded 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 5 of the TFM, Volume I, Part 2, Chapter 4700.

USTRANSCOM acknowledges departures from GAAP related to Accounts Receivable, net as disclosed in Note 1D, Basis of Accounting.

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

As of September 30, 2022 (dollars in thousands):

	Unaudited		
	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Major Fixed Asset Classes			
Software	$ 84,142	$ (542)	$ 83,600
General Equipment	162,063	(140,006)	22,057
Construction-in-Progress (CIP)	14,564	-	14,564
Total General Property, Plant, and Equipment	$ 260,769	$ (140,548)	$ 120,221

As of September 30, 2021 (dollars in thousands):

	Unaudited		
	Acquisition Value	Accumulated Depreciation/ Amortization	Net Book Value
Major Fixed Asset Classes			
Software	$ 46,364	$ -	$ 46,364
General Equipment	162,988	(144,475)	18,513
Construction-in-Progress (CIP)	21,052	-	21,052
Total General Property, Plant, and Equipment	$ 230,404	$ (144,475)	$ 85,929

As of September 30, 2022 and 2021 (dollars in thousands):

	Unaudited	
	FY 2022	FY 2021
Balance Beginning of Year	$ 85,929	$ 84,144
Capitalized Acquisitions	49,816	56,138
Dispositions	(8)	(41,903)
Transfers In/Out without Reimbursement	(2,979)	(2,054)
Depreciation Expense	(12,537)	(9,564)
Other	-	(832)
Balance at End of Year	$ 120,221	$ 85,929

See Note 1M, General Property, Plant, and Equipment, for a discussion of what GPP&E entails, as well as accounting policies associated with GPP&E. USTRANSCOM acknowledges departures from GAAP related to GPP&E as discussed in Note 1D, Basis of Accounting.

Dispositions - In FY 2022, USTRANSCOM's GPP&E Dispositions are zero since USTRANSCOM is discontinuing the IUS write-off. In FY 2021, GPP&E Dispositions of $42 million are made up of prior

period IUS write-offs that occurred during FY 2020 but are recorded as a write-off in FY 2021. The IUS write-off is discussed in more detail below.

Change in Accounting Principle - In FY 2016, USTRANSCOM and its financial statement component entities, SDDC, MSC, AMC, and Headquarters, 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 Headquarters had material balances of IUS affected by this change in accounting principle. DCD was the only financial statement component that did not have 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 below for FY 2022 and FY 2021. In FY 2021, USTRANSCOM recorded the change in accounting principle in accordance with SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The cumulative effect of the change on prior periods is reported as a "change in accounting principle." The adjustment is made to the beginning balance of Cumulative Results of Operations in the Statement of Changes in Net Position for the period that the change is made, and prior period financial statements presented for comparative purposes are presented as previously reported.

In FY 2022, USTRANSCOM discontinued the annual write-offs until an unreserved assertion for IUS is completed in accordance with SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment; Amending SFFAS 6, 10, 23, and Rescinding SFFAS 35*. When the unreserved assertion is completed, all balances related to IUS before this point will be written down to zero.

The following is the IUS write-off that took place in FY 2021, (*dollars in thousands)*:

	Unaudited	
	FY 2022	***FY 2021***
SDDC	$ -	$ 4,465
AMC	-	15,355
CMD	-	22,083
TOTAL	**$ -**	**$ 41,903**

Note 6. Liabilities Not Covered by Budgetary Resources

As of September 30, 2022 and 2021 (dollars in thousands):

	Unaudited	
	FY 2022	**FY 2021**
Intragovernmental		
Other	$ (29,577)	$ (16,941)
Total Intragovernmental	$ (29,577)	$ (16,941)
Other than Intragovernmental Liabilities		
Federal Employee and Veteran Benefits Payable	$ 16,669	$ 17,109
Other	41,746	43,783
Total Other Than Intragovernmental Liabilities	$ 58,415	$ 60,892
Total Liabilities Not Covered by Budgetary Resources	$ 28,838	$ 43,951
Total Liabilities Covered by Budgetary Resources	$ 1,151,931	$ 971,777
Total Liabilities	$ 1,180,769	$ 1,015,728

Other Intragovernmental Liabilities - This amount represents unfunded unemployment and workers' compensation liabilities (also known as FECA). The abnormal balance in Other Intragovernmental Liabilities is attributable to AMC's ongoing financial data cleanup efforts to remove unsubstantiated and invalid transactions. As this process continues, transactions deemed unsupportable and inappropriate will be adjusted accordingly.

Federal Employee and Veteran Benefits Payable - This consists of actuarial FECA liabilities not due and payable during the current fiscal year.

Other Than Intragovernmental Liabilities - This amount primarily represents liabilities established which offset ITR billed to AMC airlift customers posted to receivables. See Note 1R, Other Liabilities, for discussion of ITR.

Total Liabilities Not Covered by Budgetary Resources - Liabilities not covered by budgetary resources require future congressional action, whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, the U.S. Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Total Liabilities Covered by Budgetary Resources - Total Liabilities Covered by Budgetary Resources represents all funded liabilities.

Note 7. Federal Employee and Veteran Benefits Payable

As of September 30, 2022 (dollars in thousands):

	Liabilities	*Unaudited* Less: Assets Available to Pay	Unfunded Liabilities
Federal Employee and Veteran Benefits			
FECA	$ 16,669	$ -	$ 16,669
Other	220	(220)	-
Total Federal Employee and Veteran Benefits Payable (Presented Separately on the Balance Sheet)	$ 16,889	$ (220)	$ 16,669
Other Benefit-Related Payables Included in Intragovernmental Accounts Payable on the Balance Sheet	5,219	(2,173)	3,046
Total Federal Employee and Veteran Benefits Payable	$ 22,108	$ (2,393)	$ 19,715

As of September 30, 2021 (dollars in thousands):

	Liabilities	*Unaudited* Less: Assets Available to Pay	Unfunded Liabilities
Federal Employee and Veteran Benefits			
FECA	$ 17,109	$ -	$ 17,109
Other	199	(199)	$ -
Total Federal Employment Benefits Payable (Presented Separately on the Balance Sheet)	$ 17,308	$ (199)	$ 17,109
Other Benefit-Related Payables Included in Intragovernmental Accounts Payable on the Balance Sheet	6,636	(3,439)	3,197
Total Federal Employee and Veteran Benefits Payable	$ 23,944	$ (3,638)	$ 20,306

Federal Employee and Veteran Benefits Payable includes both funded and unfunded FECA liability, as well as employer contributions and payroll taxes payable. See Note 1R, Other Liabilities, for a discussion of FECA and employer contributions and payroll taxes payable. The current year and prior year actuarial liability for FECA is discussed in further detail below.

USTRANSCOM's 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. In FY 2021, the methodology for billable projected liabilities

included, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY 2021 methodology also included adjustments to normalize the levels of payments in chargeback year 2021 because payment levels in 2021 were not representative of what could be expected to occur absent the pandemic. The FY 2022 methodology remained the same, except it omitted the pandemic-related adjustments to normalize the levels of payments.

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors cost of living adjustments (COLA) and medical inflation factors consumer price index medical (CPI-M) were applied to the calculation of projected future benefits.

DOL selected the COLA factors, CPI-M factors, and discount rate by averaging the COLA rates, CPI-M rates, and interest rates for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year.

The FY 2022 and FY 2021 methodologies for averaging the COLA rates used OMB-provided rates. The FY 2022 and FY 2021 methodologies for averaging the CPI-M rates used OMB-provided rates and information obtained from the Bureau of Labor Statistics public releases for consumer price index.

The actual rates for these factors for the charge back year (CBY) 2021 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPI-Ms used in the projections for various CBY were as follows:

CBY	COLA	CPI-M
2022	N/A	N/A
2023	3.37%	3.13%
2024	3.97%	3.62%
2025	4.10%	3.55%
2026	4.16%	3.84%
2027	3.91%	4.20%

DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Treasury's Yield Curve for Treasury Nominal Coupon Issues (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 2022 and FY 2021, respectively. Interest rate assumptions utilized for FY 2022 discounting were as follows:

- For wage benefits: 2.119% in year one and years thereafter; and
- For medical benefits: 1.973% in year one and years thereafter.

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

The American Rescue Plan Act, (P. L. 117-2, codified as 15 U.S.C. § 9001 note) section 4016, *Eligibility for Workers' Compensation Benefits for Federal Employees Diagnosed with COVID-19*, mandated that the FECA Special Benefits Fund assume an unreimbursed liability (i.e., a liability that is not chargeable to the agencies) for approved claims of certain covered employees for injuries proximately caused by exposure to the novel coronavirus that causes COVID-19 (or another coronavirus declared to be a pandemic by public health authorities) while performing official duties during the covered exposure period. Pursuant to section 4016, these claims must be accepted on or after March 12, 2021, and through September 30, 2030, and cover benefits for disability compensation, medical services, and survivor benefits. Accordingly, section 4016 future benefits are properly omitted from the table of Estimates of Total FECA Future Liabilities as of September 30, 2021 and 2022, respectively.

See Note 1R, Other Liabilities, for additional discussion of FECA liabilities, and Note 18, COVID-19 Activity, for additional discussion of COVID-19 financial impacts.

Note 8. Insurance Programs

USTRANSCOM has performed an analysis and has not identified any insurance programs requiring disclosure under SFFAS 51, *Insurance Programs.*

Note 9. Other Liabilities

As of September 30, 2022 (dollars in thousands):

	Unaudited		
	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Liabilities for Non-Entity Assets	$ 35	$ -	$ 35
Other Liabilities	(32,623)	-	(32,623)
Other Liabilities, reported on Note 7 Federal Employee and Veteran Benefits Payable	3,527	1,692	5,219
Total Intragovernmental	$ (29,061)	$ 1,692	$ (27,369)
Other than Intragovernmental			
Accrued Funded Payroll and Leave	$ 41,604	$ -	$ 41,604
Withholdings Payable	338	-	338
Contract Holdbacks	173	-	173
Contingent Liabilities	1,078	-	1,078
Benefits Due and Payable	264	-	264
Other Liabilities without Related Budgetary Obligations	40,668	-	40,668
Other Liabilities with Related Budgetary Obligations	317	-	317
Total Other than Intragovernmental	$ 84,442	$ -	$ 84,442
Total Other Liabilities	$ 55,381	$ 1,692	$ 57,073

As of September 30, 2021 (dollars in thousands):

	Unaudited		
	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Liabilities for Non-Entity Assets	$ 75	$ -	$ 75
Other Liabilities	(20,138)	-	(20,138)
Other Liabilities, reported on Note 7 Federal Employee and Veteran Benefits Payable	4,892	1,744	6,636
Total Intragovernmental	$ (15,171)	$ 1,744	$ (13,427)
Other than Intragovernmental			
Accrued Funded Payroll and Leave	$ 39,851	$ -	$ 39,851
Withholdings Payable	309	-	309
Contract Holdbacks	173	-	173
Contingent Liabilities	-	2,102	2,102
Benefits Due and Payable	328	-	328
Other Liabilities without Related Budgetary Obligations	43,783	-	43,783
Other Liabilities with Related Budgetary Obligations	317	-	317
Total Other than Intragovernmental	$ 84,761	$ 2,102	$ 86,863
Total Other Liabilities	$ 69,590	$ 3,846	$ 73,436

As of September 30, 2022 and 2021 (dollars in thousands):

	Unaudited	
	FY 2022	FY 2021
Advances from Others and Deferred Revenue		
Other than Intragovernmental	$ 752	$ 812
Total Advances from Others and Deferred Revenue	$ 752	$ 812

Intragovernmental Liabilities for Non-Entity Assets - Liabilities for non-entity assets represent interest, penalties, and fines payable. See Note 2, Non-Entity Assets, for further discussion.

Intragovernmental Other Liabilities - includes Federal Employee and Veteran Benefits Payable and both the current and non-current portion of the unfunded FECA liability. See Note 7, Federal Employee and Veteran Benefits Payable, for further discussion. Currently, both the current and non-current portion of the unfunded FECA liability is recorded as a current liability in the table above. Intragovernmental Other Liabilities on the Balance Sheets is no longer reported within a single footnote. Certain USSGL's on the Intragovernmental Other Liabilities are required to be reported in Note 7, Federal Employee and Veteran Benefits Payable, and Note 9, Other Liabilities. In FY 2022, USTRANSCOM reported an abnormal balance in Intragovernmental Other Liabilities of $33 million and $20 million in FY 2021. For further information on the abnormal balance see the Note 6, Liabilities Not Covered by Budgetary Resources.

Other Liabilities Reported on Note 7, Federal Employee and Veteran Benefits Payable - These are amounts that include employer contributions and payroll taxes payable, and both current and non-current portion of the unfunded FECA liabilities recorded in Note 7, Federal Employee and Veteran Benefits Payable.

Other than Intragovernmental Accrued Funded Payroll and Leave - See Note 1R, Other Liabilities, for a discussion of accrued funded payroll and leave.

Benefits Due and Payable - These are amounts owed to program recipients or medical service providers as of the Balance Sheet date that have not been paid and include payables for benefits, goods, or services under the terms of a benefits program (other than federal employee and veteran benefits programs) whether such amounts have been reported to the federal entity.

Other than Intragovernmental Contract Holdbacks - These are amounts withheld from contractors pending completion of related contracts. Contract holdbacks include authorization progress payments based on cost as defined in the Federal Acquisition Regulation.

Other than Intragovernmental Other Liabilities without Related Budgetary Obligations - This amount primarily represents liabilities established which offset ITR billed to AMC airlift customer posted to receivables. See Note 1R, Other Liabilities, for discussion of ITR.

Other than Intragovernmental Other Liabilities with Related Budgetary Obligations - This amount represents liabilities for which there is a related budgetary obligation.

Other than Intragovernmental Advances from Others and Deferred Revenue - This amount represents liabilities for collections received to cover future expenses incurred on behalf of another organization.

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 lessee. USTRANSCOM acknowledges departures from GAAP related to leases as discussed in Note 1D, Basis of Accounting.

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 U.S. 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 Contract Disputes Act of 1978 (P. L. 95-563), or the Notification and Federal Employee Anti-Discrimination and Retaliation Act of 2002 (P. L. 107-174, codified as 5 U.S.C. 2301 note).

In FY 2022 and FY 2021, in accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, USTRANSCOM accrued for other contingencies where the likelihood of an unfavorable outcome is probable. In FY 2022, USTRANSCOM accrued $1.1 million in other contingencies. This amount was comprised of:

- $553 thousand accrued by SDDC for equitable adjustment claims for cargo in-transit being diverted and services related to the withdrawal from Afghanistan; and
- $547 thousand accrued by AMC for the ATARES program. In FY 2021, AMC accrued $2.1 million in other contingencies for the ATARES program due to the DoD spending more ATARES credits than what was earned. In FY 2022, as a result of the annual assessment of the ATARES program the estimated other contingent liability was reduced to $547 thousand. See Note 1U, Revenue and Other Financing Sources for a discussion of the ATARES program.

USTRANSCOM's Office of the 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.

There are three cases currently in litigation which potentially impact the USTRANSCOM TWCF that have been identified as being above the loss contingency threshold. The likelihood of an unfavorable outcome has been deemed reasonably possible for each action; however, the ultimate disposition cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceeding, action, or claim will materially affect USTRANSCOM's financial position. These financial claims in dispute are not recognized in the financial statements.

For both FY 2022 and FY 2021, no legal liability is required to be accrued pursuant to SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation.* The estimated loss amount or the range of loss cannot be reasonably measured for one of the three cases. However, the amount the appellant initially sought for the other two cases were able to be reasonably estimated and is listed as the upper end of the estimated range of loss in the tables below.

As of September 30, 2022 (dollars in thousands):

		Estimated Range of Loss	
(Unaudited)	**Accrued Liabilities**	**Lower End**	**Upper End**
Legal Contingencies			
Probable	$ -	$ -	$ -
Reasonably Possible	$ -	$ -	$ 2,295
Other Contingencies			
Probable	$ 1,078	$ -	$ -
Reasonably Possible	$ -	$ -	$ -

As of September 30, 2021 (dollars in thousands):

		Estimated Range of Loss	
(Unaudited)	**Accrued Liabilities**	**Lower End**	**Upper End**
Legal Contingencies			
Probable	$ -	$ -	$ -
Reasonably Possible	$ -	$ -	$ 4,314
Other Contingencies			
Probable	$ 2,102	$ -	$ -
Reasonably Possible	$ -	$ -	$ -

Note 12. Disclosures Related to the Statements of Net Cost

As of September 30, 2022 (dollars in thousands):

	Unaudited								
	MSC	SDDC	AMC	CMD	DCD	Supplemental Appropriation	Combined Total	Intra-entity Eliminations	Consolidated Total
Gross Program Costs									
Operations, Readiness & Support									
Gross Costs	$ 1,144,163	$ 1,048,788	$ 5,805,587	$ 432,332	$ 6,222	$ 406,065	$ 8,843,157	$ 645,389	$ 8,197,768
Less: Earned Revenue	(1,172,844)	(1,077,280)	(5,336,123)	(419,014)	(4,058)	-	(8,009,319)	(645,389)	(7,363,930)
NET COST OF OPERATIONS	$ (28,681)	$ (28,492)	$ 469,464	$ 13,318	$ 2,164	$ 406,065	$ 833,838	$ -	$ 833,838

As of September 30, 2021 (dollars in thousands):

	Unaudited								
	MSC	SDDC	AMC	CMD	DCD	Supplemental Appropriation	Combined Total	Intra-entity Eliminations	Consolidated Total
Gross Program Costs									
Operations, Readiness & Support									
Gross Costs	$ 717,712	$ 1,362,723	$ 5,080,622	$ 409,995	$ 6,433	$ -	$ 7,577,485	$ 417,305	$ 7,160,180
Less: Earned Revenue	(743,554)	(1,242,091)	(4,666,116)	(477,023)	(4,933)	-	$ (7,133,717)	(417,305)	(6,716,412)
NET COST OF OPERATIONS	$ (25,842)	$ 120,632	$ 414,506	$ (67,028)	$ 1,500	$ -	$ 443,768	$ -	$ 443,768

The Statements of Net Cost represent the net cost of programs and organizations of USTRANSCOM supported by appropriations or other means. The intent of the Statements of Net Cost 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 appropriation groups as presented in the Statements of Net Cost. The DoD is in the process of reviewing available data and developing a cost-reporting methodology required by SFFAS 4, *Managerial Cost Accounting Standards and Concepts,* as amended by SFFAS 55, *Amending Inter-entity Cost Provisions*.

AMC provides airlift support to federal, non-federal, and public entities. The rates/pricing established for channel missions are set by USTRANSCOM and are mandated to be commercially competitive, which can lead to pricing that is lower than expenses. Charter rates are established to recoup 91% of the costs/expenses. The ARA was established to support the costs of maintaining airlift mobility capacity. The ARA, funded by the Air Force, acts as an equalizer, covering the gap between commercially competitive channel rates and actual costs, 9% of the Military Charter rates, and recovers or returns all prior year losses/gains.

USTRANSCOM's goal is to break even over the long term. Pricing policy for exchange revenue is derived from stabilized rates established to recover estimated operating expenses incurred for the applicable fiscal year and to provide sufficient working capital for the acquisition of fixed assets as approved by OUSD(C). Full cost recovery includes general administrative overhead costs, prior period gains and losses, and applicable surcharges. Stabilized rates and unit prices are established to mitigate unforeseen fluctuations and are intended to equate estimated revenues to estimated costs. The pricing policy should result in no profit or loss (break-even) within planned timeframes based on budget and planning projections. When gains or losses occur in prior fiscal years resulting from under or over applied stabilized rates and/or prices, and those gains or losses are included in the applicable fiscal year stabilized rates and/or prices are established, the estimated revenues may not equal estimated costs. Cost-plus rates are used only when there is not an established rate.

Note 13. Disclosures Related to the Statements of Changes in Net Position

Effective FY 2018, the DoD has elected early implementation of SFFAS 55, *Amending Inter-entity Cost Provisions*, which rescinds SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and* Concepts, and Interpretation 6, *Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4, Managerial Cost Accounting Standards and Concepts*.

For additional information, see Note 1D, Basis of Accounting, Departures from GAAP.

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

As of September 30, 2022 and 2021 (dollars in thousands):

	Unaudited	
	FY 2022	**FY 2021**
Undelivered Orders		
Intragovernmental:		
Undelivered Orders – Unpaid	$ 196,500	$ 214,372
Total Intragovernmental Undelivered Orders	$ 196,500	$ 214,372
Other than Intragovernmental		
Undelivered Orders – Unpaid	$ 1,847,158	$ 1,656,800
Undelivered Orders – Paid	117,444	138,147
Total Other than Intragovernmental Undelivered Orders	$ 1,964,602	$ 1,794,947
Total Undelivered Orders	$ 2,161,102	$ 2,009,319

As of September 30, 2022 and 2021 (dollars in thousands):

	Unaudited	
	FY 2022	**FY 2021**
Available Contract Authority at the end of the period	$ -	$ -

The Statements of Budgetary Resources are presented on a combined basis in accordance with OMB Circular A-136; thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from other principal financial statements, which are presented on a consolidated basis. USTRANSCOM received a $409 million appropriation with a one-year period of availability (October 1, 2021, to September 30, 2022) that affects the use of any unobligated funds of budgetary authority after September 30, 2022. USTRANSCOM's financial results are not consolidated within the Air Force WCF's financial statements; however, USTRANSCOM's TWCF is reported in Air Force WCF's budget of the U.S. Government. As such, the USTRANSCOM TWCF is not presented separately in the President's Budget but is instead a part of Air Force WCF's reconciliation to the President's Budget. The Department of Air Force FY 2022 AFR contains a reconciliation between the budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and Net Outlays to the

President's Budget. Included in that reconciliation is an adjustment to include the USTRANSCOM TWCF to reconcile to the President's Budget amounts.

Contract authority is apportioned budget authority which can be legally obligated and may be used only for the purpose, time, and amount specified by statute relating to that contract authority. It is not funded and is apportioned and allocated without a supporting Treasury cash balance. Contract Authority must always be replaced or liquidated by subsequent or other budgetary resources and cash balances, more commonly within the DWCF, by offsetting collections credited to the DWCF. Unless otherwise specified by statute, contract authority is apportioned to the DWCF for the current fiscal year of the apportionment only and closes for new obligations if not used within the fiscal year it is apportioned.

On the Statements of Budgetary Resources, USTRANSCOM has an abnormal balance for the Unobligated Balance, end of year balance of $188 million. The abnormal balance is attributed to AMC's planning to reduce rates because of prior year positive NOR, an unexpected decrease to workload due to exiting Afghanistan and an increase of Ukraine contingency missions. AMC was able to adjust the workload accordingly in the FY 2023 Presidential Budget where anticipated revenue for FY 2023 is $492 million higher than their planned expenses. Historically, it takes a WCF two years to adjust their rates to make up gains and losses to the fund.

Note 15. Reconciliation of Net Cost to Net Budgetary Outlays

As of September 30, 2022 (dollars in thousands):

	Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ (4,986,761)	$ 5,820,599	$ 833,838
Components of Net Cost Not Part of Net Budgetary Outlays:			
Change in General Property, Plant, and Equipment, Net	$ -	$ 34,292	$ 34,292
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	(88,568)	3,736	(84,832)
Other Assets	-	(20,704)	(20,704)
(Increase)/Decrease in Liabilities:			
Accounts Payable	16,129	(199,243)	(183,114)
Benefits Due and Payable	-	64	64
Federal Employee and Veteran Benefits Payable	-	419	419
Other Liabilities	13,942	2,417	16,359
Financing Sources			
Imputed Costs	(14,796)	-	(14,796)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (73,293)	$ (179,019)	$ (252,312)
Miscellaneous Reconciling Items			
Transfers In/Out without Reimbursements	2,944	-	2,944
Total Other Reconciling Items	$ 2,944	$ -	$ 2,944
Total Net Outlays	$ (5,057,110)	$ 5,641,580	$ 584,470
Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			$ 584,470
Unreconciled Difference			$ -

As of September 30, 2021 (dollars in thousands):

	Federal	Non-Federal	Total
Net Cost of Operations (SNC)	$ (4,616,436)	$ 5,060,204	$ 443,768
Components of Net Cost Not Part of Net Budgetary Outlays:			
Change in General Property, Plant, and Equipment, Net	$ -	$ 1,785	$ 1,785
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	(116,872)	(8,793)	(125,665)
Other Assets	-	137,188	137,188
(Increase)/Decrease in Liabilities:			
Accounts Payable	(75,588)	(48,630)	(124,218)
Benefits Due and Payable	-	(88)	(88)
Federal Employee and Veteran Benefits Payable	-	(71)	(71)
Other Liabilities	65,252	(8,800)	56,452
Financing Sources			
Imputed Costs	(14,209)	-	(14,209)
Total Components of Net Cost Not Part of Net Budgetary Outlays	$ (141,417)	$ 72,591	$ (68,826)
Miscellaneous Reconciling Items			
Transfers In/Out without Reimbursements	2,034	-	2,034
Other	-	41,904	41,904
Total Other Reconciling Items	$ 2,034	$ 41,904	$ 43,938
Total Net Outlays	$ (4,755,819)	$ 5,174,699	$ 418,880
Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			$ 396,242
Unreconciled Difference			$ 22,638

Budgetary and financial accounting information are different. 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 of financial accounting is intended to provide a picture of USTRANSCOM's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities.

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between USTRANSCOM's Net Cost of Operations, reported on an accrual basis on the Statements of Net Cost, and Net Outlays, reported on a budgetary basis on the Statements of Budgetary Resources. 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 of Operations and Net Outlays. USTRANSCOM's FY 2021 unreconciled difference is attributable to the FY 2021 IUS write-off amount recorded as a change in accounting principle, as well as the donation of airlift services for the Afghanistan OAR effort. USTRANSCOM's financial statement service provider is currently working on standardizing the form and content of this note to be consistent DoD-wide; as a result, not all reconciling items have been mapped to the reconciliation.

Note 16. Public-Private Partnerships

USTRANSCOM has performed an analysis and has not identified any material public-private partnerships requiring disclosure under SFFAS 49, *Public-Private Partnerships: Disclosure Requirements*.

Note 17. Disclosure Entities and Related Parties

Under SFFAS *47, Reporting En*tity, which was effective beginning in FY 2018, agencies must disclose certain information for disclosure entities and related parties. USTRANSCOM is in the process of completing an assessment to determine any disclosure entities or related parties that are required to be reported pursuant to SFFAS *47, Reporting Ent*ity. USTRANSCOM acknowledges departures from GAAP related to the definition of reporting entity as discussed in Note 1D, Basis of Accounting.

Note 18. COVID-19 Activity

In FY 2022 and FY 2021, the TWCF has reported $157 million in COVID-19 related financial impacts, of which $14 million is from FY 2022 and $143 million is from FY 2021.

- For FY 2022 and FY 2021, $3 million and $78 million, respectively, is associated with customer requirements that will be reimbursed by TWCF customers. This includes missions such as assisting the U.S. DoS with the repatriation of U.S. citizens, shipping of COVID-19 testing kits, and other COVID-19 response missions.
    - The full cost for these missions in FY 2022 and FY 2021 has been billed to customers and the full amount has been collected.
- The TWCF has also reported costs that will not be billed to customers, amounting to $11 million and $65 million in FY 2022 and FY 2021, respectively. However, the costs will be reimbursed to USTRANSCOM through the rate setting process in the subsequent years. These costs include items such as personal protective equipment, cleaning supplies, laptops, and computer equipment to enable a remote work environment, cancellation fees resulting from the cancellation of commercial missions because of COVID-19, additional Patriot Express missions required to ensure proper social distancing, and non-billable support missions. This amount also includes estimates of lost revenue in the channel passenger line of operation (based on pre-COVID-19 averages), as well as the net impact in FY 2021 from lower than planned workload in the SDDC liner system and the AMC full plane charter lines of operation.
- Overall, FY 2021 and FY 2022 reimbursable costs have been billed and collected in full. Without a cash infusion or supplemental funds, these remaining unreimbursed costs represent losses to the TWCF. These will be recovered via customer rates and ARA in FY 2022.
- There was no Unobligated Balance brought forward related to COVID-19 from FY 2021 to FY 2022.

Note 19. Subsequent Events

Subsequent events after the Balance Sheet date have been evaluated through the auditors' report date. Management determined that there are no additional items to disclose.

Required Supplementary Information

Deferred Maintenance and Repairs

This section provides the deferred maintenance and repairs disclosures, required in accordance with SFFAS 42, *Deferred Maintenance and Repairs: Amending SFFASs 6, 14, 29, and 32.* Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Equipment Deferred Maintenance and Repairs

In accordance with SFFAS 42, *Deferred Maintenance and Repairs: Amending SFFASs 6, 14, 29, and 32,* USTRANSCOM is required to report material amounts of deferred maintenance and repairs. USTRANSCOM does not have any deferred maintenance and repairs to be reported in FY 2022 or FY 2021. Any necessary repairs and maintenance are completed within the current year budget. Additionally, some components pay for sustainment of support equipment and vehicles. However, when due, the equipment is serviced out of the current year budget.

For IT assets, USTRANSCOM has fully funded technology maintenance contracts and manages the maintenance requirements annually through the budget process, reviewing all maintenance requirements to ensure all assets are covered for the new fiscal year. USTRANSCOM is migrating to multiple cloud environments and replaces end-user's IT equipment through scheduled technical refreshes or when damaged. USTRANSCOM has reviewed the IT-related NFRs and identified no deferred IT maintenance and repairs to report.

Maintenance and Repair Policies

USTRANSCOM conducts preventative maintenance on real property installed equipment according to the manufacturer's specifications. The condition of the facility is measured by using an industry-accepted condition called the building condition index and the system condition index. The index calculates a ratio between total repair and alteration needs and the functional replacement value of an asset (i.e., repair needs divided by the asset's replacement value). USTRANSCOM conducts a facility condition assessment every five years on the facility, real property installed equipment, and facility programs.

Maintenance and Repair Prioritization and Acceptable Condition Standards

Since maintenance and repairs are anticipated because of the nature of the mission, required maintenance on GPP&E is not deferred and therefore not ranked or prioritized among other activities.

Deferred Maintenance and Repair Exclusions

USTRANSCOM does not have deferred maintenance and repairs related to capitalized GPP&E, stewardship GPP&E, non-capitalized or fully depreciated GPP&E. In addition, the TWCF does not have GPP&E for which management does not measure and/or report deferred maintenance and repairs.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2022
(dollars in thousands)

	Unaudited						
	MSC	SDDC	AMC	CMD	DCD	Supplemental Appropriation	Combined Total
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	$ 822,644	$ 436,149	$ (185,457)	$ 113,338	$ 11,443	$ -	$ 1,198,117
Appropriations (discretionary and mandatory)	-	-	-	-	-	409,000	409,000
Contract Authority (discretionary and mandatory)	-	9,350	17,229	23,875	-	-	50,454
Spending Authority from Offsetting Collections (discretionary and mandatory)	583,148	900,441	5,454,282	402,649	4,531	-	7,345,051
Total Budgetary Resources	$ 1,405,792	$ 1,345,940	$ 5,286,054	$ 539,862	$ 15,974	$ 409,000	$ 9,002,622
Status of Budgetary Resources							
New Obligations and Upward Adjustments (total)	$ 1,310,941	$ 1,033,926	$ 5,970,102	$ 459,443	$ 6,847	$ 409,000	$ 9,190,259
Unobligated Balance, end of year:							
Apportioned, Unexpired Accounts	94,851	312,014	(684,048)	80,419	9,127	-	(187,637)
Unexpired Unobligated Balance, end of year	$ 94,851	$ 312,014	$ (684,048)	$ 80,419	$ 9,127	$ -	$ (187,637)
Unobligated Balance, end of year (total)	$ 94,851	$ 312,014	$ (684,048)	$ 80,419	$ 9,127	$ -	$ (187,637)
Total Budgetary Resources	$ 1,405,792	$ 1,345,940	$ 5,286,054	$ 539,862	$ 15,974	$ 409,000	$ 9,002,622
Outlays, Net							
Outlays, Net (total) (discretionary and mandatory)	$ (131,955)	$ (11,779)	$ 334,152	$ 6,175	$ 3,564	$ 384,313	$ 584,470
Agency Outlays, Net (discretionary and mandatory)	$ (131,955)	$ (11,779)	$ 334,152	$ 6,175	$ 3,564	$ 384,313	$ 584,470

AMC has an abnormal balance in Unobligated Balance from Prior Year Budget Authority, Net and Unobligated Balance. The abnormal balance is attributed to AMC's planning to reduce rates because of prior year positive NOR, an unexpected decrease to workload due to exiting Afghanistan and an increase of Ukraine contingency missions. AMC was able to adjust the workload accordingly in the FY 2023 Presidential Budget where anticipated revenue for FY 2023 is $492 million higher than their planned expenses. Historically, it takes a WCF two years to adjust their rates to make up gains and losses to the fund.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2021
(dollars in thousands)

	Unaudited						
	MSC	SDDC	AMC	CMD	DCD	Supplemental Appropriation	Combined Total
Budgetary Resources							
Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory)	$ 183,009	$ 709,789	$ 25,411	$ 34,075	$ 10,447	$ -	$ 962,731
Appropriations (discretionary and mandatory)	-	30	309,120	178	-	-	309,328
Contract Authority (discretionary and mandatory)	-	18,329	22,433	27,551	-	-	68,313
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,264,616	1,050,143	4,625,029	447,077	4,718	-	7,391,583
Total Budgetary Resources	$ 1,447,625	$ 1,778,291	$ 4,981,993	$ 508,881	$ 15,165	$ -	$ 8,731,955
Status of Budgetary Resources							
New Obligations and Upward Adjustments (total)	$ 756,049	$ 1,366,238	$ 5,196,673	$ 410,412	$ 4,568	$ -	$ 7,733,940
Unobligated Balance, end of year:							
Apportioned, Unexpired Accounts	691,576	412,053	(214,680)	98,469	10,597	-	998,015
Unexpired Unobligated Balance, end of year	$ 691,576	$ 412,053	$ (214,680)	$ 98,469	$ 10,597	$ -	$ 998,015
Unobligated Balance, end of year (total)	$ 691,576	$ 412,053	$ (214,680)	$ 98,469	$ 10,597	$ -	$ 998,015
Total Budgetary Resources	$ 1,447,625	$ 1,778,291	$ 4,981,993	$ 508,881	$ 15,165	$ -	$ 8,731,955
Outlays, net							
Outlays, Net (total) (discretionary and mandatory)	$ (58,466)	$ 5,209	$ 517,152	$ (67,531)	$ (122)	$ -	$ 396,242
Agency Outlays, Net (discretionary and mandatory)	$ (58,466)	$ 5,209	$ 517,152	$ (67,531)	$ (122)	$ -	$ 396,242

OTHER INFORMATION

Summary of Financial Statement Audit and Management Assurances

As described in the Analysis of Systems, Controls, and Legal Compliance section, management annually presents an assurance statement on the effectiveness of internal control. The following tables present summary information related to any material weakness identified during the audit, as well as conformance with FMFIA and compliance with FFMIA.

The table below provides a summary of Financial Statement Audit.[21] As discussed in the Independent Auditor's Report, the auditor restructured and updated the prior year finding to align more closely to those the DoDIG reported for the DoD at the department level and reflect current conditions.

Summary of Financial Statement Audit					
Audit Opinion	Disclaimer				
Restatement	No				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Ineffective Processes to Provide Transaction Level Populations to Support Significant Financial Statement Line Items and Reconcile the Populations to Reported Amounts	1			-1	0
Ineffective Controls Over Financial Reporting Process	1			-1	0
Ineffective Transactional Controls	1			-1	0
Ineffective Budgetary Controls	1			-1	0
Ineffective Controls of Over IT	1			-1	0
Reporting Entity Definition and Imputed Costs				1	1
Entity-Level Controls				1	1
Completeness Controls				1	1

[21] The Summary of Financial Statement Audit of material weaknesses are from the Independent Auditor's Report on ICOFR.

Summary of Financial Statement Audit					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Unsupported Accounting Adjustments				1	1
Intragovernmental Transactions and Eliminations				1	1
FBwT				1	1
Unfilled Customer Orders				1	1
Earned Revenue				1	1
Accounts Receivable and Related Estimates				1	1
Obligations				1	1
Gross Costs				1	1
Accounts Payable and Related Estimates				1	1
GPP&E				1	1
Oversight of Service Providers				1	1
IT Controls				1	1
Inability to Produce Complete or Accurate Populations for MSC	1				1
Total material weaknesses	**6**	**-**	**-**	**10**	**16**

Definition of Terms:[22]

Beginning Balance: The beginning balance must agree with the ending balance from the prior year.

New: The total number of material weaknesses / non-conformances identified during the current year.

Resolved: The total number of material weaknesses / non-conformances that dropped below the level of materiality in the current year.

Consolidated: The combining of two or more findings, or the removal of duplicate findings.

Reassessed: The removal of any finding not attributable to corrective actions (i.e., management has re-evaluated and determined a finding does not meet the criteria for materiality or is redefined as more correctly classified under another heading).

Ending Balance: The year-end balance that will be the beginning balance next year.

[22] OMB Circular A-136, Financial Reporting Requirements, June 3, 2022, page 110

The IPA has noted that USTRANSCOM's financial management systems did not comply 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 2022 audit findings contributing to non-compliance to continue remediation plans necessary to bring the financial management systems into compliance.

For FY 2022 USTRANSCOM is no longer reporting any internally identified material weaknesses or significant deficiencies. To prevent duplication of reporting, OUSD(C) has directed components to remove internally identified weaknesses and deficiencies from reporting if the items are also being reported by the external auditor. All previously internally identified material weakness and significant deficiencies have now been identified by the external auditor and are being reported in the NFRs database and in the Independent Auditor's Report. As a result, the tables below that provide a summary of management assurances[23] have been updated to reflect that the previously internally identified material weaknesses have been reassessed due to management redefining the identified material weaknesses to be correctly classified under another heading.

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Internal-Use Software	1				1	0
General Equipment	1				1	0
Accounts Receivable	1				1	0
Total material weaknesses	**3**	**-**	**-**	**-**	**3**	**0**
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Modified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Internal Use Software	1				1	0
Total material weaknesses	**1**	**-**	**-**	**-**	**1**	**0**
Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	No Assurance					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Financial Management Systems	1				1	0
Total non-compliances	**1**	**-**	**-**	**-**	**1**	**0**

[23] The number of material weaknesses and non-compliances for ICOFR, ICO, and ICOFS were obtained from the FY 2021 and FY 2022 SOA.

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

Management and Performance Challenges

Per OMB Circular A-136, as it relates to form and content of an AFR, USTRANSCOM 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 (in collaboration with the USTRANSCOM Commander's Action Group) has reviewed DoD's Top 10 Management Challenges and determined that USTRANSCOM faces many of the same high-level challenges as the DoD.

Top 10 DoD Management & Performance Challenges	USTRANSCOM IG Assessment
1. Maintaining the Advantage in Strategic Competition	Applicable – See challenge a below.
2. Assuring Space Dominance, Nuclear Deterrence, and Missile Defense	Not Applicable
3. Strengthening DOD Cyberspace Operations and Securing Systems, Networks, and Data	Applicable – See challenge b below.
4. Reinforcing the Supply Chain While Reducing Reliance on Strategic Competitors	Not Applicable
5. Increasing Agility in the DoD's Acquisition and Contract Management	Not Applicable
6. Improving DoD Financial Management and Budgeting	Not Applicable
7. Building Resiliency to Environmental Stresses	Not Applicable
8. Protecting the Health and Wellness of Service Members and their Families	Applicable – See challenge c below.
9. Recruiting and Retaining a Modern Workforce	Not Applicable
10. Preserving Trust and Confidence in the DoD	Not Applicable

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

7 April 2022

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL,
ATTN: Mr. Robert Gunning, DODIG Senior Strategic Planner, Office of Strategic Planning and Performance

FROM: TCCS

SUBJECT: FY2023 U.S. Transportation Command Top Management Challenges

1. In response to the Department of Defense (DOD) Inspector General's (IG) call for input to inform DOD's FY2023 Top Management Challenges, U.S. Transportation Command (USTRANSCOM) has identified its top challenges and associated friction points. We appreciate the opportunity to provide input, which may leverage future interagency audits and evaluations that can help USTRANSCOM mitigate and resolve these challenges.

2. FY2023 Top DOD Management Challenges Applicable to USTRANSCOM:

a. **Challenge: Maintaining "Fight Tonight" Readiness to Counter Great Power Competition.** The Interim National Security Strategy Guidance describes a global security landscape at an "inflection point" of shifting power dynamics and global crises. This complex new security environment will test the future readiness of the Joint Deployment and Distribution Enterprise (JDDE), and challenge USTRANSCOM's ability to deliver a decisive force for high-end conflict when needed. Mobility recapitalization efforts are essential to maintain the DOD's readiness and preserve strategic decision space. Sealift and Air Refueling recapitalization are two areas of particular concern to our ability to operate in a future contested logistics environment.

During times of war, 90% of our military cargo is transported by sealift vessels. The organic surge sealift fleet rapidly is approaching end of service life, and unpredictable future funding has the potential to impede recapitalization efforts. By 2032, over 30 of 50 Government-owned surge sealift ships will approach the end of their service life and must be replaced. USTRANSCOM, along with DOD, DOT, and U.S. Navy, have made initial progress in executing the strategy to recapitalize the fleet. Specifically, the Military Sealift Command's (MSC) Vessel Acquisition Manager (VAM) recently acquired the first two used Roll On/Roll Off (RO/RO) ships, which will be retrofitted to make them compatible with DOD missions. The VAM is also surveying two additional ships authorized for purchase in FY22. Without continued Congressional support for both funding and authorities, existing vessel service life will need to be extended, which is not an effective means to maintain readiness.

The air refueling fleet remains our most stressed fleet under wartime conditions. It is critical to rapid global mobility and is essential to the Joint Force's ability to deploy and employ the immediate and surge forces across all National Defense Strategy (NDS) mission areas. The current air refueling fleet is comprised of the KC-135 and KC-10 aircraft, and the new KC-46. When the

last KC-46 is purchased, the average age of the KC-135s will be 67 years. Continued support of KC-135 recapitalization efforts is essential to meet future wartime demands. USTRANSCOM continues to work with the U.S. Air Force (USAF), Office of the Secretary of Defense (OSD), Joint Staff and other Combatant Commands to ensure sufficient capacity to meet global demands during wartime at acceptable levels of risk as well as implement potential mitigation options as required. USTRANSCOM assesses the air refueling fleet is postured to meet expected future daily global demand using a combination of KC-46s, with some interim restrictions, along with existing KC-135s and KC-10s.

b. **Challenge: Enhancing DOD Cyberspace Operations and Capabilities**. Today, capable malign actors pose a real and persistent threat across our networks. Global command, control, and integration is central to USTRANSCOM's ability to align scarce mobility resources with the highest strategic priorities, and rests on the connectivity of these global networks. USTRANSCOM's ability to command and control mobility forces is enabled by a portfolio of information technology (IT) systems and is contingent on secure networks and continuous digital modernization efforts.

Our competitors actively are leveraging the cyber domain to achieve their national objectives and seek to degrade and deny our ability to project and sustain military forces at a time and place of our Nation's choosing. Cyber resiliency and digital transformation initiatives will remain a top priority for the Command. We continue to modernize our IT systems by not only taking advantage of cloud computing services but also through advancing our ability to manage data as a strategic asset to advance decision making at all levels. We also continue to increase our cyber hygiene and harden our cyberspace terrain to impose costs on an adversary's ability to compromise our networks and systems. As adversaries advance their capabilities, passive cyber measures alone are not enough. We are also improving our ability to operate within our terrain and identify signs of compromise or unusual activity. In addition, in partnership with U.S. Cyber Command, we are implementing Zero Trust security model principles on our classified network to underpin defenses from increasingly capable adversaries.

We are and will remain inextricably linked to our commercial industry partners. As such, we continue to work with our transportation providers to assist in mitigating their cyber vulnerabilities. We are now in the fourth year of facilitating annual cybersecurity self-assessments of National Institute of Standards and Technology (NIST) security controls. We continue to see compliance improve each year, highlighting our partners' appreciation of the importance of implementing sound cybersecurity practices. Proof-of-principle initiatives are underway for third-party contract assessments of commercial partner compliance with NIST security controls. We have also increased information sharing and collaboration initiatives with our commercial partners, coupled with special projects to link providers with defense intelligence agencies to further mitigate cyber security risks.

c. **Challenge: Empowering a Competitive and Resilient Warfighting Team.** People are our most valuable resource and are the difference between victory and defeat. Leaders must prioritize investing in our People to build and hone the critical skills required to compete and win. A competitive and resilient team thrives on challenge, is determined, and focused on improvement to contribute to the effective defense of the Nation. Investing in our People includes fostering an environment in which all are treated with dignity and respect, and in which

resilience is strengthened by demonstrating we value our Families and the personal well being of all. One of our key strengths is the diversity of our team. To this end, USTRANSCOM established the Inclusion and Diversity council to stay actively engaged in fortifying, building, and sustaining an inclusive and diverse environment for the entire workforce that reinforces equal opportunity, strengthens our ability to foster unit cohesiveness, and promotes winning teams, while enhancing our warfighting readiness and mission accomplishment. USTRANSCOM underwrites the lethality of the Joint Force, advancing American interests around the globe, and providing our Nation's leaders with strategic flexibility while creating multiple dilemmas for our adversaries. Evolving, adapting, and modernizing the DOD mobility enterprise is essential to maintaining favorable global posture, transportation capacity, and the ability to command and control global mobility operations to defend our nation, deter our adversaries, reassure our partners and allies, and help diplomacy proceed from a position of strength.

3. The points of contact in this matter are Mr. David Frazier, TCIG, 618-220-5996, or email: (unclassified) transcom.scott.tcig.mbx.inspector-general@mail.mil, and LTC Matt Hunter, TCCC-X, 618-220-5849, or email: (unclassified) matthew.j.hunter.mil@mail.mil.

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VINCENT B. BARKER
Major General, U.S. Army
Chief of Staff

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Payment Integrity Information Act Reporting

In accordance with the Payment Integrity Information Act of 2019 (P. L. 116-117, codified as 31 U.S.C. § 3352), and Appendix B of the OMB Bulletin No. 22-01, "Audit Requirements for Federal Financial Statements," dated August 26, 2022, DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD AFR. Additional reports can be found on the Payment Accuracy website in the Annual Improper Payments Datasets. For detailed reporting on DoD payment integrity, refer to the Other Information section of the consolidated FY 2022 DoD AFR.

Climate-Related Financial Risk

Climate change is reshaping the geostrategic, operational, and tactical environments with significant implications for U.S. national security and defense[24]. USTRANSCOM, as part of the DoD, is aware of the increasing temperatures, changing precipitation pattern, and unpredictable extreme weather conditions caused by climate change. To keep the Nation secure, we must tackle the existential threat of climate change. The risk of climate change and the global efforts to address the risk will influence USTRANSCOM's strategies, missions, and priorities. USTRANSCOM is working toward a plan to assess, prevent, mitigate, and respond to defense and security risks associated with climate change.

[24] Department of Defense Climate Risk Analysis

Abbreviations & Acronyms

ADA	Anti-Deficiency Act
AFR	Agency Financial Report
AMC	Air Mobility Command
AOB	Annual Operating Budget
AOR	Accumulated Operating Results
ARA	Airlift Readiness Account
ATARES	Air Transport and Air-to-Air Refueling and Other Exchanges of Services
CAP	Corrective Action Plan
CBY	Charge Back Year
CCDR	Combatant Commander
CCMD	Combatant Command
CFO Act	Chief Financial Officers Act of 1990
Charge Card Act	Government Charge Card Abuse Prevention Act of 2012
CIP	Construction-in-Progress
CMD	Command
COINS	Commercial Operations Integrated System
COLA	Cost of Living Adjustment
COTS	Commercial off-the-Shelf
CPI-M	Consumer Price Index Medical
CRADA	Cooperative Research and Development Agreement
CRAF	Civil Reserve Air Fleet
DATA Act	Digital Accountability and Transparency Act of 2014
DCBS	Distribution Component Billing System
DCD	Defense Courier Division

DCIA	Debt Collection Improvement Act of 1996
DDRS	Defense Departmental Reporting System
DEAMS	Defense Enterprise Accounting Management System
DFAS	Defense Finance and Accounting Service
DoD	Department of Defense
DOL	Department of Labor
DoS	Department of State
DWCF	Defense Working Capital Fund
EBS	Enterprise Business Suite
ELC	Entity Level Controls
ERP	Enterprise Resource Planning
FASAB	Federal Accounting Standards Advisory Board
FBwT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act of 1996
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMR	Financial Management Regulation
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAFS-R	General Accounting and Finance System - Reengineered

GAO	Government Accountability Office
GATES	Global Air Transportation Execution System
GBFMD	Global Bulk Fuel Management and Delivery
GDSS	Global Decision Support System
GE	General Equipment
GIBP	Globally Integrated Base Plans
GMP	Global Mobility Posture
GMRA	Government Management Reform Act of 1994
GPP&E	General Property Plant and Equipment
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
IT	Information Technology
ITR	International Tariff Rate
IUS	Internal Use Software
JDDE	Joint Deployment and Distribution Enterprise
JECC	Joint Enabling Capabilities Command
JPE	Joint Petroleum Enterprise
JTMS	Joint Transportation Management System
JTRU	Joint Transportation Reserve Unit
JV	Journal Voucher
LOE	Lines of Effort
MRF	Military Retirement Fund

MSC	Military Sealift Command
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NFR	Notice of Findings and Recommendations
NIST	National Institute of Standards and Technology
NOR	Net Operating Result
O&M	Operations and Maintenance
OAR	Operation Allies Refuges
OMB	Office of Management & Budget
OPM	Office of Personnel Management
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
P. L.	Public Law
PPA	Prompt Payment Act
Q	Quarter
RA	Risk Assessment
RAIL	Rapidly Available Interface for trans-Loading
RMIC	Risk Management Internal Control
SDDC	Military Surface Deployment & Distribution Command
SFFAS	Statement of Federal Financial Accounting Standards
SIV	Special Immigrant Visas
S/L	Straight-Line
SOA	Statement of Assurance
SOC 1	System and Organization Controls
TAFS	Treasury Appropriation Fund Symbol
TCC	Transportation Component Commands
TFM	Treasury Financial Manual

TFMS	Transportation Financial Management System
TI	Treasury Index
TNC Yield Curve	Yield Curve for Treasury Nominal Coupon Issues
TWCF	Transportation Working Capital Fund
U.S.C.	United States Code
UCP	Unified Command Plan
USACE	U.S. Army Corps of Engineers
USAFRICOM	U.S. Africa Command
USCENTCOM	U.S. Central Command
USCYBERCOM	U.S. Cyber Command
USEUCOM	U.S. European Command

USINDOPACOM	U.S. Indo-Pacific Command
USNORTHCOM	U.S. Northern Command
USSGL	U.S. Standard General Ledger
USSOCOM	U.S. Special Operations Command
USSOUTHCOM	U.S. Southern Command
USSPACECOM	U.S. Space Command
USSTRATCOM	U.S. Strategic Command
USTRANSCOM	U.S. Transportation Command
WCF	Working Capital Fund

EMPOWER A COMPETITIVE AND RESILIENT WARFIGHTING TEAM

#TogetherWeDeliver