Transportation Working Capital Fund

AGENCY FINANCIAL REPORT

Fiscal Year 2020

About the Agency Financial Report

The United States Transportation Command (USTRANSCOM) Agency Financial Report (AFR) provides financial and summary performance results enabling the President, Congress, and the American people to assess its accomplishments, and to understand its financial results and operational functions. The financial statements have been prepared from the books and records of USTRANSCOM in accordance with, and to the extent possible, 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 uses the reporting requirements of the following:

- Chief Financial Officers Act of 1990 (Public Law (P.L.) 101-576, codified as 31 U.S.C. §501 note) (CFO Act) as amended by the Government Management Reform Act of 1994 (P.L. 103-356, codified as 31 U.S.C. §3301 note) (GMRA);
- DoD 7000.14R DoD FMR Volume 6B;
- Office of the Under Secretary of Defense (Comptroller) ((OUSD(C)) Memo, Fiscal Year (FY) 2020 DoD Reporting Entities;
- OMB Circular A-136, Financial Reporting Requirements;
- OMB Bulletin 19-03, 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 and Analysis

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

Financial Section

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

Other Information

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

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Message from the Commander

On behalf of the United States Transportation Command (USTRANSCOM), I present the Fiscal Year (FY) 2020 USTRANSCOM Transportation Working Capital Fund (TWCF) Agency Financial Report (AFR). This report provides an overview of our mission and organization, challenges, and management's accountability for the resources entrusted to us by the American public. USTRANSCOM exists as a warfighting Combatant Command to project and sustain military power. Our mission is to conduct globally integrated mobility operations, lead the broader Joint Deployment and Distribution Enterprise (JDDE), and provide enabling capabilities in order to project and sustain the Joint Force in support of national objectives. This AFR reflects the ongoing efforts of our dedicated men and women across USTRANSCOM working to achieve our mission.

In FY 2020, USTRANSCOM underwent our third financial statement audit for the TWCF. As expected for an organization of our size and complexity, we received a disclaimer of opinion. Our auditors reported deficiencies in key areas involving controls over information technology, financial reporting, transactional controls, budgetary controls, and completeness of transactional-level populations. I am pleased to announce that USTRANSCOM has made significant strides in developing remediation efforts, processes to improve internal controls, and reduce 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 the operating results of USTRANSCOM's complex mission. Cost-effective remediation efforts are being designed and implemented with a focus on ensuring lasting transparency and accuracy. We continue to develop solutions to enhance operations and accounting accuracy by working with our Component Commands to improve and standardize data and business processes enterprise wide. All of these measures will drive efficiencies to increase speed, value, and support of the warfighter.

The success of the Joint Force in the past does not guarantee success in the future. USTRANSCOM will continue to evolve to ensure the U.S. military retains a comparative advantage. We continually reevaluate our role as the leader of the JDDE by looking at end-to-end logistics to improve warfighting outcomes for the Joint Force. We encourage a culture of innovation throughout our workforce to ensure the JDDE remains both effective and efficient. Throughout all of our initiatives, our number one priority is and will always remain warfighting readiness.

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

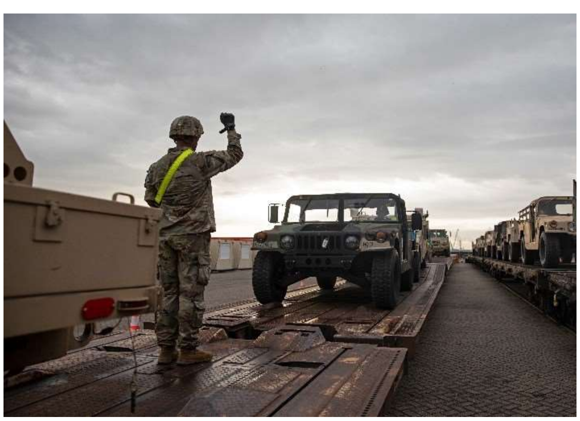
MANAGEMENT'S DISCUSSION & ANALYSIS

Mission and Organization Structure

USTRANSCOM is one of 11 warfighting Combatant Commands (CCMD) in the DoD. Our ability to deliver and sustain combat power anywhere in the world underpins the lethality of the Joint Force, a force composed of elements, assigned or attached, of two or more Military Departments operating under a single joint force commander. USTRANSCOM's purpose is to project and sustain military power at a time and place of our choosing in support of the National Defense Strategy (NDS). Powered by dedicated men and women, we underwrite the lethality of the Joint Force, we advance American interests around the globe, and we provide our Nation's leaders with strategic flexibility to select from multiple options while creating multiple dilemmas for our adversaries. We do this by balancing strategic mobility requirements for the Secretary of Defense and executing the Unified Command Plan (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 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. Code 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 UCP, signed by the President pursuant to his authority as Commander in Chief, establishes the missions, responsibilities and, where appropriate, the geographic areas of responsibility for commanders of CCMDs. The UCP requires the Commander, USTRANSCOM, to maintain a mission-capable and efficient headquarters staff that can:

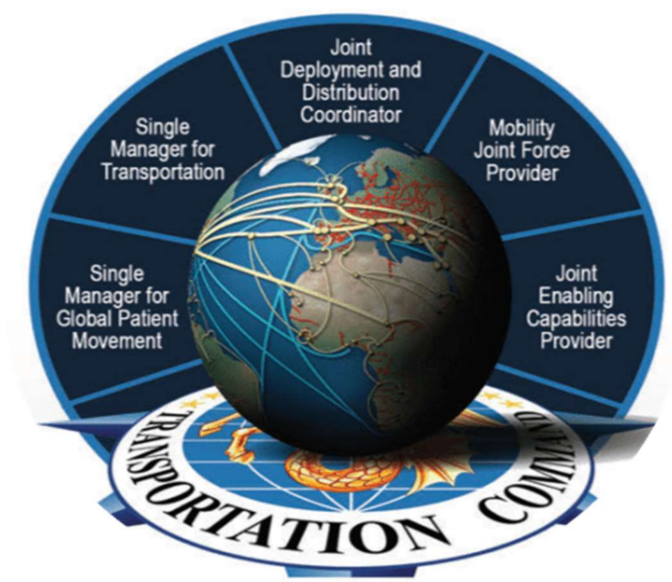


- Carry out assigned missions and tasks; plan for and execute military operations, as directed;
- Assign tasks to, and direct the coordination of, subordinate commands to ensure unified action;
- Provide readiness requirements oversight of assigned military, ensuring a joint task force-capable headquarters;

- Provide joint capable forces to other CCMDs, as directed;
- Plan, conduct, and assess security cooperation activities in support of the geographic combatant commander's security cooperation strategies; and
- Support the geographic Combatant Commanders in the planning and execution of military support to stability operations, humanitarian assistance, and disaster relief, as directed.

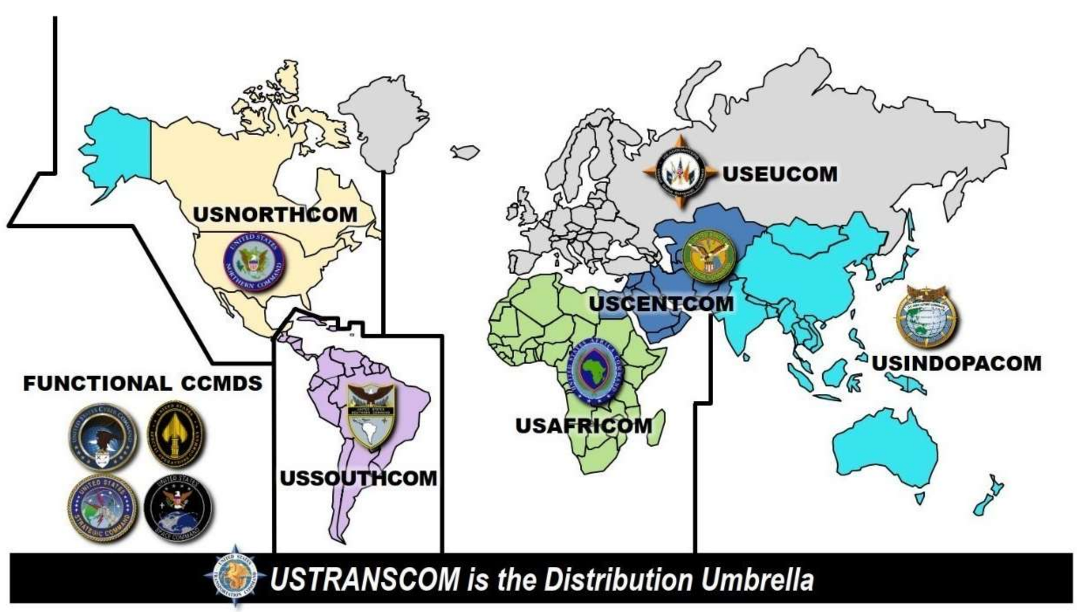
With global responsibilities and capabilities that transcend air, land, and sea, USTRANSCOM is uniquely postured to fulfill five specific responsibilities within the 2017 UCP:

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



Components, Subordinates & Activities

Responding to the needs of the DoD's warfighting commanders is USTRANSCOM's No. 1 priority. USTRANSCOM skillfully coordinates missions worldwide using both military and commercial transportation resources through the other 10 CCMDs: U.S. Northern Command, U.S. Central Command, U.S. Southern Command, U.S. Indo-Pacific Command, U.S. European Command (EUCOM), U.S. Africa Command, U.S. Special Operations Command, U.S. Strategic Command, U.S. Cyber Command (USCYBERCOM), and U.S. Space Command.



USTRANSCOM executes missions and global responsibilities through component commands, subordinate commands, and a courier division. Like all CCMDs, USTRANSCOM constitutes a headquarters element without any military units permanently assigned to it. USTRANSCOM operates with Service Component Commands – one for each of the following U.S. Armed Services: U.S. Army's Military Surface Deployment and Distribution Command (SDDC), U.S. Navy's Military Sealift Command (MSC), and the U.S. Air Force's Air Mobility Command (AMC). The Service Component Commands are assigned to the USTRANSCOM Commander to accomplish its UCP mission, most of which is funded by the Transportation Working Capital Fund (TWCF). In this support role, the Service Component Commands are part of the TWCF. The Service Component Commands are funded by the TWCF for their costs associated with the performance of TWCF missions. However, the Service Component Commands also execute non-TWCF missions for its Service. The funds the Service Component Commands operate with, for the TWCF mission, come from the revenue generated by the TWCF when intragovernmental and public customers are billed for transportation services rendered in accordance with published rates.

The Subordinate Commands, Joint Transportation Reserve Unit (JTRU) and Joint Enabling Capabilities Command (JECC), differ because they do not report to both a military department and USTRANSCOM; they report directly to the USTRANSCOM Commander. The Subordinate Commands, however, are not used for TWCF missions, and are therefore not funded with TWCF dollars, and as such, are not included in the TWCF financial statements. The JECC is funded by appropriated operations and maintenance funds and currently is reported on the Air Force financial statements. The JTRU is made up of individual reserve elements from the Army, Navy, Air Force, and Coast Guard and each reserve element funds their own members. USTRANSCOM also has a strong connection with commercial industry partners because they provide important augmentation in 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 is a unique Army command that delivers world-class, origin-to-destination distribution solutions. Whenever and wherever Soldiers, Sailors, Airmen, Marines and Coast Guardsmen are deployed, SDDC is involved in planning and executing the surface delivery of their equipment and supplies. SDDC manages all aspects of surface movement, from planning, booking and shipping, to tracking cargo and conducting port operations anywhere in the world. In addition, SDDC provides reliable cost-effective, global surface deployment and distribution transportation services in support of national defense objectives.

Military Sealift Command (MSC)

MSC is responsible for providing sealift and ocean transportation for all military services as well as for other government agencies. MSC is the premier provider of ocean transportation that operates approximately 125 civilian-crewed ships that replenish U.S. Navy ships, conduct specialized missions, strategically preposition combat cargo at sea around the world, and move military cargo and supplies used by deployed U.S. forces and coalition partners. MSC's mission is supported by providing essential logistics and service support to the warfighters around the globe. On any given day, USTRANSCOM has 30 of these 125 ships underway.

Air Mobility Command (AMC)

AMC's mission is to provide rapid, global air mobility and humanitarian sustainment for America's armed forces. AMC provides the capability to deploy U.S. armed forces anywhere in the world in a matter of hours and help sustain them in a conflict. AMC brings humanitarian supplies and assistance to those in need who may live in harsh locations. The men and women of AMC provide airlift and air refueling for all of America's armed forces. AMC also performs aeromedical evacuations, which has been important amid the COVID-19 pandemic.

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 to meet peace and wartime mobility requirements. Comprised of Air Force Reserve, Army Reserve, Coast Guard Reserve, Marine Reserve, and Navy Reserve personnel, JTRU members are organized, trained, and equipped to seamlessly execute USTRANSCOM's global distribution mission at a moment's notice.

Joint Enabling Capabilities Command (JECC)

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

Defense Courier Division (DCD)[1]

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 activities of 18 courier stations worldwide to service over 6,000 accounts. Each courier station is assigned responsibility for providing courier service to customers within a defined geographic region.

[1] 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

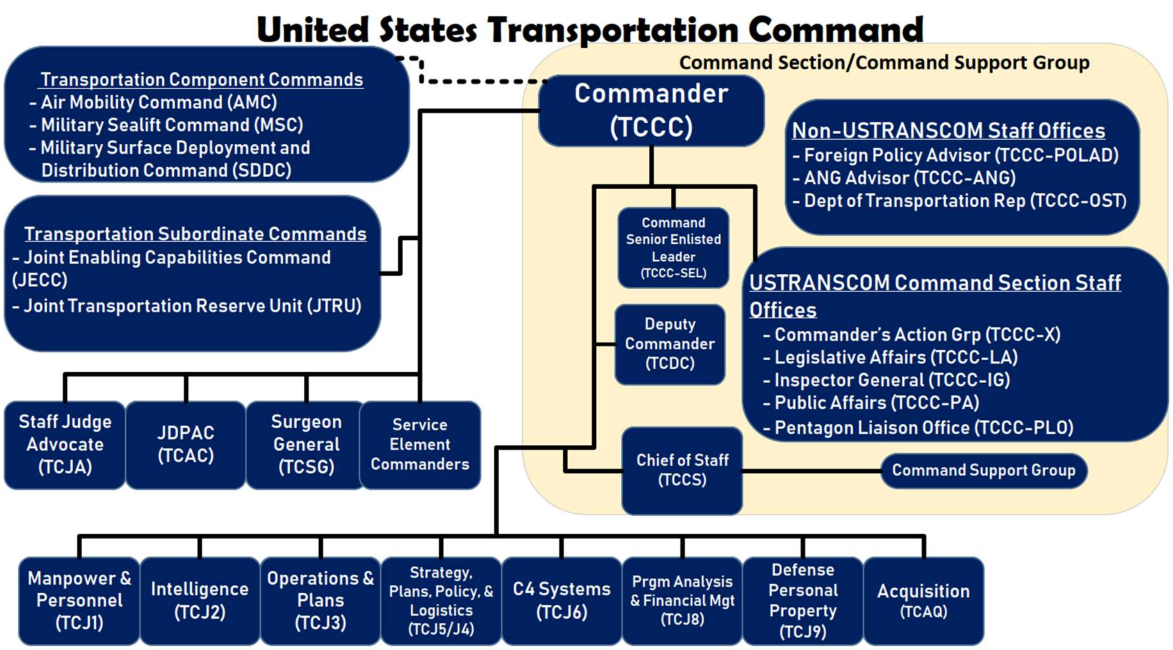

GEN Stephen R. Lyons
Commander


VADM Dee L. Mewbourne
Deputy Commander


MG Deborah L. Kotulich
Chief of Staff


CMSgt Jason L. France
Senior Enlisted Leader

Organization Chart



Purpose, Mission, Warfighting Framework & Priorities

Command Purpose: USTRANSCOM exists as a warfighting 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 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, global mobility capacity, and global command, control, and integration.

Command Priorities:

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

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

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

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

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

USTRANSCOM has guiding principles that establish the core value of who USTRANSCOM is as a command, and how the command will meet and succeed with the mission and priorities.[2] 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.
- **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, 24/7, 365.

[2] USTRANSCOM Strategic Principles December 2019 Final

Analysis of 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 in the necessary scale to be immediate, lethal and decisive. Operating around the globe and around the clock, our ability to project military forces is a distinct advantage unmatched by any nation which assures allies and adversaries alike that we are prepared to respond and win.

On any given day, USTRANSCOM has:

- 110 railcars loading / en route / off-loading DoD equipment
- 30 ships underway
- 1,500 trucks delivering cargo
- 1,636 household goods movements
- 187 operational airlift sorties
- 37 operational air refueling sorties
- 18 patients being air evacuated under expert medical care
- 46 couriers en route
- Aircraft taking off or landing every 2.9 minutes

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

COVID-19

During the FY 2020 COVID-19 outbreak, USTRANSCOM's priorities mirrored those of the Secretary of Defense: (1) take all appropriate measures to protect the Force in accordance with the latest COVID-19 guidance; (2) remain combat ready to defend our national interests; and (3) support Federal Emergency Management Agency (FEMA) and the broader whole of government COVID-19 relief efforts. During the initial stages of the COVID-19 global pandemic, USTRANSCOM also supported the State Department by repatriating U.S. citizens from overseas. The men and women of USTRANSCOM remained a cohesive, highly trained team while adhering to the clear guidance from our public health experts to take all actions to combat the spread of the virus. USTRANSCOM delivered supplies, such as virus testing kits, deployed medical personnel and field hospitals to the hardest hit areas of our country, and built transportable isolation units.

The movement of highly contagious patients also presented a new challenge for USTRANSCOM to overcome. The Negatively Pressurized CONEX (NPC) is a high-capacity infectious disease containment unit designed to minimize risk to aircrew, medical attendants, and the airframe, while allowing medical care to be provided to patients in-flight. NPC allows medical personnel to use all medical supplies and equipment carried by Aeromedical Evacuation crews and Critical Care Air Transport Teams.

In FY 2020, AMC aircrew and medical personnel conducted the first operational use of the NPC to perform an aeromedical evacuation of U.S. government contractors who tested positive for COVID-19 from Afghanistan to Ramstein Air Base, Germany. The execution of the mission, REACH 725, was prepared within 24 hours. This mission was an example of AMC's ability to quickly mobilize assistance during the global COVID-19 pandemic.

Readiness Reporting

USTRANSCOM is focused on improving operational readiness reporting and has made significant improvements when it comes to the accuracy of readiness reporting. Readiness is defined by the DoD as the capability of a unit/formation, ship, weapon system, or equipment to perform the missions or functions for which it is organized or designed. In 2017, the MSC Commander began focusing on readiness reporting accuracy and came up with a comprehensive readiness plan; however, there is still a lot of work to be done in this area.[3] Accurately reporting readiness is important because it gives a clear picture of whether or not we have the framework in place to be successful in conflict.

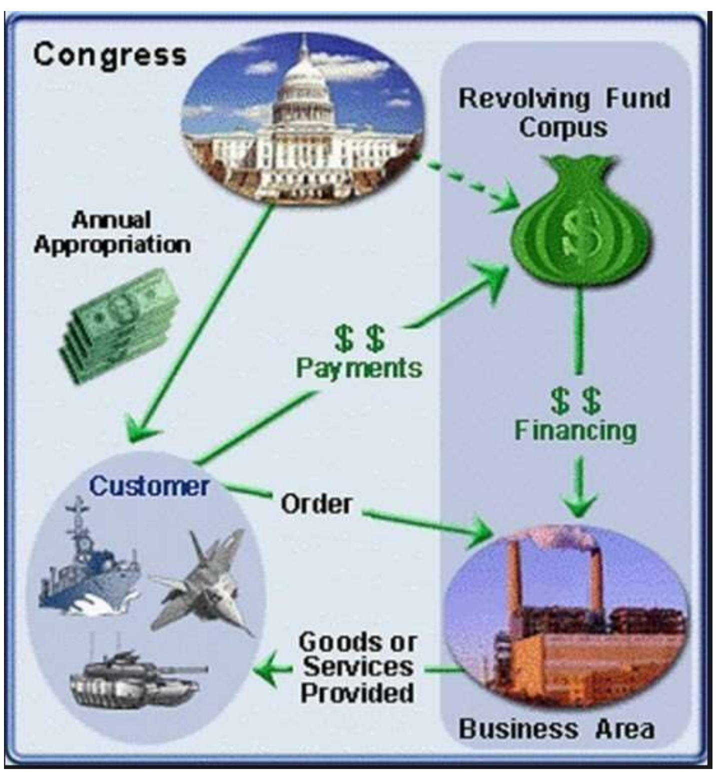
USTRANSCOM's Performance Goals, Objectives, and Results are not presented in accordance with OMB Circular A-136, Section II.2.3. USTRANSCOM has not disclosed how major program goals link to cost categories or to budgetary resources, or what procedures management has established to provide reasonable assurance that performance information is relevant and reliable.

[3] United States European Command and United States Transportation Command hearing with Senate Armed Services Committee (SASC), 25 February 2020. https://www.armed-services.senate.gov/hearings/20-02-25-united-states-european-command-and-united-states-transportation-command

Analysis of Financial Statements

The primary financial mechanism to accomplish the USTRANSCOM mission is the TWCF. Whether delivering combat power to Afghanistan and Syria or moving U.S. citizens stranded in foreign countries back to the U.S. in support of the State Department Repatriation Task Force during the COVID-19 outbreak, the TWCF enables USTRANSCOM to perform at the best value to the taxpayer. The TWCF is a working capital fund (WCF) for defense transportation which was established to provide full-spectrum global mobility solutions and related enabling capability for supported customers' requirements in peace and war. It models a customer-seller relationship between the provider (USTRANSCOM) and the customer (Military Services, geographic CCMD commanders, other government agencies, and based on other statutes, the public). Whether the TWCF is supporting overseas contingency operations or responding to humanitarian crises, the TWCF is an enabler that allows USTRANSCOM to adjust to changing operational environments.

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



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

Financial Statement Analysis

The accompanying financial statements and related disclosures represent USTRANSCOM's commitment to fiscal accountability and transparency. Through the DoD Financial Improvement and Audit Remediation (FIAR) plan and related business transformation initiatives undertaken in the last few years, the TWCF has made significant progress toward improving the quality and timeliness of financial information. However, for FY 2019 and FY 2020, USTRANSCOM's Independent Public Accountant (IPA) external auditor was unable to express an opinion on the TWCF financial statements.

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

Consolidated Balance Sheets

The Balance Sheets reflect the TWCF's financial position as of September 30, 2020, 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 2019 to FY 2020. See below for information on fluctuations. See Note 20 of the financial statements for information on restated FY 2019 balances.

Consolidated Balance Sheets
(dollars in thousands)

	Unaudited			
As of September 30	**FY 2020**	**FY 2019 Restated**	**Increase (Decrease)**	**% Change**
Assets	$ 2,206,742	$ 2,182,315	$ 24,427	1.1%
Liabilities	$ 966,555	$ 983,108	$ (16,553)	-1.7%
Net Position	$ 1,240,187	$ 1,199,207	$ 40,980	3.4%

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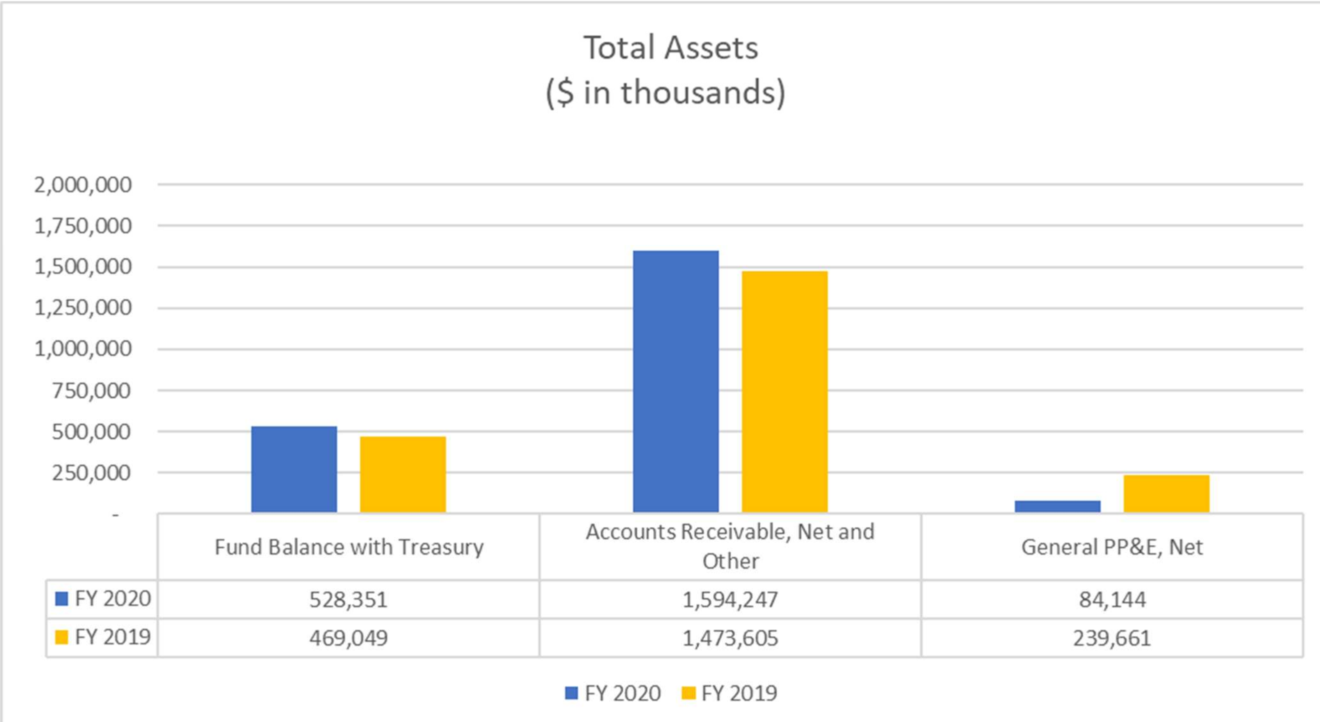
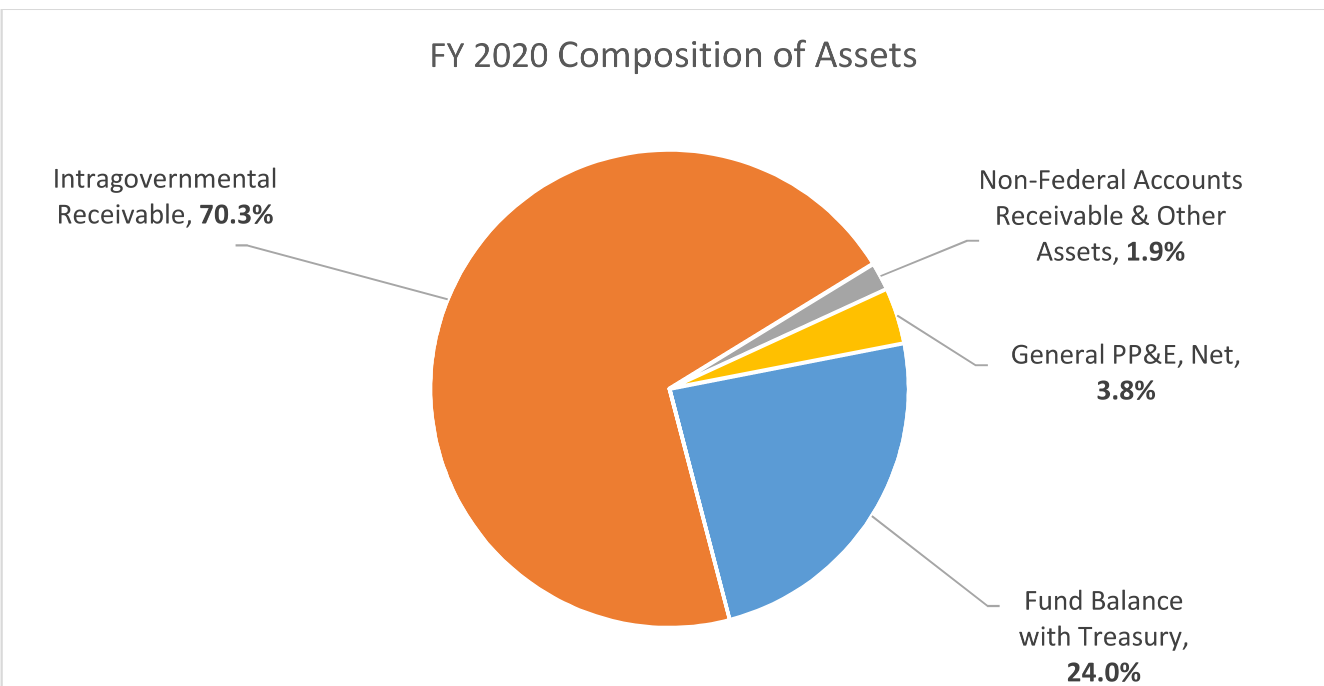
[4] Exchange revenue, per FASAB, is inflows of resources to a governmental entity that the entity has earned. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return.

Assets – What We Own and Manage

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



	Fund Balance with Treasury	Accounts Receivable, Net and Other	General PP&E, Net
FY 2020	528,351	1,594,247	84,144
FY 2019	469,049	1,473,605	239,661

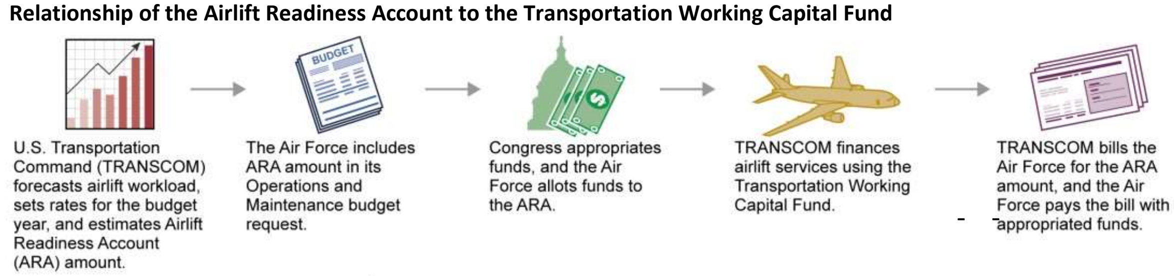


Accounts Receivable and Other Assets are the TWCF's largest asset and comprise 72.2% of the total assets. Accounts receivable represent amounts due to USTRANSCOM from other federal entities and the public. Of the total accounts receivable, 97.4% is due from federal entities and 2.6% is due from nonfederal entities. In FY 2020, USTRANSCOM reported nonfederal receivables of $40.9 million compared to FY 2019 of $25.4 million, representing a net increase of approximately $15.5 million or 61.3%. This is primarily driven by a $18.5 million increase at AMC due to an increase in airlift operations for nonfederal customers facing COVID-19 travel restrictions with commercial air carriers. This was partially offset by smaller decreases at SDDC and CMD of $1.6 million and $1.3 million, respectively.

Other assets, which includes assets such as employee pay advances and travel advances, increased from $729 thousand in FY 2019 to $959 thousand in FY 2020. The increase is primarily the result of an increase at AMC of permanent changes of station and temporary duty orders which increased in 4th quarter after easing of COVID-19 travel restrictions; and an increase at SDDC resulting from reconciling and correcting the posting of travel advances.

DoD working capital funds, 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.[5] However, the TWCF is authorized to establish airlift customer rates to be competitive with commercial air carriers. This results in some rates charged to customers that are below actual costs incurred by the TWCF. 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 every two years. 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. Due to mobilization requirements, the resulting revenue does not always cover the full costs of airlift operations provided through the TWCF. Below is an illustration of the relationship of the Airlift Readiness Account (ARA) to the TWCF.

Relationship of the Airlift Readiness Account to the Transportation Working Capital Fund



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

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[5] 10 U.S.C. § 2208

[6] Source: GAO-18-557

General Property, Plant, and Equipment (PP&E), Net comprises 3.8% of total assets. 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 for real property to the installation host and imputes costs for the use of real property assets as directed by the memo and in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 55, *Amending Inter-Entity Cost Provisions*. As a result of these transfers, as well as the FY 2020 internal use software (IUS) write-off of $66.8 million, PP&E decreased 64.9%, from $239.7 million in FY 2019 to $84.1 million in FY 2020. PP&E also includes IUS which includes purchased commercial off-the-shelf (COTS) software, contractor-developed software and internally developed software, as well as General Equipment (GE).

FBWT is maintained by the Department of the Treasury (U.S. Treasury) and comprises 24% of total assets. USTRANSCOM shares a U.S. Treasury Index (TI)-97 with Other Defense Organizations (ODOs) for U.S. Treasury reporting. In FY 2020, FBWT was $528.4 million; a net increase of 12.6% compared to FY 2019 FBWT of $469 million. This increase is attributable to increased collections across MSC, SDDC, and CMD; offset by a decrease at AMC. MSC FBWT increased $60.7 million, driven by collections of higher per diem rates in FY 2020 compared to FY 2019, unplanned reimbursables, lower fuel prices, and fewer port visits. SDDC FBWT increased by $131.6 million as a result of revenue reconciliations efforts, including those which triggered revenue billing events, and collection of previously accrued revenue. FWBT increased at CMD by $78.3 million due to general & administrative overhead cost increases reimbursed by the components, collection of specialized transportation and support services provided to non-TWCF funded customers, and an increase in defense personnel property system costs reimbursed by the military services. These increases were offset by a decrease of $209.5 million in AMC's FBWT balance due to AMC working in deficit and decreased operations tempo, meaning business has slowed, mainly due to COVID-19.

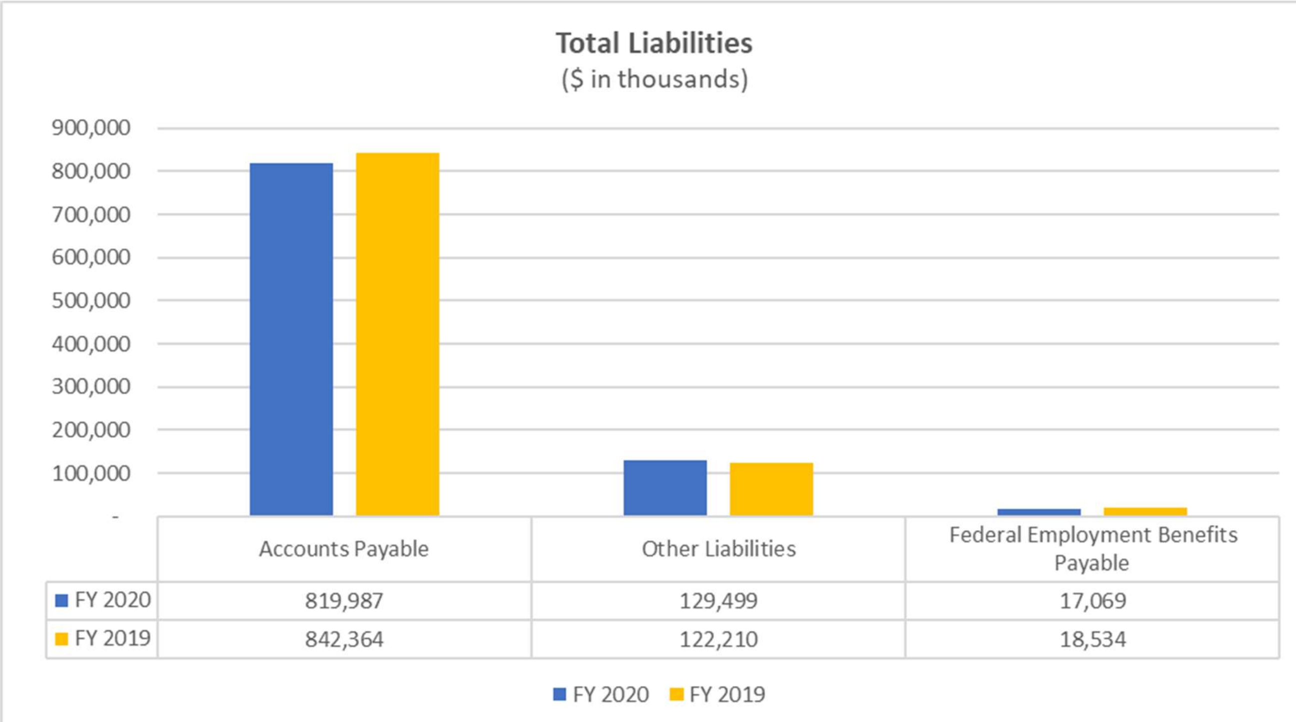
Management of FBWT

In determining required FBWT levels, USTRANSCOM calculates average disbursements and the expected range of volatility, known changes in the business environment, and unplanned events outside management's control. The current methodology for calculating FBWT requirements consists of four elemental components: rate of disbursement, range of operation, risk mitigation, and reserves. USTRANSCOM targets to maintain FBWT within operating ranges to ensure balances are sufficient for disbursements in support of the operating and capital programs, as required by the DoD FMR. At OUSD(C)'s instruction in July 2015, USTRANSCOM began using draft DoD FMR guidance as the updated cash policy. The TWCF FY 2020 lower target range was $618 million and the upper range goal was $1.3 billion.[7] As of September 30, 2020, FBWT was outside the target range.

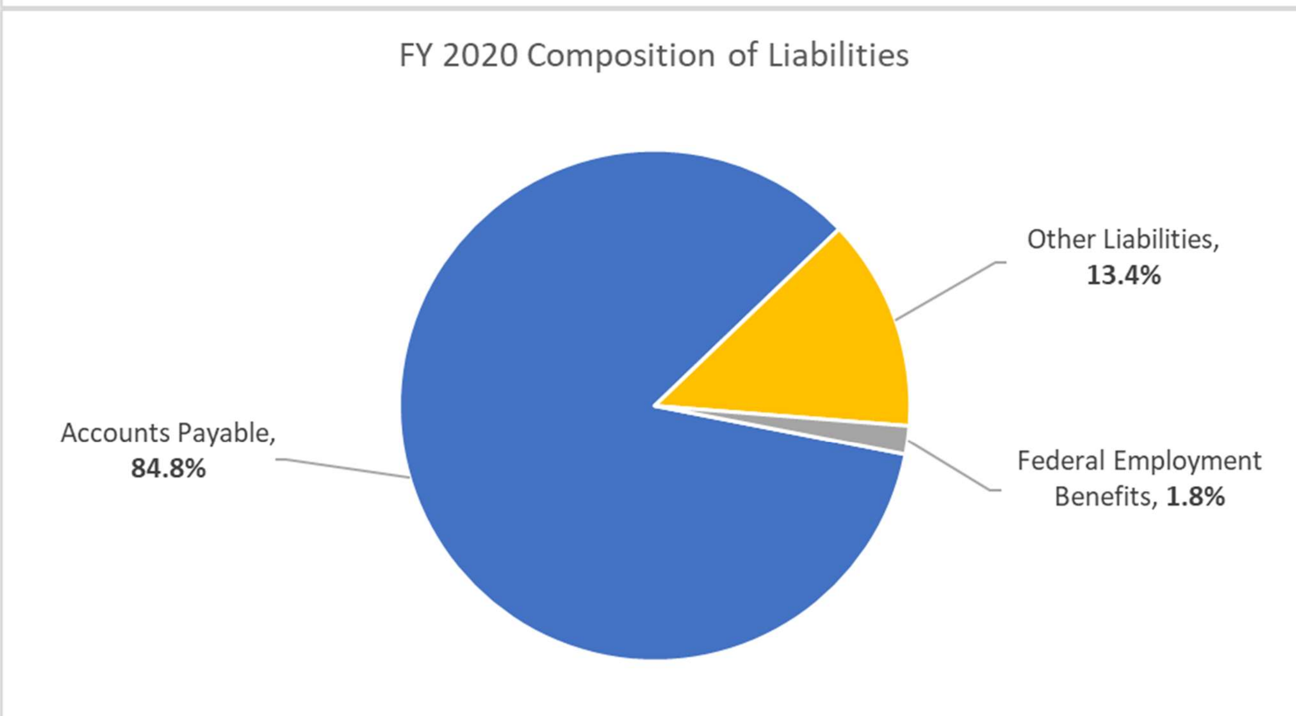
[7] Calculated in accordance with Draft DoD FMR guidance and submitted via Exhibit Fund 13b - Cash Requirements, to OUSD(C) for review and approval during the Program/Budget Review (PBR).

Liabilities – What We Owe

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



	Accounts Payable	Other Liabilities	Federal Employment Benefits Payable
FY 2020	819,987	129,499	17,069
FY 2019	842,364	122,210	18,534



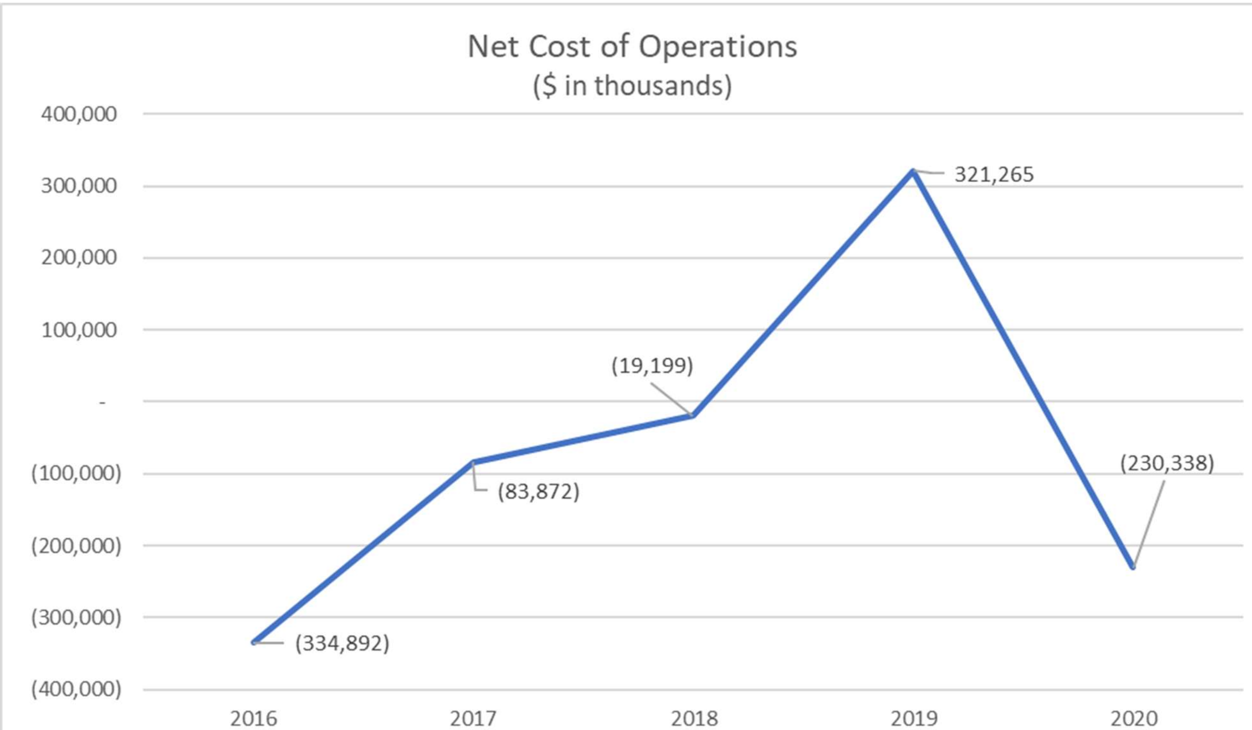
Accounts Payable is the TWCF's largest liability and comprises 84.8% of the total liabilities. Accounts payable include amounts owed to federal and nonfederal entities for goods and services received by USTRANSCOM. Of the total accounts payable, 91.7% is owed to nonfederal entities and 8.3% is owed to federal entities. In FY 2020, USTRANSCOM reported intragovernmental accounts payable of $68.2 million compared to FY 2019 of $94.9 million, representing a net decrease of approximately 28.2%. This decrease in intragovernmental accounts payable is attributed to a decrease in MSC, corresponding with lower expenses due to a decrease in fuel prices and under-execution of ship charters; and a decrease at AMC, the result of a decrease in operations tempo, mainly due to COVID-19

Other Liabilities comprise 13.4% of total liabilities. Other liabilities consist of items such as employer contributions and payroll taxes payable, accrued payroll and leave, contract holdbacks, advances and prepayments, and liabilities offsetting International Tariff Rate (ITR) receivables and collections. USTRANSCOM other liabilities increased a net 10.3%, or $7.2 million, from FY 2019 to FY 2020. This increase was due to a number of factors including AMC recording of a contingent liability for Air Transport and Air Refueling and Exchange of Services (ATARES) program credit issued to partner nations; and increase in accrued leave liabilities at AMC and CMD due to a reduction of leave taken in FY 2020 due to COVID-19; and an increase in AMC's ITR liability due to halt of redistributions.

Federal Employment Benefits comprises 1.8% of total liabilities. Federal employment benefits primarily consist of Federal Employees' Compensation Act (FECA) actuarial liabilities not due and payable during the current FY.

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 revenue earned from external sources for services provided to customers. The table below illustrates the change in net cost of operations year over year. A positive net cost of operations amount means that the TWCF 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 decreased $551.6 million or 171.7% as a result of the following:

- $324.4 million or 4.5% increase in earned revenue compared to prior year. This net increase was primarily a result of the following changes in earned revenue at the component level:
  - $267.2 million increase at MSC due to an increase in rates and unplanned cargo and surge orders;
  - $195 million increase at SDDC due to an average increase in rates of 17% per measurement ton; and
  - $129.3 million decrease at AMC because of the stop movement due to COVID-19.
- $227.2 million or 3% decrease in gross costs compared to prior year. This decrease was primarily a result of the following decreases in gross cost at the component level: $193.4 million at AMC and $61 million at SDDC mainly because of the stop movement and decreased workload due to COVID-19.

Consolidated Statements of Changes in Net Position

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

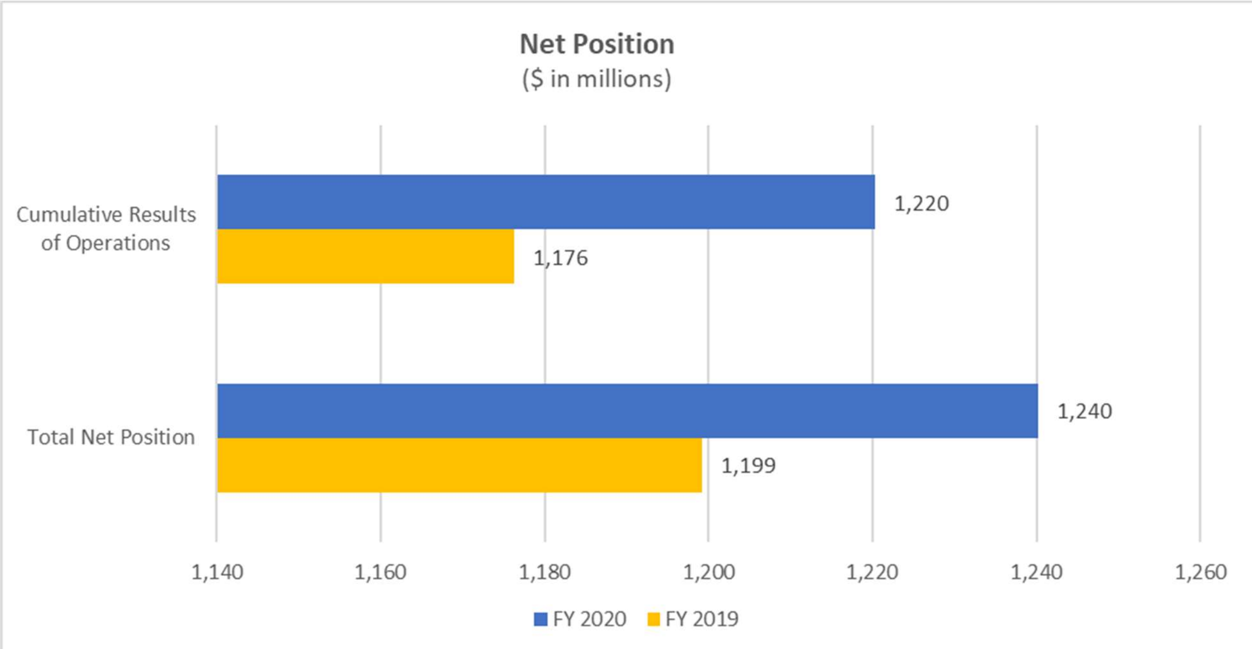
Consolidated Statements of Changes in Net Position

(dollars in thousands)	*Unaudited*			
Year Ended September 30	**FY 2020**	**FY 2019 Restated**	**Increase (Decrease)**	**% Change**
Beginning Balance	$ 1,176,273	$ 1,702,733	$ (526,460)	-31%
Changes in Accounting Principles (+/-)	(66,849)	(82,847)	15,998	-19%
Correction of Error (+/-)	(5,390)	(110,941)	105,551	-95%
Total Financing Sources	(114,060)	(11,407)	(102,653)	900%
Less: Net Cost of Operations	230,338	(321,265)	551,603	-172%
Cumulative Results of Operations	$ 1,220,312	$ 1,176,273	$ 44,039	4%

Cumulative results of operations increased by 4% compared to the prior FY, as a result of the following:

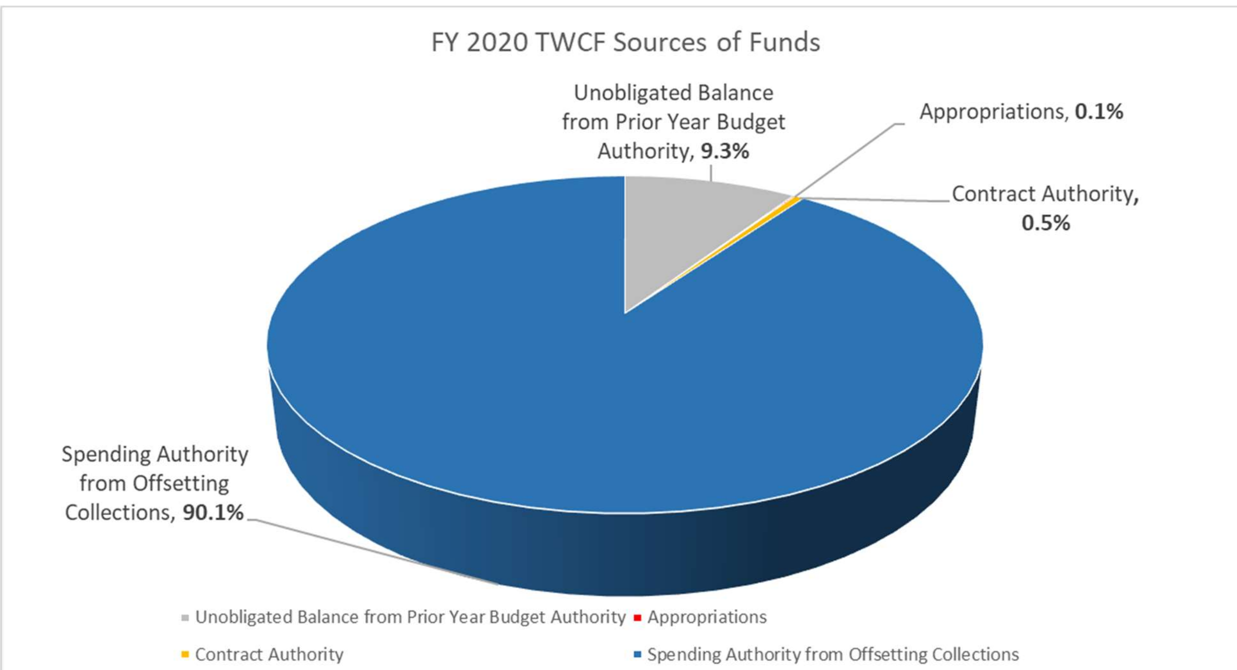
- $105.6 million or 95% decrease in prior period change in correction of error resulting from SDDC's reconciliation of the open purchase order sub-ledger to the General Ledger. SDDC identified posting errors related to the posting of Global Privately-Owned Vehicle (POV) Contract (GPC) invoices. Any invoices currently posting incorrectly will be corrected in the current year. See Note 20 in the financial statements for further information on the FY 2019 restatement;
- $2.8 million or 100% increase due a direct appropriation of FY 2020 CARES Act funding to purchase laptops to enable remote workforce during COVID-19 pandemic;
- $3.2 million or 120.8% increase in appropriations used due to execution of the $2.8 million in CARES Act funding and a slight increase in Fallen Heroes execution as compared to FY 2019;
- $16 million or 19.3% decrease in prior period change in accounting principles resulting from the FY 2020 IUS write-off;
- $285 thousand or 271.4% decrease in nonexchange revenue due to reversal and collection of a FY 2019 vendor debt and a decrease in interest, penalties, and fee revenue on public debt;
- $101 million or 325.3% increase in transfers-in/out without reimbursement due to transfers out of real property to the Air Force;
- $5.2 million or 30% decrease in imputed financing from costs absorbed by others, as a result of a decrease in Office of Personnel Management (OPM) employer & service rate factors for Federal Employees' Retirement System (FERS) imputed costs; and
- $557 thousand or 192.1% decrease in other adjustments partially due to a reversal collection of a FY 2019 vendor debt at SDDC.

The chart below shows USTRANSCOM's net position, as well as the largest component of USTRANSCOM's net position, cumulative results of operations, for FY 2019 and FY 2020.



Combined Statements of Budgetary Resources

The TWCF Statements of Budgetary Resources present the total budgetary resources available to USTRANSCOM for use in FY 2020, the status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. It is the only financial statement exclusively derived from the budgetary general ledger in accordance with budgetary accounting 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, through the OUSD(C).



The primary Statements of Budgetary Resources fluctuations between FY 2020 and FY 2019 were as follows:

- $28.7 million or 37% decrease due to the reduction in contract authority received on the Annual Operating Budget (AOB) from Office of the Secretary of Defense (OSD) for capital purchases in FY 2020 as compared to FY 2019;
- $805.8 million or 11.1% increase in spending authority from offsetting collections as a result of:
  - MSC increases in FY 2020 per diem rates and unplanned reimbursable funding received;
  - SDDC increase in rates of 17% per measurement ton coupled with revenue reconciliations performed to clear the exceptions and errors for the One Time Only Linear movements/ Cost Plus linear movements and other container movements missing rates. The revenue for prior years was already being accrued until the exceptions / errors were cleared. The FY 2020 reconciliations were performed to clear the exceptions and errors so that revenue could be billed;

    - Offset by AMC planned AOB decrease in reimbursable authority and a decrease in temporary operations due to COVID-19;
    - CMD had an increase in general & administrative overhead cost increases reimbursed by the components, collection of specialized transportation and support services provided to non-TWCF funded customers, and an increase in defense personnel property system costs reimbursed by the military services;
- $114 million or 198.2% decrease in net discretionary and mandatory outlays as a result of:
    - CMD general and administrative collections increase and increase of collections specialized transportation and support services and defense personnel property system;
    - MSC increases in FY 2020 collections due to an increase in rates, unplanned cargo and surge orders;
    - This was offset by a decrease in collections due to stop operations at SDDC and AMC; and
- $2.8 million increase in appropriations for FY 2020 CARES Act Funding received to purchase laptops to enable a remote workforce.

Stewardship Information

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

COVID-19

See Note 21 of the financial statements for information summarizing the financial impact of COVID-19 on USTRANSCOM.

Limitations of Financial Statements

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

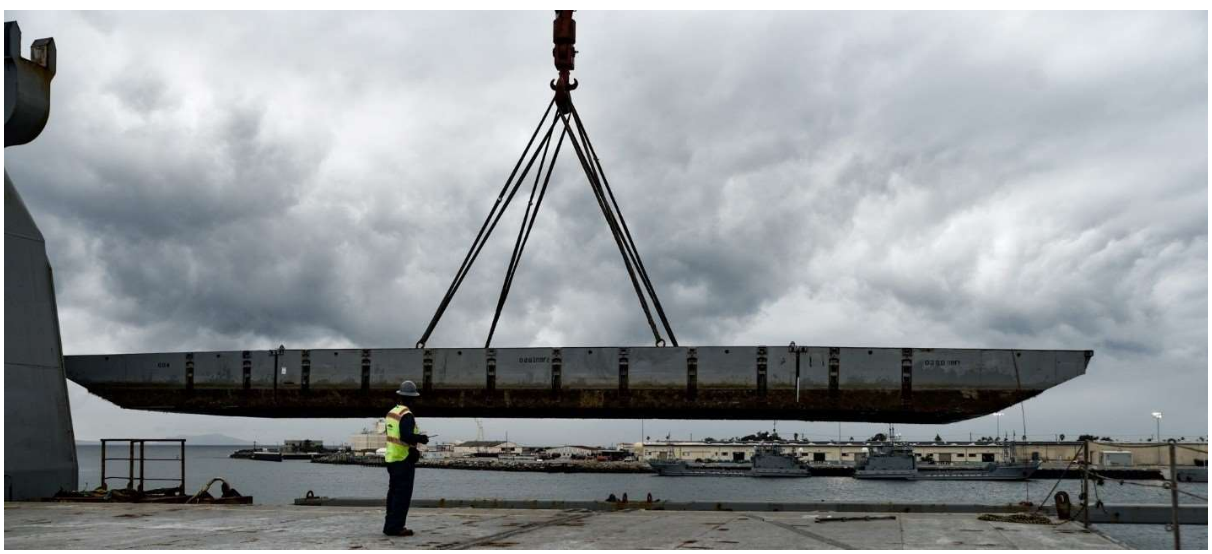
These financial statements have been prepared from the books and records of USTRANSCOM. The accompanying financial statements account for all resources for which the USTRANSCOM TWCF is responsible unless otherwise noted. The financial statements should be read with the realization that they are for a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

Audit Remediation

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

During FY 2020, USTRANSCOM improved its audit readiness and remediation program by increasing managerial ownership of corrective action plans (CAPs) and collaborating with the transportation component commands to combine similar notice of finding and recommendations (NFRs) so that they can be worked at an enterprise level rather than a component level. The audit management team has established procedures to monitor CAP execution by tracking and managing CAP progress from the inception of an NFR until the CAP is passed to remediation. In FY 2020, USTRANSCOM developed 232 CAPs to address 219 NFRs based on the FY 2019 and FY 2020 Audit. As of the date this report was finalized, USTRANSCOM has internally closed and validated 60 CAPs, addressing 58 of 219 (26.5%) NFRs received since the beginning of the TWCF Financial Statement Audit.

As expected, the IPA has issued the TWCF a disclaimer of opinion for FY 2020. USTRANSCOM will continue to work proactively and diligently with the components and Defense Finance and Accounting System (DFAS) to remediate issues pertaining to the remaining population NFRs and findings from sampling so USTRANSCOM can move into further detailed testing. To this end, USTRANSCOM will continue to strive for a clean audit opinion and make the necessary improvements to fully support its missions through better management of financial resources with timely, responsive, accurate, and reliable information.



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

2 October 2020

MEMORANDUM FOR THE SECRETARY OF DEFENSE

FROM: Deputy Commander, United States Transportation Command

SUBJECT: Annual Statement of Assurance for Fiscal Year (FY) 2020

1. As Deputy Commander of United States Transportation Command (USTRANSCOM) , I recognize that USTRANSCOM and the Transportation Component Commands (TCCs) are responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. We conducted our 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." Based on the overall results of the assessments performed, we can provide reasonable assurance, with the exception of five internally identified material weaknesses, reported in the "Significant Deficiencies and Material Weaknesses Template" that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2020.

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. The Summary of Management's Approach to Internal Control Evaluation attachment provides specific information on how USTRANSCOM and the TCCs conducted these assessments. Based on the overall results of the assessments, we can provide reasonable assurance, with the exception of one internally identified material weakness reported in the "Significant Deficiencies and Material Weaknesses Template" that internal controls over operations were operating effectively as of September 30, 2020.

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. The Summary of Management's Approach to Internal Control Evaluation attachment provides specific information on how USTRANSCOM and the TCCs conducted these assessments. Based on the overall results of the assessments, we can provide reasonable assurance, with the exception of three internally identified financial reporting material weaknesses reported in the "Significant Deficiencies and Material Weaknesses Template" that internal controls over financial reporting (including internal and external financial reporting) were operating effectively as of September 30, 2020.

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 FMFIA and OMB Circular No. A-123, Appendix D. The Summary of Management's Approach to Internal Control Evaluation attachment provides specific information on how

USTRANSCOM and the TCCs conducted these assessments. Based on the overall results of the assessments, we can provide reasonable assurance, with the exception of one internally identified non-conformance reported in the "Significant Deficiencies and Material Weaknesses Template" that internal controls over the financial systems are in compliance with the FMFIA, Section 4; FFMIA, Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2020.

5. USTRANSCOM conducted an assessment of 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 during FY19 and reviewed results with the auditor during FY20. Based on the results of the assessment, USTRANSCOM can provide reasonable assurance that entity-level controls, including fraud controls, are operating effectively as of September 30, 2020.

6. The point of contact in this matter is Ms. Sara Clary and can be reached at Commercial number (618) 229-3481/DSN 779 with any questions or concerns.

DEE L. MEWBOURNE
Vice Admiral, USN
Deputy Commander

As a component of the DoD, USTRANSCOM management is responsible for establishing, maintaining, and assessing internal controls to provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255, codified as 31 U.S.C. §65 note) (FMFIA), the Federal Financial Management Improvement Act of 1996 (P.L. 104-208, codified as 31 USC §3512 note) (FFMIA), as prescribed by the Government Accountability Office (GAO) Green Book, *Standards for Internal Control in the Federal Government*, and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* are met.

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

OMB Circular A-123 emphasizes the integration of risk management and internal controls within existing business practices across an agency. USTRANSCOM continues to implement improvements to internal controls to strive for compliance with all applicable laws and regulations.

Summary of Internal Control Assessment FY 2020

As a Component of DoD, USTRANSCOM is responsible for safeguarding the integrity of internal controls, as well as compliance with applicable laws and regulations. A significant element of managing risks and maintaining effective internal controls are adherence to the requirement of the FMFIA, and the FFMIA. USTRANSCOM measured risk and internal control in accordance with OMB Circular A-123, and the Green Book. Based on the assessment, USTRANSCOM can provide reasonable assurance, except for five internally identified material weaknesses, that internal controls over operations (ICO), reporting, and compliance were effectively functioning as of September 30, 2020.[8]

Internal Controls over Operations (ICO)
USTRANSCOM conducted its assessment of the effectiveness of ICO in accordance with applicable laws and regulations with the FMFIA and the OMB Circular A-123. Based on this assessment, USTRANSCOM can provide reasonable assurance, except for one internally identified material weakness reported in the annual Statement of Assurance (SOA), that ICO were operating effectively as of September 30, 2020. USTRANSCOM will continue addressing factors that are causing the material weakness with an increased focus on ways to enhance the improvements of ICO.

Internal Controls over Financial Reporting (ICOFR)
USTRANSCOM assessed the effectiveness of ICOFR, in accordance with FMFIA and OMB Circular A-123, Appendix A, *Internal Control over Financial Reporting*. Evaluations occurred at both the entity and component level, and conclusions on the status of internal control are included in the annual SOA at the consolidated level. Based on the results of the assessment, USTRANSCOM can provide reasonable assurance, with the exception of three internally identified material weaknesses reported in the annual SOA, that ICOFR were operating effectively as of September 30, 2020.

Internal Controls over Financial Systems (ICOFS)
USTRANSCOM conducted an internal assessment of the effectiveness of ICOFS in accordance with applicable laws, FFMIA and OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act*. Evaluations were performed on USTRANSCOM owned systems that were determined to be material to the USTRANSCOM Financial Statements and included in the annual SOA at the consolidated level. Based on the results of the assessment, USTRANSCOM can provide reasonable assurance, except for one internally identified non-conformance, that ICOFS are in compliance with FFMIA and OMB Circular A-123, Appendix D as of September 30, 2020.

Management's assessment of FFMIA compliance was completed prior to the results of the FY 2020 financial statement audit. Our auditors have indicated in the FY 2020 audit report that USTRANSCOM financial management systems lacked compliance with all three areas of FFMIA; 1) Federal financial management system requirements, 2) Applicable federal accounting standards, and 3) U.S. Standard General Ledger (USSGL) at the transaction level. USTRANSCOM is in the process of evaluating the FY 2020 audit findings contributing to noncompliance to continue remediation plans necessary to bring the financial management systems into substantial compliance.

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

Compliance with Laws and Regulations

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

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 or a part of that fund is apportioned, and obligations of the fund or part of that fund exceed the available amount of the apportionment.

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

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

The Pay & Allowance System for Civilian Employees codifies the statutory provisions concerning the pay and allowances afforded federal employees. USTRANSCOM is fully committed to complying with these provisions, periodically reviewing its compliance with them, and taking appropriate action to achieve compliance if and when any errors are identified.

Prompt Payment Act (P.L. 97-177, codified as 31 U.S.C. §1801 and amended by 31 U.S.C. §3901 note) (PPA)

The PPA ensures federal agencies pay vendors in a timely manner, 30 days after receipt of a proper invoice. Prompt Payment (5 Code of Federal Regulation [CFR] 1315), formerly OMB Circular A-125, *Prompt Payment*, requires USTRANSCOM to pay commercial obligations within certain periods and to pay interest penalties when payments are late. USTRANSCOM pays interest to vendors as required to ensure compliance with this statutory requirement.

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

The DCIA, updated April 30, 1999, and amended by the Digital Accountability and Transparency Act of 2014 (P.L. 113-101, codified as 31 U.S.C. § 6101 note) (DATA Act), is legislation that provides an opportunity for the federal government to move toward its goal of increased electronic commerce and improved FBWT and debt collection management. The 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 Treasury for appropriate action to collect or terminate collection actions on the debt or claim. Debt that is in litigation or foreclosure with a collection agency or a designated federal debt collection center, or that will be disposed of under an asset sales program, is exempt from transfer to the Secretary of the Treasury. USTRANSCOM follows applicable requirements for establishing and collecting validated public debts, ensuring compliance with Debt Collection statutes and regulations.

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

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 risk assessments of government charge card programs. USTRANSCOM, through implemented internal controls, is committed to continued compliance with all aspects of the public law.

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

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 (P.L. 104-208, codified as 31 USC §3512 note) (FFMIA)

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

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

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

The DATA Act expands the Federal Funding Accountability and Transparency Act of 2006 (P.L. 109-282, codified as 31 USC § 6101 note) (FFATA) to increase accountability and transparency in federal spending, making federal expenditure information more accessible to the public. It directs the federal government to use government-wide data standards for developing and publishing reports and to make more information, including award-related data, available on the USASpending.gov web site. The standards and web site allow stakeholders to track federal spending more effectively. Among other goals, the DATA Act aims to improve the quality of the information on USASpending.gov, as verified through regular audits of the posted data, and to streamline and simplify reporting requirements through clear data standards.

USTRANSCOM complies with DoD guidance on the DATA Act issued through the FY 2020 DoD Statement of Assurance Execution Handbook.

Federal Managers' Financial Integrity Act (P.L. 97-255, codified as 31 U.S.C. §65 note) (FMFIA)

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 (RCM) that define the implementation of internal controls 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 have integrity and comply with all applicable laws and regulations. Adherence to the requirements of the FFMIA and the FMFIA must be accounted for in the USTRANSCOM Financial Systems Framework. Currently, USTRANSCOM is in the process of implementing a strategy for identifying and prioritizing assessment of financial and mixed systems. USTRANSCOM relies on both 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 USTRANSCOM DCD and AMC. 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.

Defense Enterprise Accounting Management System (DEAMS) is a financial management system that uses COTS Enterprise Resource Planning (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 completed FY 2020 System and Organization Controls (SOC 1) Type 1 report in which they received an adverse opinion. USTRANSCOM will be meeting with the DEAMS Program Management Office on a regular basis to track all issues identified in the FY 2020 SOC 1 Report which led to an adverse opinion.

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, EBS. All major lines of business utilize TFMS to conduct their operations including the Ocean Liner, Port Operations, Traffic Management, and the GPC. 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.

MSC Financial Management System (MSC-FMS) is a fully integrated finance and accounting system that replaced non-compliant legacy systems in FY 2000. The new system is Joint Financial Management Improvement Program (JFMIP)-certified, meets and exceeds numerous Federal Financial Management System Requirements, and is CFO capable. This system is based on Oracle Federal Financials and includes a Federalized General Ledger utilizing the USSGL at the detailed transaction level, along with federalized modules for Accounts Receivable, Accounts Payable and Purchasing. In addition, Oracle commercial modules supporting project costing, project billing, inventory and fixed assets were implemented. Finally, for internal reporting and presentation of decision-making information, MSC developed a financial data mart. MSC will be migrating to Navy ERP, a Financial Management System owned by Navy, at the beginning of FY 2021, replacing MSC-FMS.

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

USTRANSCOM System	Feeds to Accounting System	Financial Information Type
Commercial Operations Integrated System (COINS)	DEAMS	Acquisition
Distribution Component Billing System (DCBS)	DEAMS	Billing
Global Air Transportation Execution System (GATES)	DCBS to DEAMS TFMS	Billing
Global Decision Support System (GDSS)	DCBS to DEAMS	Billing
Integrated Booking System (IBS)	TFMS	Acquisition
Standard Procurement System (SPS-TCAQ)	DEAMS	Acquisition

USTRANSCOM also relies heavily on service provider feeder systems. For service provider systems that have undergone a SOC 1 examination, USTRANSCOM obtains their SOC 1 reports. USTRANSCOM is in the process of implementing Complementary User Entity Controls (CUECs) identified in SOC 1 reports to address control objectives specified in management's description of the service provider system.

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. USTRANSCOM is leveraging industry best practices with an aggressive timeline for migrating data and applications to the cloud, 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. Transregional, multi-domain, multi-functional challenges to legacy logistics paradigms demand optimized employment of finite resources in the joint operating environment.

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

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

Global Mobility Capacity – Air Refueling & Sealift

Within the warfighting framework, global mobility capacity includes the transportation conveyances and platforms used to move troops, fuel, and equipment within global transportation networks; including rail, motor transport, sealift, air refueling, and airlift. With 85% of the Joint Force based in the Continental U.S. (CONUS), global mobility capacity is critical in projecting overwhelming military force at a time and place of our Nation's choosing. It is being assessed as adequate, but contains elevated and increasing risks, specifically, in our two highest priorities: Air Refueling and Strategic Sealift.

The Air Refueling Fleet is our most-stressed capability and number one readiness concern. It is the most stressed force element in the USTRANSCOM portfolio both for day-to-day operations as well as for high-end conflict operations due to the number of available aircraft and the demand for more crews. Delays in delivery of capable KC-46s, combined with reductions of KC-10s and KC-135s, create a deepening gap in taskable air refueling aircraft (mission-ready aircraft that can be tasked by AMC's 618th Air Operations

Center) and aircrews for the next five to seven years. The delay in the delivery of the KC-46 causes about a 30% reduction in output. The delay in the KC-46 aircraft is due to visual problems with the tanker's boom system that Boeing is working to fix. As the timeline to obtain taskable KC-46s continues to evolve, USTRANSCOM recommends re-evaluating air refueling force structure plans annually.

Strategic Sealift Fleet is our number two readiness concern. The sealift fleet is responsible for moving wartime cargo,[9] and sealift readiness rates have declined with a FY 2020 readiness average of 62%, compared against a goal of 85%. This decline is primarily due to vessel material, condition, and age. Starting in mid-2020, the sealift fleet will lose 1-2 million square feet of capacity each year as ships reach the end of their useful lives. There is currently a 19.2 million square feet roll-on roll-off requirement that USTRANSCOM is unable to meet today.[10] Twenty-nine ships will retire in the next 10 years, placing an unacceptable risk on the Joint Force, especially the Army, to deliver large-scale combat power over the ocean. To prevent this detrimental loss of capacity, the DoD needs to recapitalize the fleet with newer and more reliable vessels. USTRANSCOM supports the Navy's plan to acquire used vessels as the most valuable near-term solution.

DEFENDER-Europe 20

DEFENDER-Europe 20 was intended to exemplify how USTRANSCOM employs warfighting framework and addresses the contested environment described by the NDS to deliver national objectives by executing the largest projection of force to Europe in 25 years. The exercise, as originally planned, would have involved 20,000 troops and 1.6 million square feet of military cargo being transported from 26 CONUS origins through a diverse network of ports, moved across simulated contested waters under the watch of Second and Sixth Fleets, and arrived as a combat credible force in the EUCOM. DEFENDER-Europe 20 was going to be used as a powerful opportunity to deter potential adversaries, strengthen alliances and partnerships, and evaluate future contested environments.[11] However, due to the COVID-19 virus the exercise was canceled in March 2020 and all movement of personnel and equipment from the U.S. into Europe ceased in order to protect the health, safety, and readiness of our military, civilians, and family members.[12]

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[9] USTRANSCOM Posture Statement, page 6, 25 February 2020

[10] Subcommittees on Sea Power and Projection Forces and Readiness Joint Hearing: "Sealift and Mobility Requirements in Support of the National Defense Strategy," with USTRANSCOM and MARAD https://armedservices.house.gov/hearings?ID=473A150E-F552-4354-92C6-0B593E2F34FE

[11] Statement of General Stephen R. Lyons… On the State of the Command" (USTRANSCOM 2020 Posture Statement) pages 8-9, 25 February 2020

[12] "DEFENDER-Europe 20" U.S. Army Europe.

Defense Personal Property Management Office (DPMO)

On behalf of the DoD, USTRANSCOM established the DPMO to serve as the champion and advocate for DoD families in the relocation process, to integrate the operational, financial, contractual, policy, and IT aspects of the Defense Personal Property Program (DP3), and to drive personal property reform efforts across the DoD.

To accomplish this mission, our work is centered on four primary lines of effort: restructuring DoD's relationship with the moving and storage industry to improve quality capacity and accountability; evolving business rules and tools; reforming the DP3 management framework to enable rigorous oversight of industry operations and aligning responsibilities across the DoD; and informing and educating DP3 stakeholders.

Our vision is that the vast DP3 Program (which includes more than 300 Service-owned Processing and Shipping Offices around the globe) operates as an integrated, Department-wide program to generate the year-round quality capacity and accountability required to meet DoD's relocation needs.

Cyber Security

USTRANSCOM faces a unique set of cyber threats because of the command's extensive work with private sector entities in the transportation and shipping industries. Cyber security represents the vulnerability of greatest consequence to the command. We have spent a lot of time looking at resiliency and several other issues to harden our defenses against cyber security threats regarding our commercial carriers. To do this, we have included contract language in all our contracts with VISA, USC-8, and CRAF carriers to bring our commercial providers up to a basic level of minimum cyber hygiene and have self-reporting mechanisms in place. When confronted with an advanced persistent threat actor, we do not have confidence that our commercial providers can protect themselves, which is why we intentionally have multiple providers in each of the commodity areas so if we lose one we can count on others.

Transportation Management System (TMS)

USTRANSCOM, on behalf of the DoD, has conducted a 24-month prototype of a COTS TMS to determine if it is suitable for use by the DoD. The software performs transportation tasks such as selecting and booking commercial carriers, tracking shipments and convoys, and generating the required information to conduct payments. Currently, the DoD is using legacy IT systems that are customized and stove-piped, preventing end-to-end, in-transit visibility on unit moves. A TMS would link the many disparate systems in a common platform, provide end-to-end in-transit visibility, optimize the enterprise, and enable global synchronization of Secretary of Defense priorities.[13] Further, a TMS has the potential to close several auditability gaps in the transportation of things arena, including timely and accurate procure to pay and order to cash transaction posting, proof of delivery capture, and key supporting documentation generation. Based on the success of the prototyping effort, USTRANSCOM has initiated acquisition of a production TMS with a tentative contract award slated for early FY 2022.

Fuel

Fuel is required for everything the entire Joint Force does. Beginning in February 2020, USTRANSCOM began a study directed by Congress that assesses our ability to access sufficient U.S. flag fuel tankers to meet the most demanding wartime scenario for 2020, 2025, and 2030. The study will assist in determining gaps between wartime requirements, the U.S. flag tanker capacity to meet wartime requirements, the risk of reliance on foreign flag tankers, and propose mitigations to reduce risk.[14] The DoD needs a global innovative view of the end-to-end fuel supply chain to ensure sufficient resiliency to operate under a contested environment.[15]

[13] Command Winter Playbook 2019
[14] NDAA, Sec. 3519, Report on U.S. Flagged Tanker Fleet
[15] United States European Command and United States Transportation Command hearing with Senate Armed Services Committee (SASC), 25 February 2020." https://www.armed-services.senate.gov/hearings/20-02-25-united-states-european-command-and-united-states-transportation-command

NDAA Independent Review of TWCF

The NDAA for FY 2020, Section 1716, Independent Review of TWCF, requires the DoD to contract with a federally funded research center for the conduct of an independent review of the USTRANSCOM TWCF and to provide the report to Congress by March 1, 2021.[16] The review will include the following:

(1) The viability of the TWCF as it is structured.
(2) An assessment of any instances in which excess TWCF funds were used for procurement or modernization efforts that would not otherwise have been funded using amounts made available for operation and maintenance.
(3) Recommendations for how the TWCF could be restructured to make the fund more effective and efficient.
(4) Potential alternative funding mechanisms for certain components of the TWCF, including the channel system.
(5) Any other matters the Secretaries jointly determine appropriate.

[16] NDAA for FY 2020, P.L. 116-92, December 20, 2019

FINANCIAL INFORMATION

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

November 9, 2020

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 2020 and FY 2019 (Project No. D2020-D000FL-0056.000, Report No. DODIG-2021-017)

We contracted with the independent public accounting firm of Cotton & Company LLP (Cotton & Co) 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, 2020, and 2019. The contract required Cotton & Co to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the USTRANSCOM's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Cotton & Co to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018, Updated April 2020. Cotton & Co's Independent Auditor's Report is attached.

Cotton & Co's audit resulted in a disclaimer of opinion. Cotton & Co could not obtain sufficient, appropriate audit evidence to support the reported amounts within the USTRANSCOM TWCF Financial Statements. As a result, Cotton & Co could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, Cotton & Co did not express an opinion on the USTRANSCOM TWCF FY 2020 and FY 2019 Financial Statements and related notes.

Cotton & Co's report discusses five material weaknesses related to the USTRANSCOM's internal controls over financial reporting.[1] Specifically, Cotton & Co's report describes the following material weaknesses.

- USTRANSCOM was unable to provide transaction-level populations that agreed to the reported balances for certain general ledger accounts reported on the Balance Sheet. In addition, USTRANSCOM was unable to provide transaction-level populations for intra-USTRANSCOM activity that it recorded in its detailed financial records but eliminated in preparing its TWCF financial statements.

- USTRANSCOM provided inaccurate and incomplete populations for other general ledger accounts that comprised the Balance Sheet and Statement of Budgetary Resources. The inaccurate populations included certain populations that were not at the correct level of detail to support account balances, did not contain items with document identification numbers, and did not reconcile to a reported balance. In addition, the inaccurate populations contained data that may not have belonged in the recorded account balance.

- USTRANSCOM self-identified unsupported journal vouchers that were recorded in its financial systems. These journal vouchers primarily consisted of insufficiently supported balancing entries to prepare for eliminations in the DoD financial statements, budgetary-to-proprietary adjustments, internal-use software adjustments, and component-level general ledger system direct feed adjustments.

- USTRANSCOM was unable to provide supporting documentation for recorded amounts sampled from material opening balances and current-year activity.

- USTRANSCOM has not implemented Statement of Federal Financial Accounting Standards 47, "Reporting Entity," to help ensure the completeness of the TWCF financial statements and related notes to the financial statements.

Cotton & Co's report also discusses two instances of noncompliance with applicable laws and regulations. Specifically, Cotton & Co's report describes instances in which the USTRANSCOM's financial management systems did not comply with the Federal Financial Management Improvement Act and the Federal Managers' Financial Integrity

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[1] 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.

Act. Additionally, Cotton & Co's report describes potential noncompliance with the Prompt Payment Act and Purpose Statute.

In connection with the contract, we reviewed Cotton & Co's report and related documentation and discussed them with Cotton & Co's representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the USTRANSCOM TWCF FY 2020 and FY 2019 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 laws and other matters. Our review disclosed no instances where Cotton & Co did not comply, in all material respects, with GAGAS. Cotton & Co is responsible for the attached November 9, 2020, 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

Cotton& Company
Answers Questioned

333 John Carlyle Street, Suite 500 | Alexandria, VA 22314
P: 703.836.6701 | F: 703.836.0941 | www.cottoncpa.com

INDEPENDENT AUDITORS' REPORT

Commander, United States Transportation Command (USTRANSCOM)

In our engagement to audit the fiscal years (FYs) 2020 and 2019 financial statements of USTRANSCOM's Transportation Working Capital Fund (TWCF), we:

- Were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- Found five material weaknesses and one significant deficiency in internal control over financial reporting as of September 30, 2020.
- 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, 2020.

The following sections contain:

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

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the accompanying financial statements of USTRANSCOM's TWCF, which comprise the consolidated balance sheets as of September 30, 2020 and 2019, related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting our audits in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial statement audits contained in *Government Auditing Standards*, issued in 2018 by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

During FYs 2020 and 2019, USTRANSCOM had five material weaknesses and one significant deficiency in its internal control over financial reporting. See our Report on Internal Control over Financial Reporting and on Compliance with Laws, Regulations, Contracts, and Grant Agreements, as well as Appendices A and B, for a discussion of these matters and our recommendations for improvement. As a result of certain elements of the material weaknesses, we were unable to determine whether any adjustments were necessary to the financial statements as of and for the fiscal years ended September 30, 2020 and 2019.

Specific elements of the FY 2020 material weaknesses that contributed to our disclaimer of opinion include the following:

- USTRANSCOM was unable to provide transaction-level populations that agreed to the reported balances for certain general ledger (GL) accounts reported on the Balance Sheet. In addition, USTRANSCOM was unable to provide transaction-level populations for intra-USTRANSCOM activity that USTRANSCOM recorded in its detailed financial records but eliminated in preparing its TWCF financial statements.
- USTRANSCOM provided unsuitable populations for other GL accounts that comprise the Balance Sheet and Statement of Budgetary Resources. For example, certain populations could not be summarized by open balance for balance-type GL accounts, contained items without document identification numbers, did not reconcile to a reported balance, or contained data that do not represent items that actually comprise the recorded account balance.
- 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 GL system direct feed adjustments.
- USTRANSCOM was unable to provide supporting documentation for recorded amounts sampled from material opening balances and current-year activity.
- USTRANSCOM has not implemented Statement of Federal Financial Accounting Standards 47, *Reporting Entity*, to help ensure the completeness of the TWCF financial statements and related notes to the financial statements.

Similar conditions existed during FY 2019.

Disclaimer of Opinion

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

Other Matters

Required Supplementary Information

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

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

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

Internal Control over Financial Reporting
In connection with our engagement to audit USTRANSCOM's FYs 2020 and 2019 TWCF financial statements, upon which we disclaimed an opinion as noted above, we attempted to consider USTRANSCOM's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USTRANSCOM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of USTRANSCOM's internal control over financial reporting.

A *deficiency in internal control over financial reporting* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

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

Compliance with Laws, Regulations, Contracts, and Grant Agreements
In connection with our engagement to audit USTRANSCOM's FYs 2020 and 2019 TWCF financial statements, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, and accordingly, we do not express such an opinion. Our tests included testing whether USTRANSCOM's financial management systems substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) application of the U.S. Government Standard General Ledger (USSGL) at the transaction level.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to USTRANSCOM. We limited our tests of compliance to those provisions of laws, regulations, contracts, and grant agreements that OMB audit guidance requires that we test and that we deemed applicable to the financial statements for the fiscal years ended September 30, 2020. We caution that noncompliance may have occurred and may not have been detected by these tests, and that such testing may not be sufficient for other purposes.

Our tests of compliance with provisions of laws, regulations, contracts, and grant agreements described above disclosed instances of material noncompliance or other instances of noncompliance that warrant the attention of those charged with governance that we believe are required to be reported under *Government Auditing Standards* or OMB audit guidance. The results of our tests of FFMIA compliance disclosed instances in which USTRANSCOM did not substantially comply with financial management system requirements, applicable accounting standards, and the USSGL at a transaction level. In addition, we identified noncompliance with FMFIA and potential noncompliance with the Prompt Payment Act and Purpose Statute. These matters are described in Appendix B.

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

USTRANSCOM's Comments
USTRANSCOM's comments are included in Appendix C. USTRANSCOM concurred with the findings and conclusions in our report, and provided five specific comments regarding facts USTRANSCOM officials feel are misstated. We have considered USTRANSCOM's comments and have clarified language in this report, where necessary, in response to those comments. Our response to those comments is included in Appendix D. We did not audit USTRANSCOM's comments, and accordingly, we express no opinion on the comments.

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

COTTON & COMPANY LLP

Steven M. Koons, CPA
Partner
Alexandria, VA
November 9, 2020

APPENDIX A: MATERIAL WEAKNESSES AND SIGNIFICANT DEFICIENCY

During our engagement to audit the fiscal years (FYs) 2020 and 2019 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 five material weaknesses and one significant deficiency, as described in this Appendix.

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

We first reported this material weakness in FY 2018. In FY 2019, we reported that USTRANSCOM had made notable progress in addressing the fundamental need to provide transaction-level populations supporting material financial statement line items. However, in FY 2020, we found that USTRANSCOM was still unable to provide sufficient transaction-level detail for certain financial statement line items. Specifically, we noted the following deficiencies related to USTRANSCOM's populations, which preclude USTRANSCOM from substantiating the TWCF financial statement balances:

- USTRANSCOM and its components were unable to provide populations for the following:
  - SDDC – Accounts Payable (open balances)
  - AMC – Other Liabilities Without Related Budgetary Obligations (open balances)
  - Elimination entries
- Although USTRANSCOM and its components provided populations, certain populations could not be summarized by open balance for balance-type general ledger (GL) accounts, contained items that did not have document identification numbers, did not reconcile to a reported balance, or contained data that do not represent items that actually comprise the recorded account balance. One or more of these matters affected the following:
  - MSC – Unbilled Accounts Receivable (open balances)
  - MSC – Accounts Payable (open balances)
  - MSC – Unfilled Customer Orders Without Advance (open balances)
  - MSC – Undelivered Orders (open balances)
  - CMD – Unfilled Customer Orders Without Advance (open balances)
  - SDDC – Unfilled Customer Orders Without Advance (open balances; new orders and adjustments)
  - SDDC – Undelivered Orders – Obligations, Unpaid (open balances)
- AMC, SDDC, MSC, CMD, and DCD had not yet resolved prior-year findings related to providing and reconciling populations for undistributed transactions. Undistributed transactions are collections and disbursements that represent the difference between the amounts of collections and disbursements in the U.S. Department of the Treasury's (Treasury's) Central Accounting Reporting System and the amounts recorded in USTRANSCOM's GL systems.
- USTRANSCOM worked with the service provider responsible for Fund Balance with Treasury (FBwT) and financial reporting processes to provide Statement of Differences (SOD) populations attributable to USTRANSCOM. SODs arise from differences between the actual amounts disbursed and collected and the corresponding amounts reported to Treasury. Although the service provider has made progress in managing SOD populations, continued work is needed to help ensure the populations provided are complete and accurate.

The U.S. Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (2014) 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 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system."

The Department of Defense's (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 and additional capabilities, including the ability to produce populations of transaction details that reconcile to each financial statement line item and accounting system and the ability to reconcile populations of transaction details to feeder systems.

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

USTRANSCOM has not effectively designed and fully implemented entity-level controls and its Risk Management and Internal Control (RMIC) program does not yet fully consider enterprise wide risks, including cross-cutting deficiencies in USTRANSCOM's system of internal control. Other factors causing these conditions include:

- USTRANSCOM and its components do not have processes in place or have not fully implemented corrective actions to generate and reconcile populations for certain amounts reported on the TWCF financial statements.
- USTRANSCOM also does not have a process in place to identify and reconcile transaction-level activity and balances that are eliminated from the TWCF financial statements.
- AMC, SDDC, MSC, CMD, DCD, and the service provider have not fully implemented corrective actions for undistributed collections and disbursements populations.
- USTRANSCOM and the service provider have not yet fully implemented processes to prepare and provide accurate and complete SOD populations attributable to the TWCF.

USTRANSCOM's inability to provide populations and reconciliations that are at the correct level of detail and that agree to the trial balance renders the related GL account balances and elimination entries unsupported and therefore unsubstantiated. Any budgetary balances corresponding to unsubstantiated proprietary balances are also unsubstantiated, and the Balance Sheet, Statement of Net Cost, and Statement of Budgetary Resources may be misstated.

We recommend:

- USTRANSCOM's RMIC program, in its continued development, consider enterprise wide risks, including cross-cutting deficiencies in USTRANSCOM's system of internal control, affecting each of the 17 principles underlying each of the five components of internal control.
- USTRANSCOM and its components continue implementing corrective actions to develop and implement processes to substantiate all amounts reported on the TWCF financial statements.

- USTRANSCOM, in coordination with its components and the service provider, design, document, and implement a process to identify and reconcile transaction-level activity supporting TWCF financial statement eliminations.
- AMC, SDDC, MSC, CMD, and DCD, in coordination with the service provider, continue to develop and implement corrective actions to provide and reconcile transaction-level undistributed collections and disbursements populations, as appropriate.
- USTRANSCOM, in coordination with the service provider, continue to implement the process of identifying and obtaining specific SOD balances and transaction populations attributable to USTRANSCOM that support the completeness and accuracy of the FBwT line item on the Balance Sheet.

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

We identified several control deficiencies that aggregate to a material weakness in internal controls over USTRANSCOM's financial reporting processes. These deficiencies include:

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

We provide details regarding each of these deficiencies below.

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

USTRANSCOM lacks assurance that transactions and balances are completely and accurately recorded in component-level GL systems—i.e., Defense Enterprise Accounting and Management System (DEAMS), General Accounting and Finance System-Reengineered (GAFS-R), Transportation Financial Management System (TFMS), and MSC-Financial Management System (MSC-FMS)—or in the Defense Departmental Reporting System (DDRS) used to prepare 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 did not consistently provide adequate support to identify the reporting entity to which sampled suspense account transactions pertained or to demonstrate whether it had reported the sampled transactions in the TWCF financial statements. Further, some suspense account amounts were not attributed to a reporting entity.
- USTRANSCOM components have not designed and implemented internal control activities related to the reconciliation of amounts recorded in significant feeder systems to amounts recorded in GL systems. Component-specific conditions include:
    - AMC, SDDC, CMD, and DCD have not designed and implemented internal control activities related to the reconciliation of amounts recorded in significant feeder systems to amounts recorded in DEAMS and TFMS.
    - Although MSC has implemented internal control activities to reconcile amounts between MSC-FMS and the four feeder systems that it has identified as being significant to USTRANSCOM, it has not demonstrated whether the reconciliations include all significant feeder systems that interface to MSC-FMS.

- 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 this unrecorded activity.
- 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. Further, SDDC does not have any compensating file integrity controls in place to prevent unauthorized changes to interface files in MFTS.

- USTRANSCOM has not provided sufficient evidence and explanation to support whether the DEAMS-to-DDRS interface is designed and implemented effectively.

In addition, USTRANSCOM has not demonstrated that:

- It calculated, recorded, and monitored accounts payable accruals related to vendor contracts and certain revenue accruals related to the Channel Passenger and Channel Cargo lines of business, including suspense transactions in the Distribution Component Billing System (DCBS).
- Recorded obligations and payroll expenses in the GL systems are complete and accurate.
- Recorded unfilled customer orders exist, are accurate, and are complete; USTRANSCOM has the right to these orders; and recorded revenue and receivables are based on customer billings.
- It has identified all capitalizable software and minor construction project costs for completed projects and timely and accurately created the related asset record in the GL system.
- It has recorded all capitalized assets in the GL system and timely records disposals of the capitalized assets.

Finally, although MSC stated it verifies the complete allocation of indirect expenses to USTRANSCOM and the U.S. Department of the Navy at the end of each month, it does not maintain evidence to support that it performs this verification. In addition, although MSC stated it reviews incremental allocation changes in MSC-FMS each year, it did not provide evidence that it performs a comprehensive review of the accuracy of the MSC-FMS allocation tables.

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

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

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

In addition to entity-level control deficiencies that promote an ineffective control environment as noted previously, factors causing these specific conditions include the following:

- USTRANSCOM and the service provider have not fully implemented processes to prepare and provide a complete and accurate population of suspense transactions attributable to the TWCF. In addition, they have not fully implemented internal control activities to reconcile and reclassify amounts reported in suspense accounts.
- With regard to the reconciliations between detail-level feeder systems and the GL systems:

- 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, TCJ8 has not identified the significant feeder systems that interface with USTRANSCOM's GL systems at the USTRANSCOM level, to allow for prioritization of reconciliation and monitoring activities.
- AMC, CMD, and DCD provided, in response to our request, counts and amounts of revenues, collections, obligations, expenses, and outlays from DEAMS feeder systems to facilitate reconciliations. These USTRANSCOM components, however, do not have established processes to assemble and reconcile that information.
- AMC, CMD, and DCD have not identified which feeder systems that interface with DEAMS they consider to be significant.
- Although SDDC and MSC have identified the significant feeder systems that interface with TFMS and MSC-FMS, respectively, they have not sufficiently documented the processes used to identify the significant feeder systems, or the basis for determining the feeder systems are significant.
- SDDC has not developed and implemented policies and procedures requiring personnel to conduct internal control activities to monitor whether the number of interface files that MFTS receives agrees to the expected number of files and to prevent unauthorized changes to files on MFTS.

- 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.
- USTRANSCOM has not implemented or fully developed processes to calculate and record certain significant accruals or to document, monitor, and assess the appropriateness of the accrual methodologies.
- AMC's internal control activity related to recording monthly Channel Cargo and Channel Passenger revenue accruals is not effectively designed. Specifically, AMC does not determine if DCBS suspense transactions reflect revenue that AMC earned for the Channel Cargo and Channel Passenger lines of business and that should be accrued in DEAMS.
- USTRANSCOM does not have a process in place that requires project managers to notify the asset accountant of the status of ongoing software and minor construction projects.
- MSC's standard operating procedure for indirect cost allocations does not specify all internal control activities to be performed, the individual responsible for executing each control, and how the individual should document execution of the control.

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

We recommend USTRANSCOM and its components:

- Work with the service provider to fully implement processes to prepare and provide a complete and accurate population of suspense transactions attributable to the TWCF. This should include internal control activities to reconcile and reclassify amounts reported in suspense accounts.
- Continue designing, implementing, and strengthening reconciliations between detail-level feeder systems and GL systems. Where USTRANSCOM and its components have not yet designed reconciliations, determine the extent to which they can design and implement these reconciliations and the extent to which they can leverage other internal control activities to help ensure the completeness and accuracy of transactions recorded in the GL systems.
- 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.

- Design, document, and implement internal control activities for monitoring the number of files that MFTS receives or should receive, and for performing integrity controls, such as implementing hash totals or audit log reviews to detect unauthorized changes to files.
- In coordination with the service provider and the DEAMS Program Management Office, develop, document, and implement narratives documenting the strategy, design, and implementation of the DEAMS-to-DDRS interface.
- Continue designing and implementing 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.
- Enhance, document, and implement AMC's internal control activity related to recording monthly Channel Cargo and Channel Passenger revenue accruals, to include determining if DCBS suspense transactions reflect revenue that AMC earned and that should be accrued in DEAMS.
- Design and implement a periodic and routine reporting process that requires project managers to notify the asset accountant of the status of ongoing software and minor construction projects.
- Review and update MSC's standard operating procedure for indirect cost allocations to ensure it properly documents internal control activities, including identifying the individual responsible for executing each control and the documentation required to evidence the individual's execution of the control.

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

USTRANSCOM and its components have deficiencies with regard to controls over the preparation of the financial statements, including controls related to the service provider. These deficiencies include:

- USTRANSCOM has not implemented Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, to help ensure that it identifies consolidation and disclosure entities and properly includes these entities in the TWCF financial statements and notes.
- USTRANSCOM has continued to improve its Agency Financial Report (AFR) during FY 2020. However, we identified instances of non-compliance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements,* and DoD FMR reporting and disclosure requirements. For example, USTRANSCOM's presentation of the TWCF Consolidated Statement of Net Cost does not disclose the net cost of operations by major program and USTRANSCOM does not disclose information regarding leases. In addition, USTRANSCOM's description of its mission and organizational structure did not link its major program goals to cost categories or responsibility segments as part of Required Supplementary Information.
- USTRANSCOM's FY 2020 financial statements are presented on a comparative basis meaning that any prior period adjustment pertinent to FY 2019 should have been reflected as a restatement of FY 2019 amounts rather than as an adjustment to the FY 2020 beginning balance for Cumulative Results of Operations on the Statement of Changes in Net Position.
- AMC and MSC have not fully identified and documented internal control activities for their financial statement preparation processes.
- USTRANSCOM's consolidated variance analysis has not consistently contained correct ending balances for certain GL accounts leading to missing explanations for certain variances that exceeded USTRANSCOM-determined thresholds.
- MSC did not close its ending GL account balances in MSC-FMS in conformity with the U.S. Standard General Ledger (USSGL).

- USTRANSCOM and its components' oversight of the service provider's financial reporting and FBwT processes needs improvement. Specifically:
    - The JV Memorandum of Agreement establishes the same JV approval threshold for all USTRANSCOM components, rather than establishing JV approval thresholds at dollar values that are appropriate for each component.
    - USTRANSCOM, AMC, CMD, and DCD do not have processes in place to monitor the service provider's Merged Accountability and Fund Reporting (MAFR) reconciliations to ensure the occurrence, accuracy, and completeness of recorded FBwT activity.

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

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

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

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

SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources*, states:

> *Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared. When errors are discovered after the issuance of financial statements, and if the financial statements would be materially misstated absent correction of the errors, corrections should be made as follows:*
>
> *…*
>
> *If comparative financial statements are presented, then the error should be corrected in the earliest affected period presented by correcting any individual amounts on the financial statements. If the earliest period presented is not the period in which the error occurred and the cumulative effect is attributable to prior periods, then the cumulative effect should be reported as a prior period adjustment. The adjustment should be made to the beginning balance of cumulative results of operations, in the statement of changes in net position for the earliest period presented.*

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

Factors causing these conditions include:

- USTRANSCOM has not designed, documented, and implemented an assessment to determine whether it has any consolidation and disclosure entities that require consolidation or disclosure in the TWCF financial statements and notes.
- USTRANSCOM has not fully prioritized corrective actions and remediated underlying departures from accounting principles generally accepted in the United States of America (GAAP) that give rise to missing disclosures. For example, USTRANSCOM does not have processes in place to help ensure that it presents the Consolidated Statement of Net Cost in accordance with SFFAS 4, *Managerial Cost Accounting Concepts and Standards*, and SFFAS 55, *Amending Inter-Entity Cost Provisions*.
- Corrections of errors should be infrequent and unusual in nature. USTRANSCOM's mistaken presentation of corrections of errors demonstrates a lack of sufficient understanding and experience with the related presentation requirements.
- AMC and MSC's business process narratives related to financial statement preparation remain in draft form and are undergoing changes.
- USTRANSCOM's consolidated variance analysis is not yet designed effectively; specifically, USTRANSCOM does not have a mechanism to help ensure that it uses the correct GL account balances when performing the analysis.
- USTRANSCOM and MSC's controls over the MSC-FMS year-end closing entries are not operating effectively to help ensure MSC-FMS ending GL account balances are closed in conformity with the USSGL.
- USTRANSCOM and its components have not fully developed and implemented procedures for overseeing the service provider's financial reporting and FBwT processes, including reviewing, approving, and monitoring JVs recorded in USTRANSCOM GL systems and DDRS, as well as MAFR reconciliations. In addition, related USTRANSCOM, component, and service provider roles and responsibilities are not clearly defined.

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

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

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 the AFR disclosures accordingly.
- 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 ensure compliance with GAAP, and prioritize these corrective measures.
- Re-evaluate presentation requirements in SFFAS 21 for corrections of errors and ensure personnel responsible for reporting corrections of errors have sufficient understanding of the reporting requirements. As necessary, seek third-party guidance in the presentation of infrequent and unusual transactions.
- AMC and MSC enhance, finalize, and implement their business process narratives for financial statement preparation.
- TCJ8 enhance, document, and implement procedures for the USTRANSCOM consolidated variance analysis to help ensure USTRANSCOM includes the correct GL account balances in its analysis.
- USTRANSCOM and MSC strengthen, document, and implement internal controls over the year-end closing processes to help ensure MSC-FMS ending account balances are closed in conformity with the USSGL.
- USTRANSCOM and its components enhance, document, and implement procedures for the oversight of the service provider's financial reporting and FBwT processes.

3. Controls over JVs need improvement. *(Repeat Finding)*

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

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

Additionally, we noted:

- The service provider records the entirety of SDDC, CMD, and DCD's undistributed JVs as unsupported, even though a portion of the cumulative undistributed balances are supported by transaction-level detail. Conversely, the service provider records the entirety of AMC's undistributed JV as supported, even though a portion of AMC's cumulative undistributed balances are supported.
- Although MSC is able to identify unposted JVs in MSC-FMS at month-end, it lacks internal control activities to ensure it posts all JVs in MSC-FMS in time for financial reporting activities.

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

DoD FMR, Volume 6a, Chapter 2 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. Volume 4, Chapter 2, states, "…Components must require the practice of segregating the journal entry for unsupported undistributed amounts from the journal entry for the undistributed amounts that can be supported. …For example, if the total undistributed amount is 95 percent supported and 5 percent not supported, then record two journal voucher entries to segregate the amounts."

Factors causing these conditions include:

- USTRANSCOM and its components do not have effective processes in place to identify, accumulate, retain, and provide for examination sufficient evidential documentation to support JVs recorded in the GL systems and DDRS. In addition, USTRANSCOM and its components' controls over the review and approval of JVs are not operating effectively to help ensure JVs in the GL systems and DDRS are appropriate and accurate.
- The service provider records certain JVs as unsupported 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 JVs recorded by the service provider.
- AMC, SDDC, CMD, DCD, and the service provider do not have internal control activities in place to determine which portion of their undistributed JVs is supported and to record the transactions to the correct GL accounts.
- MSC has not implemented policies and procedures for internal control activities designed to ensure that it prepares and posts all expected MSC-FMS JVs in the applicable period prior to month-end close.

USTRANSCOM and its components' control deficiencies with regard to JVs collectively increase the risk that the TWCF financial statements contain misstatements. In addition, these deficiencies may prevent USTRANSCOM and its components from recording the transactions underlying the undistributed JVs to the correct GL accounts and may cause USTRANSCOM to misstate the Balance Sheet and Statement of Budgetary Resources.

We recommend:

- USTRANSCOM and its components continue to strengthen processes for identifying, accumulating, retaining, and providing for examination sufficient evidential documentation to support JVs recorded in the GL systems and DDRS.
- USTRANSCOM and its components strengthen, document, and implement internal control activities over the review and approval of JVs to help ensure that they make appropriate and accurate adjustments to the GL systems and DDRS.
- USTRANSCOM, in coordination with its components and service provider, evaluate why it is unable to provide the service provider with transaction-level detail to support certain JVs.
- AMC, SDDC, CMD, and DCD, in coordination with the service provider, develop and implement corrective actions to determine which portion of the undistributed JVs are supported and to record the JVs to the correct GL accounts.
- MSC design, document, and implement policies and procedures requiring internal control activities to help ensure that it prepares, records, and posts all JVs to MSC-FMS in the applicable period prior to month-end close.

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

USTRANSCOM has pervasive control deficiencies with regard to transactions and GL account balances involving new and open unfilled customer orders; contract authority; new and open obligations; accounts receivable and accounts payable; operating expenses and earned revenue; disbursements and collections; and property, plant and equipment. Specifically, these deficiencies include:

- Transactions and balances were not recorded accurately based on supporting documentation provided. For example, USTRANSCOM did not correct errors identified and communicated during the FY 2018 audit, and errors remained in the FY 2020 opening balance. In addition, when correcting entries were recorded to attempt to reverse improperly posted debit memos, unfilled customer orders were inadvertently established in DEAMS.
- Transactions were not recorded timely or in the correct accounting period or fiscal year. For instance, transactions which occurred in FY 2017 through FY 2019 were not recorded until FY 2020.
- Transactions were not recorded in the correct GL accounts or in compliance with the USSGL. For example, budgetary authority was recorded in DEAMS concurrent to the customer billing and was not in compliance with FFMIA. Additionally, USTRANSCOM does not record upward and downward adjustments to prior-year obligations in accordance with the USSGL.
- Open balances included invalid amounts. For example, all 63 AMC accounts receivable that had been without activity since FY 2017 and that were tested in FY 2020 were invalid.

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

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

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

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

> *The Dormant Account Review Quarterly (DAR-Q) replaces the former Triannual Review and 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….*

USTRANSCOM's RMIC program does not yet fully consider enterprise wide risks, including cross-cutting deficiencies in USTRANSCOM's system of internal control, as noted previously. For certain transactions recorded in error, management indicated insufficient oversight was a contributing factor. Other factors causing these conditions include USTRANSCOM's:

- Lack of an effective process in place for identifying, accumulating, retaining, and providing for examination sufficient evidential documentation to support reported transactions and balances.
- Insufficient and inconsistent implementation of policies and procedures, lack of internal control activities, or ineffective operation of internal control activities to help ensure the existence or occurrence, completeness, accuracy, rights or obligations, and timeliness of recorded transactions and balances.
- Insufficient analysis to determine and implement USSGL-compliant posting logic for certain transaction types in the GL systems. This includes constraints in the GL systems with regard to identifying and recording upward and downward adjustments to prior-year obligations at the transaction level.
- Lack of effective internal controls to ensure that the open balances are valid and recorded at the correct amount. An effective control environment should include a fully operative DAR-Q process to determine the validity, accuracy, and completeness of unliquidated obligations, accounts payable, and unfilled customer orders. In addition, an effective control environment should include procedures for monitoring aged accounts receivable, assessing collectability, and recording an allowance to reduce the accounts receivable to the net realizable value as appropriate.

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

We recommend USTRANSCOM and its components:

- Continue to strengthen their processes for identifying, accumulating, retaining, and providing for examination sufficient evidential documentation to support reported transactions and balances.
- 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.
- Perform analyses to identify and implement USSGL-compliant posting logic in the GL systems for certain transaction types, and to design and implement posting logic changes to the GL system to allow for the identification and recording of upward and downward adjustments to prior-year obligations at the transaction level, consistent with the USSGL.
- Continue implementing corrective actions to address the triannual review conditions identified in Report No. DODIG 2017-108, *United States Transportation Command Triannual Reviews*.

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

USTRANSCOM has ineffective budgetary accounting controls in five areas, which, when combined, constitute a material weakness. These areas include:

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

1. Controls to help ensure the validity of recorded budgetary authority are ineffective. *(Repeat Finding)*

USTRANSCOM does not have a stable, repeatable, and compliant method for recording its budget authority anticipated but not yet received.

- In FY 2018, Spending Authority from Offsetting Collections in AMC's GL system was significantly higher than the amount in USTRANSCOM's internal annual operating budget (AOB).
- At the beginning of FY 2019, AMC substituted an internal memorandum in place of a valid authorization to record $1.6 billion of unfilled customer orders for budget authority expected but not yet received from the U.S. Departments of the Air Force, the Army, and the Navy; U.S. Marine Corps; and U.S. Special Operations Command.
- At the end of FY 2019, AMC recorded an insufficiently supported blanket end-of-year open unfilled customer order entry for $550 million. AMC recorded this entry to facilitate its customer billings in future fiscal years for orders that AMC accepted but did not record in FY 2019.
- At the beginning of FY 2020, AMC recorded an invalid unfilled customer order without advance for $2.7 billion. AMC relied on the first FY 2020 internal USTRANSCOM AOB as authorization to record the $2.7 billion entry, which is half of the Total Spending Authority from Offsetting Collections amount authorized on the AOB.

In addition, USTRANSCOM lacks assurance as to whether prior-year unobligated balances are available for obligation.

Moreover, 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 an agreement in writing with the customer to perform services, nor do they sufficiently evidence the customer's obligation.

GAO's *Principles of Federal Appropriations Law*, Third Edition (commonly referred to as the 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."

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

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

OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget*, Section 120, *Apportionment Process*, states that "multi-year/no-year [Treasury Appropriation Fund Symbols (TAFS)] with unexpired budgetary resources available for obligation MUST be apportioned every fiscal year…" and that:

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

Factors causing these conditions include:

- The signed memorandum AMC used to record $1.6 billion of unfilled customer orders cites the DoD FMR as authoritative guidance allowing exceptions to the normal requirements for recording unfilled customer orders. However, AMC's action misinterprets the DoD FMR by not fully considering the requirements for exceptions, including an urgent situation and a letter of intent from an ordering agency.

- AMC management cited operational reasons for recording the $1.6 billion of 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. 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 closed it in DCBS, a SAAM Billing Analyst calculates the amount of the bill and processes the bill in DCBS. AMC typically bills SAAMs one to two months after the mission's execution date. DCBS does not interface with DEAMS—and thereby submit the processed bills—until the monthly billing process, at which time AMC first records the unfilled customer order.
- AMC considers the economic events that trigger the recording of anticipated orders and unfilled customer orders without advance to be the same, and thus recorded $2.7 billion of unfilled customer orders based on the AOB; however, this is a misinterpretation of the AOB, OMB A-11, the USSGL, the DoD FMR, and other related criteria.
- TCJ8's Budget and Funds Management Division only monitors whether components properly recorded current-year budget authority and whether the budget authority agrees to the internal AOBs. TCJ8 does not have an internal control activity to monitor whether components properly recorded prior-year unobligated balances available for obligation and whether these balances agree to the internal AOBs.
- 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.

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 in the event the actual orders (and the corresponding obligations on the customers' books) are less than the $1.6 billion and $2.7 billion recorded for unfilled customer orders without advance, if fully obligated, for funding anticipated but not yet received.

We recommend:

- When necessary, such as in an urgent situation, AMC correctly apply DoD FMR guidance and obtain letters of intent from its customers before incurring costs to perform services for the customers.
- AMC work with the operational community to develop, document, and implement internal control activities to record unfilled customer orders when it accepts the orders during the course of normal operations, including for its SAAM line of business.
- TCJ8's Budget and Funds Management Division strengthen its current monitoring controls to ensure it verifies that the prior-year unobligated balance that USTRANSCOM components recorded as available for obligation agrees to internal AOBs.
- MSC develop, document, and implement policies and procedures related to the acceptance of funding documentation and recording of unfilled customer orders.

2. MSC's fund control system is not adequately designed. ***(Repeat Finding)***

Although MSC is transitioning its GL to the Navy Enterprise Resource Planning (Navy ERP) system, MSC-FMS does not have an internal control activity to limit the amount recorded as available for obligation to only those resources from unfilled customer orders that have been made available on the internal AOB, which represents the amount that OMB apportioned as Spending Authority from Offsetting Collections.

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

This condition occurred because MSC did not sufficiently design and implement its fund control system to limit the amount recorded as available for obligation in MSC-FMS to only those resources from unfilled customer orders that have been made available on the internal AOB for Spending Authority from Offsetting Collections.

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

We recommend:

- MSC design, document, and implement updated funds control procedures that include steps to limit unfilled customer orders available for obligation in MSC-FMS to the amount available on the internal AOB for Spending Authority from Offsetting Collections.
- MSC provide training on the updated internal controls to those personnel responsible for recording unfilled customer orders in MSC-FMS.
- As MSC migrates its data and processes to Navy ERP, it considers the extent to which recommendations apply and take necessary steps to ensure that it does not repeat the control deficiency in the new system environment.

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

When accepting customer orders, USTRANSCOM sometimes cites multiple sources of statutory authority for accepting the order, such as the Economy Act and USTRANSCOM's authority as a working capital fund per 10 U.S. Code (U.S.C.) § 2208, even though each order should be based on a single statutory authority. In addition, USTRANSCOM lacks sufficient internal control activities to help ensure that it documents the statutory basis for accepting customer orders and that it has support agreements, including the related Determination and Findings, as necessary, in place before accepting orders.

OMB Circular No. A-11, Section 20, *Terms and Concepts*, 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, in part, that "This section does not…affect other laws about working funds" and "An order placed or agreement made under this section obligates an appropriation of the ordering agency or unit. The amount obligated is deobligated to the extent that the agency or unit filling the order has not incurred obligations, before the end of the period of availability of the appropriation…"

In addition, 48 Code of Federal Regulations (C.F.R.) § 17.502-2, *The Economy Act*, states:

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

TFM, Volume 1, Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, Appendix 8, *Intra-governmental Transactions (IGT) Buy/Sell*, Section 2, *G-Invoicing Implementation Plans*, states:

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

Further, OMB Circular No. A-11, Section 130, *SF 133, Report on Budget Execution and Budgetary Resources*, 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.

This condition occurred because USTRANSCOM and component 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.

By incorrectly citing multiple sources of authority for a single order or not executing documented support agreements, including Determination and Findings, as necessary, USTRANSCOM faces increased risk of noncompliance with specific requirements delineated in the statutes. For example, unique Economy Act requirements, such as the deobligation requirement of 31 U.S.C. § 1535(d), do not apply to interagency transactions carried out under other authorities. Therefore, to properly design internal control activities to help ensure compliance, USTRANSCOM personnel must understand and document which transactions are associated with a given statute. In addition, without executing sufficiently documented support agreements, USTRANSCOM is not prepared for G-Invoicing.

We recommend USTRANSCOM work with its components to:

- Evaluate and update its policies and procedures for making determinations as to which statutory authority applies to each of USTRANSCOM's various transaction types, to ensure the policies and procedures are clear and compliant.
- For customers and transaction types for which a support agreement is in place, including a Determination and Findings document, as necessary, determine whether the agreement cites the proper statutory authority and correct those instances in which an agreement cites multiple sources of statutory authority for a single transaction type.
- For customers and transaction types for which a support agreement is not in place, including a Determination and Findings document, as necessary, work with the customer to document the support agreement. Ensure that the agreement includes the related statutory authority, terms and conditions of the arrangement, and all elements required under G-Invoicing.
- For transactions types under the Economy Act, determine whether there are sufficient controls in place to address the unique Economy Act requirements consistent with the related requirements in OMB Circular No. A-11, Section 130, such as:
    - Deobligation requirements that would result in year-end USTRANSCOM adjustments.
    - Establishment of annual and multi-year TAFSs to accommodate the periods of availability associated with customer agency appropriations.

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

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

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

OMB Circular No. A-11, Section 20 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…. TAS includes all the component pieces of [TAFS] plus any sub-accounts established by Treasury." Section 20 further notes that the terms "appropriation account" and "TAFS" are interchangeable. Section 130 states that agencies should submit SF 133 information "each quarter for each open… TAFS."

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

Factors causing these conditions include:

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

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

We recommend USTRANSCOM:

- Work with the 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. This should include clarification as to whether the statutory authority giving rise to a transaction—such as working capital fund authority and the Economy Act—affects the accounting treatment of that transaction.
- Review its accounting policies and procedures for preparing the Statement of Budgetary Resources and, based on clarifications obtained from OMB, update the accounting policies and procedures, as appropriate.
- Implement any policy and procedure updates necessary related to preparing the Statement of Budgetary Resources.

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

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

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

This condition occurred because USTRANSCOM and its components do not have effective processes in place for identifying, accumulating, retaining, and providing for examination sufficient evidential documentation to support funds realignment requests.

As a result of this condition, USTRANSCOM may not have obtained proper approval for its funds realignment requests. Consequently, USTRANSCOM's recorded budget authority may not have been available for obligation, or USTRANSCOM may not have rights to its recorded budget authority at a given date.

We recommend:

- USTRANSCOM and its components continue to strengthen their processes for identifying, accumulating, retaining, and providing for examination sufficient evidential documentation to support their funds realignment requests.

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

In FY 2018, we reported that USTRANSCOM had pervasive information technology (IT) control deficiencies related to the following 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

We reported a combination of deficiencies pertaining to USTRANSCOM's internal control activities for these systems that we consider to be a material weakness related to the following areas: security management, access controls, segregation of duties, and configuration management. Although USTRANSCOM made some progress in remediating these deficiencies during FY 2020, it continues to have a material weakness in this area.

1. Security Management

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

- System security plans and related security documents do not include information required by the National Institute of Standards and Technology (NIST).
- USTRANSCOM's security management policy and procedures do not include adequate detail regarding how USTRANSCOM should select security controls for testing or the process management should follow when testing corrective actions for vulnerabilities identified in system Plans of Action & Milestones.
- USTRANSCOM does not have formally documented strategies or plans describing how it selected security controls for testing.

2. 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. Open conditions related to access control include:

- USTRANSCOM has not sufficiently documented and implemented policies and procedures for account authorization, provisioning, and termination.

- USTRANSCOM 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)* and TFMS-417.
- USTRANSCOM does not consistently perform periodic account reviews or does not have periodic account reviews in place.
- USTRANSCOM has not sufficiently documented the complexity of password parameters for the one-time password used when linking a user's account to his or her Common Access Card.
- USTRANSCOM's compensating controls for monitoring the actions of application users with elevated privileges are not operating effectively.
- USTRANSCOM 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.
- USTRANSCOM has not consistently provided evidence that it reviews audit logs in a timely manner and appropriately investigates potential incidents.
- USTRANSCOM has not clearly identified and documented sensitive transactions and/or resources for applications.
- USTRANSCOM has not sufficiently designed and implemented controls to monitor sensitive transactions and resources.

3. 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. Open conditions related to segregation of duties include:

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

4. 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. Open conditions related to configuration management include:

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

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

Criteria include:

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

Factors causing these conditions include:

- USTRANSCOM has not completely transitioned its financial systems from the Department of Defense Information Assurance Certification and Accreditation Process (DIACAP) to the Risk Management Framework (RMF). RMF includes more detailed requirements for security management, including the development of a formal system security plan that addresses NIST requirements.
- USTRANSCOM has not fully developed and documented its security management, account 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.

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

We recommend USTRANSCOM:

- In consultation with its financial system program management, continue with its current effort to migrate from DIACAP to RMF. When developing RMF documentation, ensure system security plans contain all required information, including the system owner, 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.
- Update its security management policy and procedures to address NIST and RMF requirements and include procedures to ensure that it consistently and effectively carries out security management activities.
- In consultation with its financial system program management, develop, update, and implement policies and procedures related to security management, account 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.

Significant Deficiency: Incomplete Transition to the Risk Management Framework *(Repeat Finding)*

Prior-year findings related to USTRANSCOM's transition of its COINS, DCBS, GATES, GDSS, IBS, and TFMS systems from DIACAP to RMF remain open. DIACAP is the previous overarching certification and accreditation process for the DoD; however, DoD has replaced DIACAP with RMF, which requires agencies to implement the controls prescribed by NIST SP 800-53, Revision 4. Additionally, USTRANSCOM has not fully implemented RMF for its Agile System Development Environment—Impact Level 4 (ASDE-IL4) and Agile System Development Environment—Impact Level 5 (ASDE-IL5) Amazon Web Services (AWS) cloud environments. Specifically:

- When assessing the security controls under NIST SP 800-53, Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, USTRANSCOM only assessed a subset of 90 security controls for the ASDE-IL4 environment and 95 security controls for the ASDE-IL5 environment.
- USTRANSCOM based its assessment solely on responses to inquiry and did not examine or test documentation to support its conclusions as to whether it had implemented the controls.

The August 2020 Security Assessment Reports (SAR) for the ASDE-IL4 and ASDE-IL5 environments found control weaknesses including, but not limited to:

- Improperly managed accounts.
- Lack of least privilege.
- Incomplete asset and software inventories, which resulted in an incomplete configuration management baseline.
- Unapproved changes to the system.
- Incomplete implementation of configuration compliance evaluation (i.e., Security Technical Implementation Guide checklists and automated scans).
- Incomplete vulnerability scan coverage.

Additionally, USTRANSCOM's policies and procedures for its AWS cloud environments were either in draft form or were not available.

DoD Instruction 8510.01, *Risk Management Framework (RMF) for DoD Information Technology (IT)*, dated 28 July 2017, Enclosure 8, *RMF Transition*, states that DoD information systems must transition to RMF within the following date ranges:

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

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

> *Provide and monitor federal information system security controls consistent with information system category (low, moderate, high), impact on security objectives (confidentiality, integrity, availability), and minimum security requirements (for example, access control, configuration management, and*

> *incident response) as specified by National Institute of Standards and Technology (NIST) and consistent with OMB Circular No. A-130.*

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

> *(b) Requirement to Prescribe Standards.—*
>
> *(1) In general.—*
>
> *(A) Requirement.—Except as provided under paragraph (2), the Director of the Office of Management and Budget shall, on the basis of proposed standards developed by the National Institute of Standards and Technology pursuant to paragraphs (2) and (3) of section 20(a) of the National Institute of Standards and Technology Act (15 U.S.C. 278g–3(a)) and in consultation with the Secretary of Homeland Security, promulgate information security standards pertaining to Federal information systems.*
>
> *(B) Required standards.—Standards promulgated under subparagraph (A) shall include— (i) standards that provide minimum information security requirements as determined under section 20(b) of the National Institute of Standards and Technology Act (15 U.S.C. 278g–3(b)); and (ii) such standards that are otherwise necessary to improve the efficiency of operation or security of Federal information systems.*
>
> *(C) Required standards binding.—Information security standards described under subparagraph (B) shall be compulsory and binding.*

These conditions primarily occurred because under DoD Instruction 8510.01, *Risk Management Framework (RMF) for DoD Information Technology*, dated 28 July 2017 (incorporating Change 2), Enclosure 8, Paragraph 5, USTRANSCOM AOs granted USTRANSCOM accreditation extensions for DIACAP, as necessary, to provide additional time for transitioning to RMF and/or migrating to the cloud. This guidance conflicts with the requirements presented in TFM, OMB Circular No. A-130, and 40 U.S.C. § 11331. In October 2019, the USTRANSCOM Chief Information Officer (CIO) issued a memorandum giving additional extensions to those systems still undergoing transition to RMF.

Additionally, USTRANSCOM has not developed and implemented sufficient guidance for fully implementing the RMF. Specifically, the USTRANSCOM CIO RMF Guidance Memorandum, signed on October 31, 2019, does not provide sufficient guidance for USTRANSCOM to implement and assess NIST 800-53, Revision 4 controls beyond the 95 controls selected for testing.

By not implementing RMF timely, USTRANSCOM faces missed opportunities to obtain benefits such as the following, as identified in NIST SP 800-37. 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).

Moreover, without adequate control assessment procedures, such as removing the limitation on the number of controls assessed, the USTRANSCOM AO does not have all of the information necessary to assess the risk that the ASDE-IL4 and ASDE-IL5 cloud environments pose to the organization.

We recommend:

- USTRANSCOM expedite the transition from DIACAP to RMF, as outlined in DoD Instruction 8510.01 and NIST SP 800-37, Revision 1.
- USTRANSCOM continue to implement RMF for its AWS cloud environment and update its RMF guidance to include instructions for fully implementing RMF.

APPENDIX B: NONCOMPLIANCE AND OTHER MATTERS

During our engagement to audit the fiscal years (FYs) 2020 and 2019 financial statements of the U.S. Transportation Command's (USTRANSCOM's) Transportation Working Capital Fund (TWCF), we identified 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 2020, 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 systems to amounts recorded in GL systems and 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 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 accordance 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 accruals, including revenue accruals.

3. USSGL at the Transaction Level

- Was unable to provide transaction-level populations that reconciled to the amounts reported for certain TWCF financial statement balances.
- 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
(NEW 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 effectiveness of internal control. OMB issues Circular No. A-123 under the authority prescribed in the Federal Manager's Financial Integrity Act (FMFIA) codified at 31 U.S.C. § 3512.

Although USTRANSCOM has implemented a Risk Management and Internal Control program to help satisfy FMFIA and Circular No. A-123 requirements, 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).

Specific recommendations to help ensure FMFIA compliance are provided in Appendix A.

PROMPT PAYMENT ACT AND PURPOSE STATUTE
(NEW FINDING)

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

31 U.S.C. § 3902 also prescribes the source of funds to pay interest penalties and specifically 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 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, USTRANSCOM components—Air Mobility Command and Command Staff—did not use the TWCF Treasury Account Symbol (TAS) to pay interest. USTRANSCOM is potentially noncompliant with the source of funds provision of the Prompt Payment Act. Additionally, because TWCF costs were paid from a different TAS, USTRANSCOM is potentially noncompliant with the Purpose Statute at 31 U.S.C. § 1301(a). USTRANSCOM told us this is a Defense Enterprise Accounting and Management System (DEAMS) configuration issue and that it is working to determine the basis for this configuration.

APPENDIX C: USTRANSCOM'S COMMENTS

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

6 November 2020

MEMORANDUM FOR COTTON & COMPANY LLP

FROM: USTRANSCOM/J8
203 WEST LOSEY STREET
SCOTT AIR FORCE BASE, IL 62225-5233

SUBJECT: United States Transportation Command (USTRANSCOM) Transportation Working Capital Fund (TWCF) Financial Statement Audit – Management Response to the Fiscal Year (FY) 2020 Independent Auditors' Report

Reference: *Fiscal Year 2020 Independent Auditors' Report*

1. I have received and reviewed a copy of the draft Independent Auditors' Report for the FY 2020 USTRANSCOM TWCF financial statements. I concur with the conclusions and findings as they have been presented in the FY 2020 Audit Report with the following comments to clarify facts presented by Cotton & Company we feel are misstated. For FY 2020, the goal of the audit was to sample and test beginning balance populations as the Command has made significant progress in this area despite the challenge of financial systems being upgraded and changed over the FY. USTRANSCOM is working with Cotton & Company, Defense Finance and Accounting Service (DFAS) and our component commands to address the potential noncompliance with the source of funds provision of the Prompt Payment Act. We offer the following clarifications:

(a) Page 5, para 2, AMC provided population of Other Liabilities Without Related Budgetary Obligations in PBC 20.0609.FIN
(b) Page 9, para 3: We acknowledge feeder system reconciliations have not been implemented for all significant feeder systems that interface with DEAMS, however, USTC did identify all feeder systems in PBCs 20.0052.FIN and 20.0053.FIN
(c) Page 9, para 4: SDDC provided documentation of the process used to identify significant TFMS feeder systems in PBCs 20.055.FIN and also in 20.0170.IT
(d) Page 12, para 8: SDDC has developed and implemented procedures for overseeing the service provider's financial reporting
(e) Page 26, para 1: PBCs 20.0028.IT and 20.0033.IT provided evidence IBS and TFMS both transitioned from DIACAP to RMF as of December 2019

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

2

3. Despite the unexpected challenge of undergoing the Financial Statement Audit during the COVID-19 pandemic, coupled with existing challenges of multiple complex financial systems and associated business processes, USTRANSCOM made advances in FY 2020 to mature the internal control environment and is committed to a collaborative approach amongst the component commands that will remediate current deficiencies, strengthen controls, and minimize future risks. USTRANSCOM will identify the appropriate corrective actions needed to support progress in achieving an unmodified opinion in the future while continuing to support the warfighter.

DILLY.TERRI.L.1231228337 Digitally signed by DILLY.TERRI.L.1231228337 Date: 2020.11.06 16:18:26 -06'00'

TERRI L. DILLY
Director, Program Analysis
and Financial Management

APPENDIX D: AUDITORS' RESPONSE TO USTRANSCOM'S COMMENTS

The U.S. Transportation Command (USTRANSCOM) concurred with the findings and conclusions in our report and provided five specific comments regarding facts USTRANSCOM officials feel are misstated. We stand by the factual accuracy of our report and, as such, considered these comments carefully. In response to certain of USTRANSCOM's comments, presented in Appendix C, we clarified the language in Appendix A, which describes USTRANSCOM's material weaknesses and significant deficiency.

Our responses to each of the five specific comments follow:

(a) In response to our request for the Air Mobility Command's (AMC's) population of Other Liabilities Without Related Budgetary Obligations for opening balance testing, AMC stated it was unable to provide a population. While we were executing internal control procedures, management provided a draft population and reconciliation to the Defense Enterprise Accounting and Management System (DEAMS) trial balance as of September 30, 2019. AMC stressed to us that this population was a draft and we asked that AMC notify us when an actual population was available. We received no such notification. We noted issues with the population and the reconciliation, which we communicated to AMC. Accordingly, we did not modify our report.

(b) AMC, Command Staff (CMD), and Defense Courier Division (DCD) did provide DEAMS revenues, collections, obligations, expenses, and outlays by feeder system. These USTRANSCOM components, however, do not have established processes to assemble and reconcile that information. In addition, AMC, CMD, and DCD did not identify those feeder systems they have determined to be significant or their bases for such determinations. We clarified the wording in our report accordingly.

(c) Although the Military Surface Deployment and Distribution Command (SDDC) identified significant feeder systems that interface with the Transportation Financial Management System (TFMS), we determined the identification is insufficient because the TFMS feeder system data did not reconcile to the TFMS trial balance. Additionally, certain of the documentation noted in Appendix C related to Integrated Booking System (IBS) to TFMS interface internal controls, not the determination of significant systems. Accordingly, we did not modify our report.

(d) We agree SDDC has developed and implemented procedures for overseeing the service provider's financial reporting processes. However, these procedures are incomplete and, therefore, are not fully developed and implemented. For example, in the FY 2020 Transportation Working Capital Fund financial statements, USTRANSCOM did not present SDDC's prior period adjustment in accordance with applicable accounting standards. Accordingly, we did not modify our report.

(e) Although USTRANSCOM stated that IBS and TFMS both transitioned from the Department of Defense Information Assurance Certification and Accreditation Process (DIACAP) to the Risk Management Framework (RMF) in December 2019, USTRANSCOM did not submit a closure package to evidence that the underlying causes of the related findings were remediated. We updated the significant deficiency in Appendix A to reflect that the deficiencies identified in FY 2019 remain open.

We appreciate USTRANSCOM bringing these details to our attention and we continue to remain committed to open communication with USTRANSCOM as it works to resolve its material weaknesses and significant deficiency.

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 LLP was the IPA engaged to audit these financial statements. The Independent Auditor's Report accompanies the principal financial statements and notes.

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

Consolidated Balance Sheets

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

Consolidated Statements of Net Cost

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

Consolidated Statements of Changes in Net Position

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

Combined Statements of Budgetary Resources

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

Notes to Financial Statements

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

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Consolidated Balance Sheets
As of September 30, 2020 and 2019
(dollars in thousands)

	Unaudited FY 2020	FY 2019 Restated
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 528,351	$ 469,049
Accounts Receivable, Net (Note 4)	1,552,389	1,447,515
Total Intragovernmental	$ 2,080,740	$ 1,916,564
Accounts Receivable, Net (Note 4)	$ 40,899	$ 25,361
General Property, Plant, and Equipment, Net (Note 5)	84,144	239,661
Other (Note 6)	959	729
Total Assets	$ 2,206,742	$ 2,182,315
Liabilities (Note 7)		
Intragovernmental:		
Accounts Payable	$ 68,154	$ 94,864
Other (Note 10)	50,544	50,225
Total Intragovernmental	$ 118,698	$ 145,089
Accounts Payable	$ 751,833	$ 747,500
Federal Employee Benefits Payable (Note 8)	17,069	18,534
Other (Note 10)	78,955	71,985
Total Liabilities	$ 966,555	$ 983,108
Net Position		
Unexpended Appropriations	$ 19,875	$ 22,934
Cumulative Results of Operations	1,220,312	1,176,273
Total Net Position	$ 1,240,187	$ 1,199,207
Total Liabilities and Net Position	$ 2,206,742	$ 2,182,315

The accompanying notes are an integral part of the statements.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Consolidated Statements of Net Cost
For the Periods Ended September 30, 2020 and 2019
(dollars in thousands)

	Unaudited FY 2020	FY 2019
Gross Program Costs (Note 14)		
Operations, Readiness & Support:		
Gross Costs	$ 7,318,865	$ 7,546,054
Less: Earned Revenue	(7,549,203)	(7,224,789)
Net Program Costs:	$ (230,338)	$ 321,265
Net Cost of Operations	$ (230,338)	$ 321,265

The accompanying notes are an integral part of the statements.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Consolidated Statements of Changes in Net Position
For the Periods Ended September 30, 2020 and 2019
(dollars in thousands)

	Unaudited FY 2020	FY 2019 Restated
Unexpended Appropriations:		
Beginning Balance	$ 22,934	$ 25,587
	22,934	25,587
Budgetary Financing Sources:		
Appropriations Transferred-In/Out (+/-)	$ 2,800	$ -
Appropriations Used	(5,859)	(2,653)
Total Budgetary Financing Sources	$ (3,059)	$ (2,653)
Total Unexpended Appropriations	$ 19,875	$ 22,934
Cumulative Results of Operations:		
Beginning Balances	$ 1,176,273	$ 1,702,733
Adjustments:		
Changes in Accounting Principles (+/-)	(66,849)	(82,847)
Corrections of Errors (+/-)	(5,390)	(110,941)
Beginning Balances, as Adjusted	$ 1,104,034	$ 1,508,945
Budgetary Financing Sources:		
Appropriations Used	$ 5,859	$ 2,653
Nonexchange Revenue	(180)	105
Other Financing Sources:		
Transfers In/Out without Reimbursement	(132,013)	(31,040)
Imputed Financing	12,007	17,165
Other	267	(290)
Total Financing Sources	$ (114,060)	$ (11,407)
Net Cost of Operations	$ (230,338)	$ 321,265
Net Change	$ 116,278	$ (332,672)
Cumulative Results of Operations	$ 1,220,312	$ 1,176,273
Net Position	$ 1,240,187	$ 1,199,207

The accompanying notes are an integral part of the statements.

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Combined Statements of Budgetary Resources
For the Periods Ended September 30, 2020 and 2019
(dollars in thousands)

		Unaudited FY 2020		FY 2019 Restated
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory) (Note 16)	$	827,939	$	1,610,517
Appropriations (discretionary and mandatory)		2,800		-
Contract Authority (discretionary and mandatory)		48,872		77,527
Spending Authority from Offsetting Collections (discretionary and mandatory)		8,043,578		7,237,753
Total Budgetary Resources	$	8,923,189	$	8,925,797
Status of Budgetary Resources				
New Obligations and Upward Adjustments (total)	$	8,084,220	$	8,166,588
Unobligated Balance, end of year:				
Apportioned, Unexpired Accounts		838,969		759,209
Unexpired Unobligated Balance, end of year	$	838,969	$	759,209
Unobligated Balance, end of year (total)	$	838,969	$	759,209
Total Budgetary Resources	$	8,923,189	$	8,925,797
Outlays, Net and Disbursements, Net				
Outlays, net (total) (discretionary and mandatory)	$	(56,502)	$	57,557
Agency Outlays, net (discretionary and mandatory)	$	(56,502)	$	57,557

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 and global responsibilities through component commands, subordinate commands, and a courier division. Like all CCMDs, USTRANSCOM constitutes a headquarters element without any military units permanently assigned to it. USTRANSCOM operates with Service Component Commands – one for each of the following U.S. Armed Services: the U.S. Navy, the U.S. Army, and the U.S. Air Force. The Service Component Commands are assigned to the USTRANSCOM Commander to accomplish its UCP mission, most of which is funded by the TWCF. In this support role, the Service Component Commands are part of the TWCF. The Service Component Commands are funded by the TWCF for their costs associated with the performance of TWCF missions. However, the Service Component Commands also execute non-TWCF missions for its Service. The funds the Service Component Commands operate with, for the TWCF mission, come from the revenue generated by the TWCF when intragovernmental and public customers are billed for transportation services rendered in accordance with published rates.

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

B. Mission of the Reporting Entity

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

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

Military Surface Deployment and Distribution Command (SDDC) – SDDC is a unique Army command that delivers world-class, origin-to-destination distribution solutions. Whenever and wherever Soldiers, Sailors, Airmen, Marines and Coast Guardsmen are deployed, SDDC is involved in planning and executing the surface delivery of their equipment and supplies. SDDC manages all aspects of surface movement, from planning, booking and shipping, to tracking cargo and conducting port operations anywhere in the world. In addition, SDDC provides reliable cost-effective, global surface deployment and distribution transportation services in support of national defense objectives.

Military Sealift Command (MSC) – MSC is responsible for providing sealift and ocean transportation for all military services as well as for other government agencies. MSC is the premier provider of ocean transportation that operates approximately 125 civilian-crewed ships that replenish U.S. Navy ships, conduct specialized missions, strategically preposition combat cargo at sea around the world, and move military cargo and supplies used by deployed U.S. forces and coalition partners. MSC's mission is supported by providing essential logistics and service support to the warfighters around the globe. On any given day, USTRANSCOM has 30 of these 125 ships underway.

Air Mobility Command (AMC) – AMC's mission is to provide rapid, global air mobility and humanitarian sustainment for America's armed forces. AMC provides the capability to deploy U.S. armed forces anywhere in the world in a matter of hours and help sustain them in a conflict. AMC brings humanitarian supplies and assistance to those in need who may live in harsh locations. The men and women of AMC provide airlift and aerial refueling for all of America's armed forces. AMC also performs aeromedical evacuations, which has been important amid the COVID-19 pandemic.

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

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

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

Defense Courier Division (DCD)[17] – 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 activities of 18 courier stations worldwide to service over 6,000 accounts. Each courier station is assigned responsibility for providing courier service to customers within a defined geographic region.

C. Basis of Presentation

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

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[17] 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 its 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.

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 due to limitations of financial and nonfinancial management processes and systems that support the financial statements. USTRANSCOM derives reported values and information for major asset and liability categories largely from nonfinancial systems. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by GAAP. These systems were designed to support reporting requirements for maintaining accountability over assets and recording information on a budgetary basis, rather than preparing financial statements in 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. The underlying data is largely derived from budgetary transactions (i.e., obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, revenues, and accounts receivable.

USTRANSCOM presents the Balance Sheets, Statements of Net Cost, and Statements of Changes in Net Position on a consolidated basis which is the summation of the components less the 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 a proprietary accrual and a 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. 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 constraints and controls over the use of federal funds. USTRANSCOM's continued effort towards full compliancy with GAAP for the accrual method of accounting is encumbered by various systems limitations and the sensitive nature of USTRANSCOM activities.

USTRANSCOM and the DoD are continuing to evaluate the effects that will result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. The pronouncements listed below are expected to have an impact on the financial statements; however, USTRANSCOM is currently unable to determine the full impact.

- 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 53, *Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.

- 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, *Interpretation of Federal Financial Accounting Standards 9, Loss Allowance for Intragovernmental Receivables*: Issued February 20, 2020; Effective upon issuance.

- Technical Release 18, *Implementation Guidance for Establishing Opening Balances*: Issued October 2, 2017; Effective upon issuance.

Departures from GAAP

USTRANSCOM records transactions on the accrual and budgetary bases of accounting, unless otherwise indicated below as departures from GAAP, some of which are pervasive problems within DoD that all DoD entities face and cannot be remediated at the USTRANSCOM level. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to receipt or payment of cash. The budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. Budgetary accounting is used for planning and control purposes, relates to both the receipt and use of cash, and is essential for compliance with legal constraints and controls over the use of federal funds.

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 all DoD entities face and cannot be remediated at the USTRANSCOM level.

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

FBWT – USTRANSCOM is not able to identify its undistributed collections and disbursements in a timely manner because the proper reporting level of TI-97 has not been established. See note 1G for further explanation. In addition, USTRANSCOM was not able to record and report transactions in suspense accounts established by the U.S. Treasury to temporarily hold unidentifiable transactions until they are classified to the proper receipt or expenditure account because suspense balances are not included in FBWT balances. USTRANSCOM is also not yet able to fully provide Statement of Differences (SOD) populations to support the FBWT line item on the balance sheet. As a result, USTRANSCOM is unable to explain discrepancies between its FBWT recorded in its general ledger accounts and the balance in the U.S. Treasury's accounts in accordance with SFFAS 1, *Accounting for Selected Assets and Liabilities*.

Accounts Receivable, Net and Revenue Recognition – The accounts receivable balance and the associated allowance for uncollectible accounts receivable reported at period-end were not in full compliance with

SFFAS 1, *Accounting for Selected Assets and Liabilities,* and SFFAS 7, *Accounting for Revenue and Other Financing Sources* for multiple reasons. First, to comply with DoD trading partner requirements, the USTRANSCOM's buyer-side accounts payable are adjusted to agree with the USTRANSCOM seller-side accounts receivable, resulting in potentially misstating both Accounts Payable and Accounts Receivable. USTRANSCOM also does not have a process in place to capture and retain sufficient documentation to demonstrate that services were requested and provided, including the date services were provided, to support the accounts receivable balance.

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

PP&E, 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, A*ccounting for Property, Plant, and Equipment*, and/or SFFAS 10, *Accounting for Internal Use Software*. As USTRANSCOM does not yet have SFFAS 6 and SFFAS 10 compliant go-forward processes, supportable PP&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*; however, has begun writing off IUS in preparation for making an unreserved assertion.

Accounts Payable – 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 payable liability. 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 valid transaction level populations of Other Liabilities Without Related Budgetary Obligations (both intragovernmental and public) to support the balance reported on the trial balance. Additionally, USTRANSCOM has not yet finalized the analysis to determine the validity of the balances.

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

Commitments and Contingencies – USTRANSCOM's legal representation letter process is insufficient. USTRANSCOM has not implemented internal control activities to ensure that disclosures concerning unasserted claims and the completeness of the list of pending or threatened litigations, claims, and assessments is disclosed in the legal representation letter. Additionally, USTRANSCOM does not have processes in place to coordinate and communicate across USTRANSCOM, each of USTRANSCOM's service component commands, the corresponding general counsels for each of the military services, the Department of Justice, and other identified parties with responsibility for or knowledge of litigations, claims, and assessments that may affect accounting and reporting requirements for the TWCF. The lack of sufficient internal control activities and coordination impedes USTRANSCOM's ability to assert to the completeness of loss contingencies pursuant to SFFAS 5, *Accounting for Liabilities of the Federal Government* and SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government.*

The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

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 – USTRANSCOM does not have compliant processes in place to ensure its Consolidated Statements of Net Cost are presented in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts*, and SFFAS 55, *Amending Inter-Entity Cost Provisions*. The Defense Departmental Reporting System (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.

Budgetary 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*.

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*.

Undelivered Orders (UDOs) – Obligations, Unpaid – USTRANSCOM does not have effective internal controls to ensure that the open balances are valid and recorded at the correct amount and in the appropriate FY in accordance with OMB Circular A-11, Preparation, Submission, and Execution of the Budget.

Unsupported Journal Vouchers (JVs) – 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.

Prior Period Adjustment for Correction of Error – USTRANSCOM is not in compliance with SFFAS 21, *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources* as not all corrections of errors are presented in accordance with the standard.

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.

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

The U.S. TFM, Volume I, Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the federal government. Costs and earned revenues with the public represents exchange transactions made between the reporting entity and a nonfederal entity. 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 sometimes 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 the DoD are recognized as imputed cost in the Statements of Net Cost and are offset by imputed financing in the Statements of Changes in Net Position. 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 (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the FECA; and (3) losses in litigation proceedings that are paid from the U.S. Treasury Judgement Fund. For additional information, see Note 14, 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 receivable, net.

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. USTRANSCOM's monetary resources of collections and disbursements are maintained in U.S. Treasury accounts. The disbursing offices of DFAS, the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process most 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.

In addition, DFAS and the USACE Finance Center report to the U.S. Treasury by appropriation (i.e., 97X4930.003 for USTRANSCOM) on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBWT account.

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

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

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

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

H. Cash and Other Monetary Assets
Not applicable.

I. Investments and Related Interest
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 nonfederal government agencies, as well as amounts due from foreign governments.

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

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

K. Direct Loans and Loan Guarantees
Not applicable.

L. Inventories and Related Property
Not applicable.

M. General Property, Plant, and Equipment
General PP&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 General PP&E assets are capitalized if they (1) extend the asset's useful life by two or more years, or increase the asset's capability, or increase its capacity or size, and (2) equal or exceed the relevant capitalization threshold. The capitalization threshold for General PP&E assets is $250 thousand.
The TWCF capitalizes all PP&E used in the performance of its mission. These assets are capitalized as General PP&E, if they don't meet the definition of any other PP&E category.

Depreciation Method (Unaudited):

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

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

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 the real property to the installation host.

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, USTRANSCOM reports CIP for real property (including improvements) in its CIP account until the asset or improvement 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.

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

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

N. Other Assets

Other Assets include those assets, such as military and civil service employee pay advances and travel advances not reported elsewhere on USTRANSCOM's Balance Sheets. USTRANSCOM currently has advances and prepayment in Other Assets.

For additional information, see Note 6, Other Assets.

O. Leases

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

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 7, Liabilities Not Covered by Budgetary Resources.

Q. Environmental and Disposal Liabilities

Not applicable.

R. Other Liabilities

Other Liabilities include the following:

Advances from Others which represent amounts received in advance for goods or services that have not been fully rendered by USTRANSCOM.

Accrued Payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of the balance sheet date.

Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. 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. 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.

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

Employer Contributions and Payroll Taxes Payable represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments. OPM administers insurance benefit programs available for coverage to USTRANSCOM eligible civilian employees. These programs include life and health insurance, and employee participation is voluntary. The life insurance program, Federal Employees' Group Life Insurance (FEGLI) plan, is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees' Health Benefits (FEHB) program is comprised of different types of health plans that are available to federal employees for individual and family coverage for healthcare. OPM, as the administrating agency, establishes the types of insurance, options for coverage, the premium amounts to be paid by the employees and the amount of benefit received. USTRANSCOM has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employer contributions are submitted to OPM. Additional information may be found on OPM's website.

For additional information, see Note 10, 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 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. These legal actions are estimated and disclosed in Note 12, 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. USTRANSCOM's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; property or environmental damages; and contract disputes.

For additional information, see Note 12, Commitments and Contingencies.

T. Military and Civilian Retirement 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 8, Other Federal Employment Benefits.

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, which is to borrow from the public if there is a budget deficit.

USTRANSCOM's TWCF received its initial FBWT corpus through an appropriation or transfer of resources from existing appropriations or funds from the DWCF. There are several DWCFs, one of which is the Air Force Working Capital Fund (AFWCF). USTRANSCOM's TWCF is reported by the U.S. Treasury as part of the AFWCF; however, the TWCF Financial Statements are consolidated into the ODO WCF financial statements.

The corpus financed initial operations. Since then, services have been provided to customers on a reimbursable basis to maintain the FBWT corpus. USTRANSCOM receives budget authority (capital obligation authority and spending authority from offsetting collections) from the OSD via the AOB. OMB apportions via the SF-132 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 NDAA 2007 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 nonexchange revenue. Exchange revenue is derived from transactions in which USTRANSCOM provides services to another party for a price; both USTRANSCOM and the other party receive value. Exchange revenue is presented on the Consolidated Statements of Net Cost and serves to offset the costs of goods and services. Nonexchange revenue is derived from the government's sovereign right to demand payment, such as specifically identifiable, legally enforceable claims. Nonexchange revenue is considered to reduce the cost of the USTRANSCOM operations and is therefore reported on the Consolidated Statements of Changes in Net Position as a financing source.

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

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

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. To the extent customer revenue is insufficient to support the costs of maintaining this capability, the Air Force shall provide appropriated funds through the ARA. This is not a direct appropriation to USTRANSCOM but is instead recorded in AMC's financial statements as a customer order and associated revenue in accordance with DoD FMR guidance.

Similar to the ARA funding, SDDC is required to plan for and maintain a Reserve Industrial Capacity (RIC) to transport personnel resources, material, and other elements required to satisfy a mobilization requirement. The SDDC plans and programs with the Army for 100% of the operating cost at the Military Ocean Terminal, Concord (MOTCO). The Military Ocean Terminal, Sunny Point (MOTSU) RIC and the operating costs at MOTCO are a mobilization requirement funded by appropriated funds from the DoD Component having management responsibility for this activity. This requirement may exist in both peacetime and contingency environments. USTRANSCOM records the receipt of this funding in SDDC's financial statements as a customer order and associated revenue in accordance with DoD FMR guidance.

V. Recognition of Expenses

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

W. Treaties for Use of Foreign Bases

USTRANSCOM uses land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. 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 takes into account 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.

X. Use of Estimates

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

Y. Parent-Child Reporting

Not applicable.

Z. Transactions with Foreign Governments and International Organizations

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

AA. Fiduciary Activities

Not applicable.

BB. 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.

Note 2. Non-Entity Assets

As of September 30, 2020 and 2019 (dollars in thousands):

	Unaudited	
	FY 2020	**FY 2019**
Intragovernmental:		
Accounts Receivable	$ 202	$ 469
Total Non-Entity Assets	$ 202	$ 469
Total Entity Assets	$ 2,206,540	$ 2,181,846
Total Assets	$ 2,206,742	$ 2,182,315

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

Note 3. Fund Balance with Treasury

As of September 30, 2020 and 2019 (dollars in thousands):

		Unaudited		
		FY 2020		FY 2019 Restated
Status of Fund Balance with Treasury				
Unobligated Balance				
Available	$	838,970	$	759,208
Obligated Balance not yet Disbursed		2,759,906		2,523,727
Non-Budgetary FBWT				
Unfilled Customer Orders without Advance	$	(1,481,381)	$	(1,316,487)
Contract Authority		(16,931)		(30,940)
Receivables and Other		(1,572,213)		(1,466,459)
Total Non-Budgetary FBWT	$	(3,070,525)	$	(2,813,886)
Total FBWT	$	528,351	$	469,049

FBWT represents funds held within the Department of the U.S. Treasury from which USTRANSCOM can pay for its ongoing operations. USTRANSCOM reconciles and adjusts its FBWT recorded in the general ledger so that the balances reported in the financial statements agree to the FBWT amounts on record with the U.S. Treasury. The U.S. Treasury records FBWT receipts and disbursements on USTRANSCOM's behalf and funds are available only for the purposes for which they were appropriated. USTRANSCOM's FBWT consists primarily of working capital funds.

The status of FBWT 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 Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The obligated balance not yet disbursed represents funds that have been obligated to obtain goods and services in support of USTRANSCOM operations; the balance includes goods and services not yet received, and goods and services received but for which payment has not yet been made.

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

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 U.S. Treasury accounts is attributable to transactions that have not been posted 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. In addition, see Note 21 for COVID-19 impacts on FBWT, as well as Note 20 for information on FY 2019 restated amounts.

Note 4. Accounts Receivable, Net

As of September 30, 2020 (dollars in thousands):

	Gross Amount Due	*Unaudited* Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Accounts Receivable, Net			
Intragovernmental Receivables	$ 1,552,389	$ -	$ 1,552,389
Non-Federal Receivables (From the Public)	45,511	(4,612)	40,899
Total Accounts Receivable	$ 1,597,900	$ (4,612)	$ 1,593,288

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

	Gross Amount Due	*Unaudited* Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Accounts Receivable, Net			
Intragovernmental Receivables	$ 1,447,515	$ -	$ 1,447,515
Non-Federal Receivables (From the Public)	29,951	(4,590)	25,361
Total Accounts Receivable	$ 1,477,466	$ (4,590)	$ 1,472,876

Note: The allowance for estimated uncollectibles for Intragovernmental Receivables is $0 due to USTRANSCOM only recognizing an allowance for nonfederal receivables.

Accounts receivable represent USTRANSCOM's claim for payment from other entities. USTRANSCOM's intragovernmental receivables include amounts due to USTRANSCOM from other DoD agencies through reimbursable orders for various services. Receivables due from the public include amounts due from nonfederal government agencies, as well as amounts due from foreign governments.

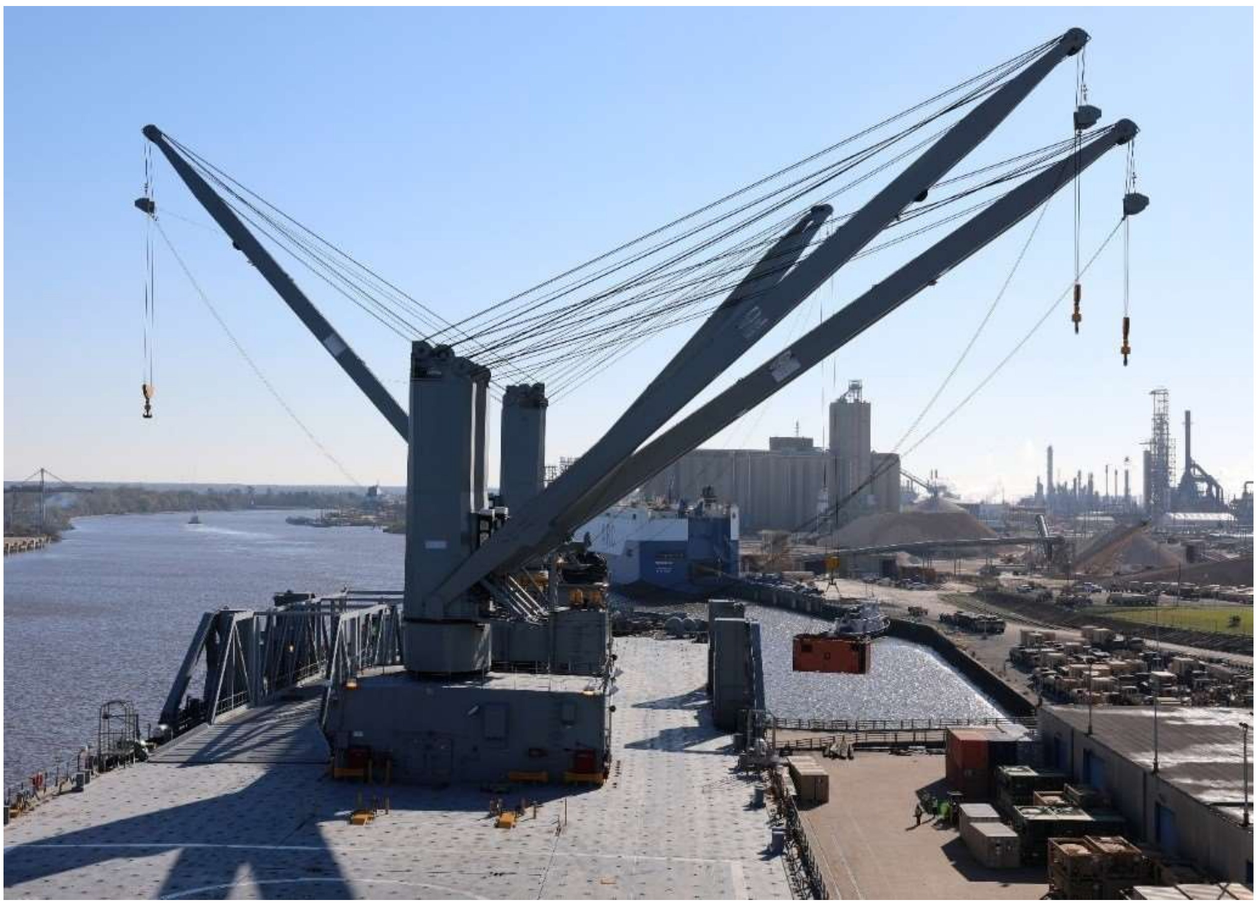
DoD working capital funds, such as the TWCF, are authorized to charge amounts necessary to recover the full costs of goods and services provided.[18] However, the TWCF is authorized to establish airlift customer rates to be competitive with commercial air carriers. This results in some rates charged to customers that are below actual costs incurred by the TWCF. Due to mobilization requirements, the resulting revenue does not always cover the full costs of airlift operations provided through the TWCF. To the extent customer revenue is insufficient to support the costs of maintaining airlift capability, the Air Force provides appropriated funds. The Air Force generally pays for expenses not covered by TWCF rates through the ARA. The Air Force requests ARA funds in its annual Operations and Maintenance budget request; however, the ARA request is not presently broken out in the budget request as an individual line item. These funds are subsequently provided to USTRANSCOM to assist in paying for airlift services. Amounts requested, allotted, and expended vary from year-to-year, in part due to the amount of airlift

[18] 10 U.S.C. § 2208

services provided by USTRANSCOM.[19] As of September 30, 2020, the outstanding ARA receivable amount included in intragovernmental receivables is $168 million.

USTRANSCOM only recognizes an allowance for uncollectible amounts from the public. The allowance for estimated uncollectible public receivables is attributable primarily to AMC and is calculated at the beginning of each FY by using the actual amount of public revenue for the prior two FYs and applying the National Bad Debt Statistic recommended ideal rate of .2% or .002 of total sales. The amount derived from this calculation is divided and posted equally among each of the 12 months in the FY. 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.



[19] Source: GAO-18-557

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

As of September 30, 2020 (dollars in thousands):

	Unaudited Acquisition Value	Unaudited Accumulated Depreciation/ Amortization	Unaudited Net Book Value
Major Fixed Asset Classes			
Buildings, Structures, and Facilities	$ -	$ -	$ -
Software	43,668	-	43,668
General Equipment	160,897	(149,153)	11,744
Construction-in-Progress (CIP)	28,732	-	28,732
Other	-	-	-
Total General Property, Plant, and Equipment	$ 233,297	$ (149,153)	$ 84,144

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

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

As of September 30, 2020 (dollars in thousands):

	Unaudited FY 2020
General PP&E, Net beginning of year	$ 239,661
Capitalized Acquisitions	67,008
Dispositions	(76,443)
Revaluations (+/-)	-
Depreciation Expense	(14,069)
Transfers In/(Out) without Reimbursement	(132,013)
General PP&E, Net end of year	$ 84,144

Buildings, structures, and facilities – 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. USTRANSCOM is imputing costs for the use of real property assets in accordance with SFFAS 55, *Amending Inter-Entity Cost Provisions*.

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

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

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

Leases – USTRANSCOM has not fully developed and executed its accounting policy and related reporting requirements for its lease activity. USTRANSCOM will be identifying the universe of leases and performing an analysis of its lease contracts to determine capital versus operating leases; however, that process has not yet been started as of September 30, 2020.

Dispositions – USTRANSCOM's PP&E dispositions of $76.4 million were comprised of $66.8 million in prior period IUS write-offs that occurred during FY 2019, but are recorded as a write-off in FY 2020, and $9.6 million of real property asset clean up. The IUS write-off is discussed in more detail below. SDDC's real property asset clean up reconciled assets to the property management system and confirmed the physical existence of the assets. If the item was no longer in service or could not be identified, it was removed from the accounting system.

Change in Accounting Principle – In FY 2016, USTRANSCOM and its financial statement component entities, SDDC, MSC, AMC, DCD, and Headquarters (i.e., CMD) executed a comprehensive write-off of IUS balances in accordance with a September 30, 2015, OUSD(C) Memorandum titled *Strategy for Internal Use Software Audit Readiness*. The goal of this OUSD(C) guidance was to establish policy guidelines for DoD-wide IUS audit readiness strategy. At the time of the write-off, SDDC, AMC, MSC, and CMD had material balances of IUS affected by this change in accounting principle. DCD was the only financial statement component 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 for FY 2020 and FY 2019 below.

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

The prior period adjustment write-off in FY 2020 and FY 2019 is for activity occurring in FY 2019 and FY 2018, respectively. The following is the IUS write-off that took place in FY 2020, along with the FY 2019 write-off (*dollars in thousands)*:

	Unaudited	
	FY 2020	FY 2019
SDDC	$ 5,843	$ 6,740
AMC	30,568	31,124
CMD	30,381	38,657
TOTAL	**$ 66,792**	**$ 76,521**

USTRANSCOM acknowledges departures from GAAP related to PP&E as discussed in Note 1D.

Note 6. Other Assets

As of September 30, 2020 and 2019 (dollars in thousands):

	Unaudited	
	FY 2020	FY 2019
Non-Federal Other Assets		
Advances and Prepayments	$ 959	$ 729
Total Other Assets	$ 959	$ 729

Advances and Prepayments primarily represents payments USTRANSCOM made in advance for payroll and travel. In FY 2019, the abnormal balance was due to payroll advances erroneously posting to expenses. This issue was resolved in FY 2020 by analyzing each posting and making the necessary

corrections to the expense and advance account. Payroll advances are now recorded correctly as an asset and not an expenditure, in accordance with GAAP.

Note 7. Liabilities Not Covered by Budgetary Resources

As of September 30, 2020 and 2019 (dollars in thousands):

	Unaudited	
	FY 2020	FY 2019 Restated
Intragovernmental		
Other	$ 47,504	$ 47,658
Total Intragovernmental	$ 47,504	$ 47,658
Non-Federal Liabilities		
Federal Employee Benefits	$ 17,121	$ 18,585
Unfunded Leave	-	10,549
Other Liabilities	40,777	38,439
Total Non-Federal Liabilities	$ 57,898	$ 67,573
Total Liabilities Not Covered by Budgetary Resources	$ 105,402	$ 115,231
Total Liabilities Covered by Budgetary Resources	$ 861,153	$ 867,877
Total Liabilities	$ 966,555	$ 983,108

Other Intragovernmental Liabilities – This primarily represents liabilities offsetting ITR receivables and collections. ITR is the amount AMC bills non-DoD federal and public customers above stabilized DoD rates to recover the full cost incurred by the federal government. Collections of these costs, which include unfunded civilian retirement and post-retirement benefit costs, are not retained by the TWCF, but are redistributed regularly to General Fund accounts. Also included in this amount are unemployment compensation liabilities (FECA).

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

Liabilities Due to the Public – Unfunded Leave – This liability represents accrued, earned civilian leave that will be funded in future years and is typically applicable to general funds. In FY 2019, there was $13.4 million recorded in this line item in error, as a result of the civilian leave accrual being recorded in the wrong USSGL account. The accrual has since been corrected and is now recorded using the appropriate USSGL account; this amount is included in the Liabilities Covered by Budgetary Resources total.

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

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.

See Note 20 for information on FY 2019 restated amounts.

Note 8. Other Federal Employment Benefits

As of September 30, 2020 (dollars in thousands):

	Liabilities	*Unaudited* Less: Assets Available to Pay Benefits	Unfunded Liabilities
Federal Employment Benefits			
FECA	$ 17,121	$ -	$ 17,121
Other	(52)	52	-
Total Federal Employment Benefits	$ 17,069	$ 52	$ 17,121

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

	Liabilities	*Unaudited* Less: Assets Available to Pay Benefits	Unfunded Liabilities
Federal Employment Benefits			
FECA	$ 18,585	$ -	$ 18,585
Other	(51)	51	-
Total Federal Employment Benefits	$ 18,534	$ 51	$ 18,585

USTRANSCOM actuarial liability for workers' compensation benefit is developed by the DOL and is updated at the end of each FY. 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 2020, the methodology for billable projected liabilities was revised to include, among other things: (1) an algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model) and (2) incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments. The FY 2019 methodology used a traditional paid loss development method with the FECA Case Reserve Model run concurrently to, among other things, test the validity of the FECA Case Reserve Model.

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

DOL selected the COLA factors, CPI-M factors, and discount rate by averaging the COLA rates, CPI-M rates, and interest rates for the current and prior four years. Using averaging renders estimates that reflect historical trends over five years instead of conditions that exist in one year. The FY 2020 and FY 2019 methodologies for averaging the COLA rates used OMB-provided rates for the current and prior four years, the FY 2020 methodology also considered updated information for the current year that was provided by program staff. The FY 2020 and FY 2019 methodologies for averaging the CPI-M rates used OMB-provided rates for the current and prior four years, the FY 2020 methodology also considered updated information for the current year that program staff obtained from the Bureau of Labor Statistics public releases for Consumer Price Index (CPI).

The actual rates for these factors for the charge back year (CBY) 2020 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
2020	N/A	N/A
2021	1.87%	3.21%
2022	2.14%	3.23%
2023	2.19%	3.60%
2024	2.23%	4.01%
2025	2.30%	3.94%

DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2020 and FY 2019, respectively. Interest rate assumptions utilized for FY 2020 discounting were as follows:

- For wage benefits: 2.414% in year 1 and years thereafter,
- For medical benefits: 2.303% in year 1 and years thereafter.

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

The DOL Office of the Inspector General (OIG) issued in July 2020 a report that found that most Office of Workers' Compensation Programs (OWCP) are experiencing or expecting delays and resource management issues as a result of increasing claims and social distancing mandates brought on by the COVID-19 pandemic. In general, there have been downward trends in the number of open claims and closed claims and payments, based on the average of the prior five CBYs, the number of open claims has decreased about 7 percent, the number of closed claims has decreased about 16 percent, and payments have decreased an estimated 19 percent. Federal employees who contract COVID-19 while in the performance of their federal duties are entitled to workers' compensation coverage pursuant to FECA, which could affect future claims and payments.

Note 9. Environmental Liabilities and Disposal Liabilities

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. As a result, any associated environmental and disposal liability resides with the installation host where the asset is located.

Note 10. Other Liabilities

As of September 30, 2020 (dollars in thousands):

	Current Liability	*Unaudited* Noncurrent Liability	Total
Intragovernmental			
FECA Reimbursements due to DOL	$ 1,453	$ 1,744	$ 3,197
Custodial Liabilities	201	-	201
Employer Contributions and Payroll Taxes Payable	2,839	-	2,839
Other Liabilities	44,307	-	44,307
Total Intragovernmental	$ 48,800	$ 1,744	$ 50,544
Non-Federal			
Accrued Funded Payroll and Benefits	$ 35,630	$ -	$ 35,630
Advances from Others	217	-	217
Unfunded Leave	-	-	-
Contract Holdbacks	173	-	173
Contingent Liabilities	-	1,432	1,432
Employer Contributions and Payroll Taxes Payable	168	-	168
Other Liabilities	41,335	-	41,335
Total Non-Federal	$ 77,523	$ 1,432	$ 78,955
Total Other Liabilities	$ 126,323	$ 3,176	$ 129,499

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

	Current Liability	*Unaudited* Noncurrent Liability	Total
Intragovernmental			
FECA Reimbursements due to DOL	$ 1,483	$ 1,851	$ 3,334
Custodial Liabilities	469	-	469
Employer Contributions and Payroll Taxes Payable	2,098	-	2,098
Other Liabilities	44,324	-	44,324
Total Intragovernmental	$ 48,374	$ 1,851	$ 50,225
Non-Federal			
Accrued Funded Payroll and Benefits	$ 22,457	$ -	$ 22,457
Advances from Others	237	-	237
Unfunded Leave	10,549	-	10,549
Contract Holdbacks	174	-	174
Contingent Liabilities	-	-	-
Employer Contributions and Payroll Taxes Payable	(550)	-	(550)
Other Liabilities	39,118	-	39,118
Total Non-Federal	$ 71,985	$ -	$ 71,985
Total Other Liabilities	$ 120,359	$ 1,851	$ 122,210

FECA reimbursement due to the DOL – The FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the DOL and consists of two parts. The first part pays valid claims and subsequently seeks reimbursement from USTRANSCOM for these paid claims. USTRANSCOM reimburses the DOL for the actual claims as funds are appropriated for this purpose. There is generally a two- to three-year lag between payment by the DOL and reimbursement by USTRANSCOM. The amount above represents the liability for workers' compensation that is remitted to the DOL as required per the FECA. The second part of the FECA program consists of the actuarial liability calculated by the DOL. See Note 8, Other Federal Employment Benefits, for more information regarding the actuarial liability. Billed amounts payable in FY 2019 and FY 2020 and unbilled amounts for both incurred and estimated accrual amounts are included above.

Custodial Liabilities – This amount represents liabilities for collections reported as non-exchange revenues where USTRANSCOM is acting on behalf of another federal entity. Custodial liabilities are immaterial to USTRANSCOM's financial statements and represent interest, penalties and fines receivable.

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

Intragovernmental Other Liabilities – These primarily represent liabilities offsetting ITR receivables and collections. ITR is the amount AMC bills non-DoD federal and public customers above stabilized DoD rates to recover the full cost incurred by the federal government. Collections of these costs, which include unfunded civilian retirement and post-retirement benefit costs, are not retained by the TWCF, but are redistributed regularly to General Fund accounts.

Accrued Funded Payroll and Benefits – This amount consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of the balance sheet date. 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.

Advances from Others – The balance represents liabilities for collections received to cover future expenses or acquisition of assets that USTRANSCOM incurs or acquires on behalf of another organization.

Unfunded Leave –The amounts recorded in FY 2019 were recorded using an incorrect USSGL account and have since been reclassed to the correct USSGL account. The TWCF does not have unfunded leave.

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 Register.

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

Note 11. Leases

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

Note 12. Commitments and Contingencies

USTRANSCOM is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication which may result in settlements or decisions adverse to the federal government. These matters arise in the normal course of operations; generally, relate to equal opportunity and contractual matters; and their ultimate disposition is unknown. In the event of an unfavorable judgment against the Government, some of the settlements are expected to be paid from the U.S. Treasury Judgment Fund. In most cases, USTRANSCOM does not have to reimburse the Judgment Fund; reimbursement is only required when the case comes under either the Contracts Disputes Act or the No FEAR Act.

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS 12, *Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. USTRANSCOM accrues contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. In accordance with SFFAS 5, USTRANSCOM was not required to accrue legal contingent liabilities in either FY 2019 or FY 2020. USTRANSCOM reports any contingent liabilities in Note 10, Other Liabilities.

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

USTRANSCOM is party to a formal equal employment opportunity complaint. The claimant is seeking damages in the amount of $4.3 million. The likelihood of an unfavorable outcome is reasonably possible; however, the ultimate outcome cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect USTRANSCOM's financial position or results of operations. This amount is not recognized in the financial statements.

For both FY 2019 and FY 2020, 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* and there is no estimate of the lower and upper end of the estimated range of loss.

Therefore, the amount the appellant initially sought is listed as the upper end of the estimated range of loss in the tables below.

As of September 30, 2020 (dollars in thousands):

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

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

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

Other Commitments and Contingencies

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 (EPA) 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 always have 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 already recognized as contingent 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.

Note 13. Funds from Dedicated Collections

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

Note 14. Disclosures Related to the Statements of Net Cost

As of September 30, 2020 (dollars in thousands):

	Unaudited MSC	SDDC	AMC	CMD	DCD	Combined Totals	Intra entity Eliminations	Consolidated Total
Gross Program Costs								
Operations, Readiness & Support								
Gross Costs	$ 960,670	$ 1,291,129	$ 5,100,927	$ 349,414	$ 4,153	$ 7,706,293	$ 387,428	$ 7,318,865
Less: Earned Revenue	(1,063,184)	(1,506,900)	(4,903,796)	(460,101)	(2,650)	(7,936,631)	(387,428)	(7,549,203)
NET COST OF OPERATIONS	$ (102,514)	$ (215,771)	$ 197,131	$ (110,687)	$ 1,503	$ (230,338)	$ -	$ (230,338)

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

	Unaudited MSC	SDDC	AMC	CMD	DCD	Combined Totals	Intra entity Eliminations	Consolidated Total
Gross Program Costs								
Operations, Readiness & Support								
Gross Costs	$ 898,088	$ 1,325,036	$ 5,243,850	$ 373,471	$ 6,412	$ 7,846,857	$ 300,803	$ 7,546,054
Less: Earned Revenue	(797,930)	(1,316,319)	(5,032,578)	(372,235)	(6,530)	(7,525,592)	(300,803)	(7,224,789)
NET COST OF OPERATIONS	$ 100,158	$ 8,717	$ 211,272	$ 1,236	$ (118)	$ 321,265	$ -	$ 321,265

The Statements of Net Cost represent the net cost of programs and organizations of USTRANSCOM that are 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 as required by SFFAS 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*, as amended by SFFAS 55, *Amending Inter-Entity Cost Provisions*.

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

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).

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 FY and to provide sufficient working capital for the acquisition of fixed assets as approved by the Under Secretary of Defense (Comptroller). 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 FYs resulting from under or over applied stabilized rates and/or prices, and those gains or losses are included in current year stabilized rates, the estimated revenues may not equal estimated costs.

Note 15. Disclosures Related to the Statements of Changes in Net Position

Effective FY 2018, the DoD has elected early implementation of SFFAS 55 which rescinds SFFAS 30, *Inter-Entity Cost Implementation: Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts and Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4*.

See Note 20 for information on FY 2019 restated amounts.

Note 16. Disclosures Related to the Combined Statements of Budgetary Resources

As of September 30, 2020 and 2019 (dollars in thousands):

	Unaudited FY 2020	FY 2019 Restated
Undelivered Orders		
Intragovernmental:		
Undelivered Orders – Unpaid	$ 157,591	$ 226,769
Total Intragovernmental Undelivered Orders	$ 157,591	$ 226,769
Non-Federal:		
Undelivered Orders – Unpaid	$ 1,738,441	$ 1,424,883
Undelivered Orders – Paid	959	729
Total Non-Federal Undelivered Orders	$ 1,739,400	$ 1,425,612
Total Undelivered Orders	$ 1,896,991	$ 1,652,381

As of September 30, 2020 and 2019 (dollars in thousands):

	Unaudited FY 2020	FY 2019
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. There are no legal arrangements affecting the use of unobligated balances of budgetary authority. USTRANSCOM's financial results are not consolidated within AFWCF's financial results; however, USTRANSCOM's FBWT is required to be reported in AFWCF's budget of the U.S. Government. As such, the USTRANSCOM TWCF is not presented separately in the President's Budget and therefore there is no required reconciliation to the President's Budget.

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

See Note 20 for information on FY 2019 restated amounts.

Note 17. Budget to Accrual Reconciliation

As of September 30, 2020 (dollars in thousands):

	Unaudited		
	Intragovernmental	**With the Public**	**Total**
Net Cost of Operations (SNC)	$ (5,499,728)	$ 5,269,390	$ (230,338)
Components of Net Cost that are not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	$ -	$ (14,069)	$ (14,069)
Property, Plant, and Equipment Disposal and Revaluation	-	(9,594)	(9,594)
Other	-	(2,898)	(2,898)
Increase/Decrease in Assets:			
Accounts Receivable	105,824	15,538	121,362
Other Assets	-	231	231
(Increase)/Decrease in Liabilities:			
Accounts Payable	27,144	(115,236)	(88,092)
Salaries and Benefits	(741)	(13,889)	(14,630)
Other Liabilities	(859)	8,243	7,384
Imputed Costs	(12,007)	-	(12,007)
Total Components of Net Cost that are not Part of Net Outlays	$ 119,361	$ (131,674)	$ (12,313)
Components of Net Cost that are not Part of Net Costs			
Acquisition of Capital Assets	$ -	$ 67,008	$ 67,008
Other - PPA	-	116,243	116,243
Other	267	-	267
Total Components of Net Cost that are not Part of Net Costs	$ 267	$ 183,251	$ 183,518
Net Outlays	$ (5,380,100)	$ 5,320,967	$ (59,133)
Outlays, Net, Statement of Budgetary Resources			$ (56,502)
Reconciling Difference			$ (2,631)

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

	Unaudited		
	Intragovernmental	With the Public	Total Restated
Net Cost of Operations (SNC)	$ (4,057,731)	$ 4,378,996	$ 321,265
Components of Net Cost that are not Part of Net Outlays:			
Property, Plant, and Equipment Depreciation	$ -	$ (20,854)	$ (20,854)
Property, Plant, and Equipment Disposal and Revaluation	-	(235)	(235)
Other	16	(145)	(129)
Increase/Decrease in Assets:			
Accounts Receivable	(176,993)	(14,282)	(191,275)
Other Assets	-	(250)	(250)
(Increase)/Decrease in Liabilities:			
Accounts Payable	(42,497)	(167,758)	(210,255)
Salaries and Benefits	(295)	(5,808)	(6,103)
Other Liabilities	(1,063)	(3,251)	(4,314)
Imputed Costs	(17,165)	-	(17,165)
Total Components of Net Cost that are not Part of Net Outlays	$ (237,997)	$ (212,583)	$ (450,580)
Components of Net Cost that are not Part of Net Costs			
Acquisition of Capital Assets	$ -	$ 79,379	$ 79,379
Other - PPA	(103)	111,043	110,940
Other	(192)	-	(192)
Total Components of Net Cost that are not Part of Net Costs	$ (295)	$ 190,422	$ 190,127
Net Outlays	$ (4,296,023)	$ 4,356,835	$ 60,812
Outlays, Net, Statement of Budgetary Resources			$ 57,557
Reconciling Difference			$ 3,255

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

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis above illustrates this reconciliation by listing the key differences between net cost and net outlays. Due to USTRANSCOM's financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. These issues are in the process of being resolved. FY 2019 restatement amounts disclosed in Note 20, represent progress made in the current year for these efforts; however, additional efforts are required.

Note 18. Public-Private Partnerships

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

Note 19. Disclosure Entities and Related Parties

Under SFFAS 47, *Reporting Entity*, which was effective beginning in FY 2018, agencies must disclose certain information for disclosure entities and related parties. USTRANSCOM 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. USTRANSCOM acknowledges departures from GAAP related to the definition of reporting entity as discussed in Note 1D.

Note 20. Restatement

During 3rd and 4th Quarter, FY 2020, in progressive steps towards achieving supportable beginning balances for Open Obligations and Accounts Payable, SDDC performed reconciliations of general ledger populations to sub-ledger reports. During the Open Obligations reconciliation, SDDC identified errors in the processing and posting of obligations and payables specific to the GPC. These errors resulted in a $94.9 million understatement of liabilities and expenses. In the reconciliation of aged accounts payable, SDDC identified a $1.6 million difference between the invoiced accounts payable sub-ledger and the general ledger balances, resulting in an overstatement of liabilities and expenses. Finally, in the reconciliation of un-invoiced receipts accounts payable, SDDC identified a $17.7 million difference between the un-invoiced receipts sub-ledger and the general ledger balances, resulting in an understatement of liabilities and expenses. The total effect of the errors requiring prior period adjustments was a $110.9 million understatement of liabilities and expenses for the years 2018 and prior. The FY 2019 amount of $5.4 million is presented as an adjustment to the FY 2020 beginning balance for Cumulative Results of Operations on the Statement of Changes in Net Position. USTRANSCOM acknowledges departures from GAAP as discussed in Note 1D.

Note 21. COVID-19 Activity

COVID-19 has significantly impacted the financial health of USTRANSCOM with numerous unforeseen costs affecting all USTRANSCOM components. To date, the TWCF has reported $310.5 million in COVID-19 related financial impacts. Of this amount, $62.1 million is associated with customer requirements that will be reimbursable by TWCF customers. This includes missions such as assisting the U.S. Department of State with the repatriation of U.S. citizens, shipping of COVID-19 testing kits, and other COVID-19 response missions. The cost for these missions has been billed to customers and, to date, $46.5 million has been collected. The remaining $15.6 million will be collected. The TWCF has also reported $248.4 million in costs that are not reimbursable by customers. 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 due to 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 from lower than planned workload in the SDDC liner system and the AMC full plane charter lines of operation. USTRANSCOM CMD Staff have received $2.8 million in supplemental funding in the form of an appropriation to cover CMD staff laptops, docking stations, and travel bags. In addition, AMC received $100 million in CARES supplemental funding, which partially offsets their COVID-19 related costs that are not reimbursable by customers. This was billed and collected as additional FY 2020 ARA revenue. At AMC, the unreimbursed cost would result in an increase to the FY 2022 ARA. To combat the potential FY 2022 increase, AMC was directed to bill up to $100 million additional in ARA. Overall, this results in $145.6 million that remains unreimbursed. 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.

Note 22. 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.

Real Property Deferred Maintenance and Repairs

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 the real property to the installation host. As a result, any associated deferred maintenance & repair tracking and reporting responsibility will reside with the installation host where the asset is located.

Equipment Deferred Maintenance and Repairs

In accordance with SFFAS 42, USTRANSCOM is required to report material amounts of deferred maintenance & repairs. USTRANSCOM does not have any deferred maintenance & repairs to be reported in FY 2019 or FY 2020. Any necessary repairs & maintenance are completed within the current year budget. Additionally, some components pay for sustainment of support equipment & vehicles. However, the equipment is serviced when due out of the current year budget.

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 5 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 due to the nature of the mission, required maintenance on general PP&E is not deferred and therefore not ranked or prioritized among other activities.

Deferred Maintenance and Repair Exclusions

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

Department of Defense - United States Transportation Command
Transportation Working Capital Fund
Combining Statement of Budgetary Resources
For the Year Ended September 30, 2020
(dollars in thousands)

	Unaudited					
	MSC	SDDC	AMC	CMD	DCD	Combined Totals
Budgetary Resources						
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ (203,745)	$ 740,008	$ 350,898	$ (73,066)	$ 13,844	$ 827,939
Appropriations (discretionary and mandatory)	-	-	-	2,800	-	2,800
Contract Authority (discretionary and mandatory)	-	4,573	20,563	23,736	-	48,872
Spending Authority from Offsetting Collections (discretionary and mandatory)	1,353,015	1,400,506	4,849,780	438,062	2,215	8,043,578
Total Budgetary Resources	$ 1,149,270	$ 2,145,087	$ 5,221,241	$ 391,532	$ 16,059	$ 8,923,189
Status of Budgetary Resources						
New Obligations and Upward Adjustments (total)	$ 1,003,600	$ 1,441,722	$ 5,275,830	$ 357,457	$ 5,611	$ 8,084,220
Unobligated Balance, end of year:						
Apportioned, Unexpired Accounts	145,670	703,365	(54,589)	34,075	10,448	838,969
Unexpired Unobligated Balance, end of year	$ 145,670	$ 703,365	$ (54,589)	$ 34,075	$ 10,448	$ 838,969
Unobligated Balance, end of year (total)	$ 145,670	$ 703,365	$ (54,589)	$ 34,075	$ 10,448	$ 838,969
Total Budgetary Resources	$ 1,149,270	$ 2,145,087	$ 5,221,241	$ 391,532	$ 16,059	$ 8,923,189
Outlays, Net						
Outlays, net (total) (discretionary and mandatory)	$ (60,735)	$ (131,567)	$ 209,473	$ (75,541)	$ 1,868	$ (56,502)
Agency Outlays, net (discretionary and mandatory)	$ (60,735)	$ (131,567)	$ 209,473	$ (75,541)	$ 1,868	$ (56,502)

The CMD prior year abnormal unobligated balance (i.e., year-end balance at September 30, 2019) was partially comprised of a $6 million re-approval of a purchase order (PO) in September 2019 that should have had a net $0 effect. The act of reapproving a PO resulted in duplicate obligations, which had a negative impact on budgetary resources. A correcting de-obligation was posted, resulting in a $0 net impact to budgetary resources. In this case, the obligation entry was recorded in September 2019 and the de-obligation entry posted to October 2019, resulting in the complete entry crossing FYs.

Additionally, CMD receives a recurring appropriation for the transportation of service members under the Fallen Heroes Program. Posting rules in the general ledger system (DEAMS) does not allow a TWCF line of accounting to hit a direct activity to report the use of the direct funds. As a result, CMD provides a data call to DFAS each month to reclass reimbursable obligations to direct, record the current month's expended amounts, and record an accrual. The accrual entry, as previously posted in FY 2019 and the 1st quarter of FY 2020, incorrectly increased obligations and decreased budgetary resources. CMD has since revised the accrual entry to include moving obligations from *UDO, Obligations Unpaid* to *Delivered Orders, Obligations Unpaid* with a net $0 impact to *Realized Resources,* which results in no net impact to available budgetary resources. At the end of FY 2019 there was a reduction to budgetary resources in the amount of $743 thousand. This reduction impacts the FY 2020 Prior Year Unobligated Balance Brought Forward.

Further, during FY 2020, CMD analyzed their contract authority liquidation in regard to the capital cash position. As of end of month September 30, 2020, CMD's cumulative Capital Cash balance was $38.5 thousand. This is an indication that CMD is over-liquidating their capital program as the intent is to net $0 over time. This over-liquidation results in a negative impact to budgetary resources. USTRANSCOM will continue their due diligence to determine the cause of the remaining abnormal prior year unobligated balance for CMD and will determine the appropriate corrective actions to prevent this issue in the future.

One of the major contributing factors to MSC's prior year abnormal unobligated balance was an upgrade in the Oracle financial management system. The Oracle R12 system upgrade that occurred in July 2013 caused commitments that were created prior to the upgrade to not be released when the obligations were created after the R12 system upgrade. MSC discovered this as they were researching the abnormal prior year unobligated balances. Their IT team, along with assistance from the Financial Management Office and FIAR, are researching to find all the transactions that have been affected so these errors can be corrected, and the appropriate accounting actions can be taken to find a resolution. Along with researching the abnormal prior year unobligated balances, MSC is also researching outstanding and dormant unobligated commitment balances to cleanse data.

AMC will do their due diligence to determine the cause of the abnormal unobligated year-end balance and will determine the appropriate corrective actions to prevent this issue in the future.

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

			Unaudited	*Restated*		
	MSC	SDDC	AMC	CMD	DCD	Combined Totals
Budgetary Resources						
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ (82,427)	$ 1,060,918	$ 660,443	$ (41,931)	$ 13,514	$ 1,610,517
Contract Authority (discretionary and mandatory)	-	8,291	33,540	35,696	-	77,527
Spending Authority from Offsetting Collections (discretionary and mandatory)	906,624	968,149	5,036,948	320,518	5,514	7,237,753
Total Budgetary Resources	$ 824,197	$ 2,037,358	$ 5,730,931	$ 314,283	$ 19,028	$ 8,925,797
Status of Budgetary Resources						
New Obligations and Upward Adjustments (total)	$ 1,027,942	$ 1,366,080	$ 5,380,033	$ 387,349	$ 5,184	$ 8,166,588
Unobligated Balance, end of year:						
Apportioned, Unexpired Accounts	(203,745)	671,278	350,898	(73,066)	13,844	759,209
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	-
Unapportioned, Unexpired Accounts	-	-	-	-	-	-
Unexpired Unobligated Balance	$ (203,745)	$ 671,278	$ 350,898	$ (73,066)	$ 13,844	$ 759,209
Total Unobligated Balance, end of year	$ (203,745)	$ 671,278	$ 350,898	$ (73,066)	$ 13,844	$ 759,209
Total Budgetary Resources	$ 824,197	$ 2,037,358	$ 5,730,931	$ 314,283	$ 19,028	$ 8,925,797
Outlays, net						
Outlays, net (total) (discretionary and mandatory)	$ 65,188	$ (171,203)	$ 156,497	$ 6,599	$ 476	$ 57,557
Agency Outlays, net (discretionary and mandatory)	$ 65,188	$ (171,203)	$ 156,497	$ 6,599	$ 476	$ 57,557

OTHER INFORMATION

Summary of Financial Statement Audit and Management Assurances

As described in the "Management's Discussion and Analysis" section, management annually presents an assurance statement on the effectiveness of internal control. The following two 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.[20]

Summary of Financial Statement Audit						
Audit Opinion	Disclaimer					
Restatement	Yes					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Ineffective processes to provide transaction-level populations to support significant financial statement line items and reconcile populations to reported amounts	1					1
Ineffective controls over financial reporting processes	1					1
Ineffective transactional controls	1					1
Ineffective budgetary controls	1					1
Ineffective controls over information technology	1					1
Total material weaknesses	**5**	**-**	**-**	**-**	**-**	**5**

Definition of Terms:[21]
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.

[20] The Summary of Financial Statement Audit of material weaknesses are from the Independent Auditor's Report on Internal Controls over Financial Reporting.
[21] OMB Circular A-136, Financial Reporting Requirements, August 27, 2020, page 109

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.

The table below provides a summary of management assurances.[22]

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

[22] The number of material weaknesses and non-Compliances for ICOFR, ICO and ICOFS were obtained from the FY 2019 and FY 2020 Statement of Assurance.

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

Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Reasonable Assurance (except one non-conformance)					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Financial Management Systems	1					1
Complementary User Entity Controls	1			1		0
Total non-compliances	**2**	**-**	**-**	**-**	**-**	**1**

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	**Auditor**
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. USSGL at Transaction Level	Lack of compliance noted	Lack of compliance noted

Our auditor has noted that USTRANSCOM financial management systems did not comply substantially with the Federal Financial Management System's requirements, applicable federal accounting standards, or application of the USSGL at the transaction level, because of material weaknesses noted in the Independent Auditor's Report on Internal Control over Financial Reporting. USTRANSCOM is in the process of evaluating the FY 2020 audit findings contributing to noncompliance to continue remediation plans necessary to bring the financial management systems into substantial compliance.

Management Challenges

Per OMB Circular A-136, as it relates to form and content of an AFR, USTRANSCOM 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 Management Challenges for FY 2020 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. Countering China, Russia, Iran, and North Korea	Applicable – See challenge A below.
2. Countering Global Terrorism	Not Applicable
3. Ensuring the Welfare and Well-being of Service Members and Their Families	Applicable – See challenge B below.
4. Ensuring Ethical Conduct	Not Applicable
5. Financial Management: Implementing Timely and Effective Actions to Address Financial Management Weaknesses Identified During the First DoD-Wide Financial Statement Audit	Not Applicable
6. Enhancing DoD Cyberspace Operations and Capabilities	Applicable – See challenge C below.
7. Enhancing Space-Based Operations, Missile Detection and Response, and Nuclear Deterrence	Not Applicable
8. Improving Supply Chain Management and Security	Applicable – See challenge D below.
9. Acquisition and Contract Management: Ensuring that the DoD Gets What It Pays for On Time, at a Fair Price, and With the Right Capabilities	Not Applicable
10. Providing Comprehensive and Cost-Effective Health Care	Not Applicable

SUBJECT: TCIG Input to FY 2020 AFR

1. USTRANSCOM has identified its top challenges and associated friction points and has grouped them in accordance with the DoD's FY 2020 Top Management Challenges. The following input was also provided to DoD IG to potentially leverage future interagency audits and evaluations that can help USTRANSCOM mitigate and resolve these challenges.

2. FY 2020 Top DoD Management Challenges Applicable to USTRANSCOM:

   A. Challenge: Countering China, Russia. Iran. and North Korea. The world is changing. In the past, our nation was able to deploy our forces when we wanted, assemble them where we wanted, and employ them how we wanted. In the future, the NDS calls us to project and sustain the Joint Force under persistent, all-domain attack. Overall, we assess USTRANSCOM's global mobility capacity as adequate, but with elevated and increasing risk. Aging mobility capabilities, coupled with adversaries that have the capability and intent to contest our operations across all domains, creates a daunting environment for future operations. Specifically, USTRANSCOM assesses elevated risk in our two highest priorities: Air Refueling and Sealift Readiness.

   The air refueling fleet continues to underpin the Joint Force' s ability to deploy an immediate force across all NDS mission areas. It is USTRANSCOM's most-stressed capability and number one readiness concern. Delays in delivery of capable KC-46s combined with reductions of KC- 10s and KC-135s create a critical and deepening gap in taskable air refueling aircraft and aircrews for the next 5-7 years. This combination of factors elevates risk not only to wartime missions, but also to day-to-day global operations across multiple CCMDs.

   Reduced capacity also limits options and constrains decision space for senior leaders in crisis, as they are confronted with an earlier mobilization timeline to generate adequate capacity. For Combatant Commanders to compete daily, the DoD must retain sufficient operational air refueling capacity to provide adequate support to the Joint Force during the transition to the KC-46.

   With 85% of the Joint Force based in the continental U.S., the Strategic Sealift Fleet is responsible for transporting approximately 90% of wartime cargo in a large -scale conflict. However, sealift readiness rates have declined, with a FY 2020 readiness average of 62%. Vessel age and material condition stand as the primary factors, making sealift readiness USTRANSCOM's number two readiness concern. Most sealift ships are reaching the age where maintenance and repair costs are escalating, and service-life extensions will not yield proportional increases in readiness. Starting in the mid- 2020s, the sealift fleet will lose 1-2 million square feet of capacity each year as ships reach the end of their useful life. That is enough space to move two to four Brigade Combat Teams in a single voyage. By the mid-2030s, over half the sealift fleet will be unusable, placing an unacceptable risk on the Joint Force, especially the Army, to deliver large-scale combat power over the ocean. To prevent this detrimental loss of capacity, the DoD needs to recapitalize the fleet with newer and more reliable vessels. USTRANSCOM supports the Navy's plan to acquire used vessels as the near-term solution that yields the greatest value.

Currently, Congress has provided authority to purchase seven vessels, and the Navy has provided funding for two in FY 2021. This is an important first step to improve fleet reliability, but we have much work ahead to lay out a long-range plan.

B. Challenge: Ensuring the Welfare and Well-Being of Service Members and Their Families. The DP3, responsible for executing approximately 400 thousand personal property shipments in support of relocating Service members and their families, has been plagued with challenges. Issues with industry accountability, a shortage of quality capacity in summer months, and a general lack of transparency within the DoD are common--and accurate--criticisms. Multiple reports from multiple sources underscore the need for change. The DoD can no longer afford to operate a disparate confederation of government activities supervising a similarly disparate collection of hundreds of industry providers. After consultation with Service leaders and industry executives, USTRANSCOM is on track to restructure our relationship with industry through the award of a global household goods contract. We expect to start moving a limited number of shipments in the summer of 2021 under the Global Household Contract while taking prudent steps to avoid disruption of the 2021 peak moving system. This transformative change, combined with many other incremental changes, will generate the quality capacity required to meet DoD's peak demand and enable the DoD to affix the accountability and responsibility missing in today's program.

C. Challenge: Enhancing DoD Cyberspace Operations and Capabilities. Cyberspace is a warfighting domain, without sanctuary, in which capable adversaries continuously attempt to degrade our Nation's ability to project the Joint Force globally. At USTRANSCOM, we depend upon cyberspace to execute globally-integrated command and control, which empowers agile and adaptive leaders to collaborate, delegate, and make decisions at echelon to create desired mobility outcomes.

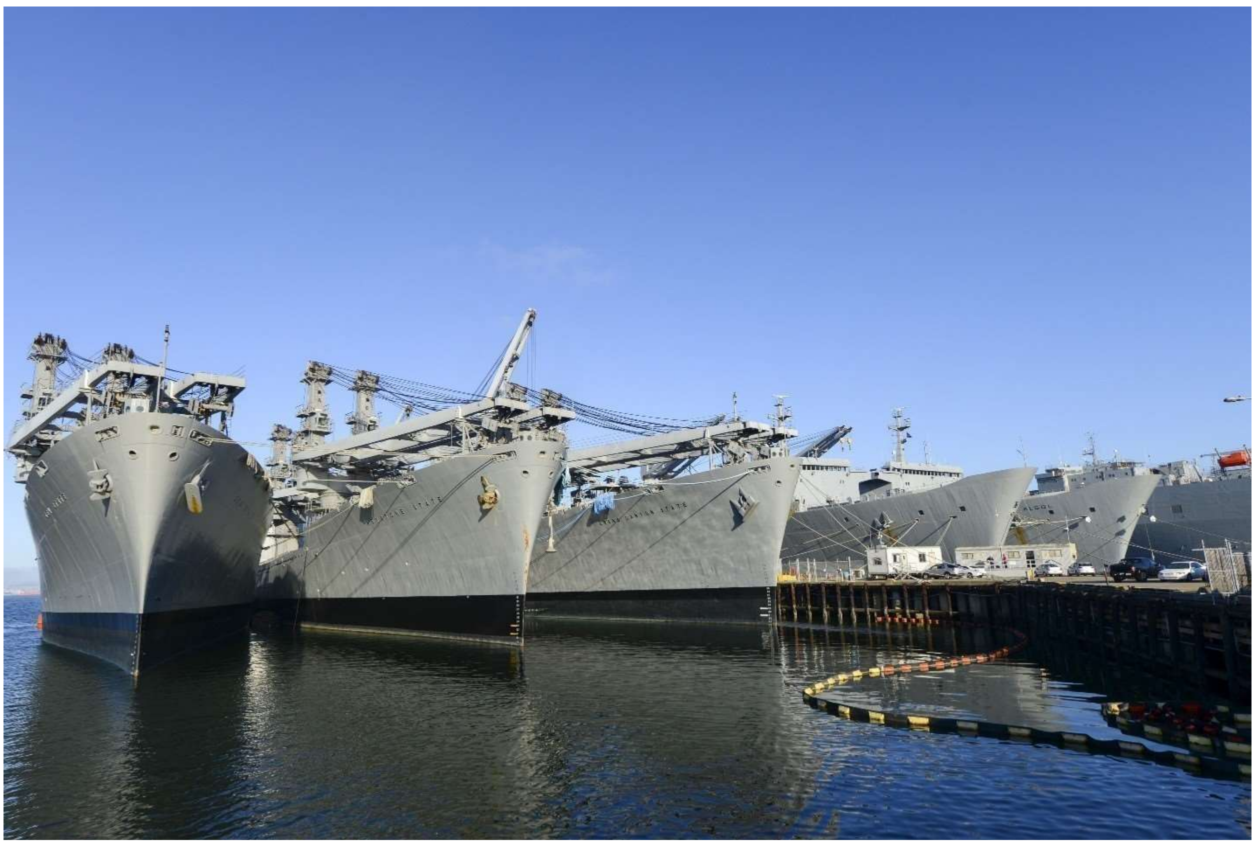
As in all warfighting domains, assuring global command and control requires resilient and simultaneous efforts across multiple functions and stakeholders, including defense, interagency and industry partners. USTRANSCOM actively manages mission risk, we continually evaluate our large and complex attack surface, we evolve key cyber terrain, we secure our cyber area of operations, and we actively defend our ability to conduct global command and control.

USTRANSCOM also maintains a strong relationship with USCYBERCOM and the Intelligence community, providing increased understanding of adversaries' intent. Several rigorous exercises matured our ability to request active defensive measures from USCYBERCOM, leveraging their unique authorities to assure our global command and control in a contested environment. In addition, USTRANSCOM is pursuing numerous technical solutions to harden our key cyber terrain, to include a trusted transaction pilot with USCYBERCOM.

D. Challenge: Improving Supply Chain Management and Security. Contested environments across the land, air, maritime, cyber, and space domains, combined with timing, tempo and trans-regional challenges, indicates that the main drivers of logistics - time, distance, consumption, failure, damage, destruction, and reconstitution - are all increasing. This complex security environment will test our future readiness to provide an immediate force tonight and a follow-on, decisive force for high-end conflict when needed.

In Great Power Competition, we acknowledge our commercial partners are both a strength and a potential target. Since 2017, USTRANSCOM has contractually required our most critical commercial transportation providers to perform annual self-assessments based on NIST standards for cybersecurity, and we use these self-assessments to identify vulnerability trends and share best practices with industry. We continue to provide targeted recommendations to help our commercial partners improve their own cybersecurity. Lastly, we are reviewing data-sharing requirements to limit our exposure to adversaries, and we are strengthening cybersecurity language in our IT and software development contracts. Overall, we assess that our transportation providers are taking cybersecurity seriously, and the NIST standards will help them improve their security and resiliency - but commercial companies will always be challenged to keep out advanced persistent threat actors.

3. The points of contact in this matter are Ms. Kathy Hahn, TCIG, 618-220-5996, or email: (unclassified) transcom.scott.tcig.mbx. inspector-general@mail.mil, and LTC Daniel Kull, TCCC-X, 618-220-6325, or email: (unclassified) daniel.j.kull.mil@mail.mil.



Payment Integrity

In accordance with the Improper Payments Information Act of 2002, as amended (P.L. 107-300, codified as 31 U.S.C. § 3321 note) (IPIA), and Appendix B of the OMB Bulletin No. 19-03, "Audit Requirements for Federal Financial Statements," dated August 27, 2019, DoD reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD AFR. The DoD also reports in accordance with the Payment Integrity Information Act of 2019 (P.L. 116-117, codified as 31 U.S.C. §3301 note) (PIIA) at https://paymentaccuracy.gov/. For detailed reporting on DoD payment integrity, refer to the Other Information section of the consolidated DoD AFR at:
https://comptroller.defense.gov/ODCFO/afr2020.aspx

Fraud Reduction Report

The Fraud Reduction and Data Analytics Act of 2015 (P.L. 114-186, codified as 31 U.S.C. §3321 note) (FRDAA) was enacted to help improve federal agencies' financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for the purposes of preventing, detecting, and responding to fraud. FRDAA was superseded by the PIIA, enacted on March 2, 2020. The PIIA reorganizes and revises several existing improper payments statutes, which establish requirements for federal agencies to cut down on improper payments made by the federal government and establishes an interagency working group on payment integrity. DoD subsequently established a Fraud Reduction Task Force.

In FY 2020, USTRANSCOM supported DoD's Fraud Reduction Task Force which identified 58 fraud risks in key DoD Focus Areas, including payroll, procurement, asset safeguards, purchase card, and travel card risks.

USTRANSCOM identified fraud controls currently in place, related to GAO Fraud Principle No. 6 - Design and Implement Specific Control Activities to Prevent and Detect Fraud to strengthen the fraud control environment according to the GAO Fraud Risk Management Framework. These key fraud controls were reported in the Fraud Control Matrix as a part of the FY 2020 SOA and will be used by DoD to identify control gaps and create a comprehensive list of controls in place across the Department and identify best practices to share with the community to improve fraud control maturity.

Abbreviations & Acronyms

ADA	Anti-Deficiency Act
AFR	Agency Financial Report
AFWCF	Air Force Working Capital Fund
AMC	Air Mobility Command
AOB	Annual Operating Budget
AOR	Accumulated Operating Results
ARA	Airlift Readiness Account
ATARES	Air Transport & Air-to-Air Refueling and Other Exchanges of Services
CAP	Corrective Action Plan
CBY	Charge Back Year
CCMD	Combatant Command
CFO Act	Chief Financial Officers Act of 1990
CFR	Code of Federal Regulations
CIP	Construction-in-Progress
CMD	Command
COINS	Commercial Operations Integrated System
COLA	Cost of Living Adjustment
COTS	Commercial Off-the-Shelf
CPI	Consumer Price Index
CPI M	Consumer Price Index Medical
CUEC	Complementary User Entity Controls
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 and Management System
DFAS	Defense Finance and Accounting Service
DoD	Department of Defense
DOL	Department of Labor
DP3	Defense Personal Property Program
DPMO	Defense Personal Property Management Office
DWCF	Defense Working Capital Fund
ERP	Enterprise Resource Planning
EUCOM	United States European Command
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury

FECA	Federal Employees' Compensation Act
FEGLI	Federal Employees' Group Life Insurance
FEHB	Federal Employees' Health Benefits
FEMA	Federal Emergency Management Agency
FERS	Federal Employees' Retirement System
FFATA	Federal Funding Accountability and Transparency Act of 2006
FFMIA	Federal Financial Management Improvement Act of 1996
FIAR	Financial Improvement and Audit Remediation
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMR	Financial Management Regulation
FRDAA	Fraud Reduction and Data Analytics Act of 2015
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GATES	Global Air Transportation Execution System
GDSS	Global Decision Support System
GE	General Equipment
GMRA	Government Management Reform Act of 1994
GPC	Global POV Contract
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
IPIA	Improper Payments Information Act of 2002
IT	Information Technology
ITR	International Tariff Rate
IUS	Internal Use Software
JDDC	Joint Deployment and Distribution Coordinator

JDDE	Joint Deployment and Distribution Enterprise
JECC	Joint Enabling Capabilities Command
JFMIP	Joint Financial Management Improvement Program
JTRU	Joint Transportation Reserve Unit
JV	Journal Voucher
MOTCO	Military Ocean Terminal, Concord
MOTSU	Military Ocean Terminal, Sunny Point
MRF	Military Retirement Fund
MSC	Military Sealift Command
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NDS	National Defense Strategy
NFR	Notice of Findings & Recommendations
NIST	National Institute of Standards and Technology
NOR	Net Operating Result
NPC	Negatively Pressurized CONEX
ODO	Other Defense Organization
OIG	Office of the Inspector General
OM&S	Operating Materiel & Supplies
OMB	Office of Management & Budget
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
OWCP	Office of Workers' Compensation Programs
P.L.	Public Law
PBR	Program/Budget Review
PIIA	Payment Integrity Information Act of 2019
POV	Privately-Owned Vehicle
PP&E	Property, Plant, & Equipment
PPA	Prompt Payment Act
RCM	Risk Control Matrix
RIC	Reserve Industrial Capacity
S/L	Straight Line
SAAM	Special Assignment Airlift Mission
SDDC	Military Surface Deployment & Distribution Command
SFFAS	Statement of Federal Financial Accounting Standards
SOA	Statement of Assurance
SOC 1	System and Organization Controls
TFM	Treasury Financial Manual
TFMS	Transportation Financial Management System
TI	Treasury Index
TMS	Transportation Management System
TNC	Treasury Nominal Coupon
TWCF	Transportation Working Capital Fund
U.S.	United States
UCP	Unified Command Plan
UDO	Undelivered Orders
USCYBERCOM	United States Cyber Command
USSGL	U.S. Standard General Ledger
USTRANSCOM	United States Transportation Command
WCF	Working Capital Fund

UNITED STATES TRANSPORTATION COMMAND