



DEFENSE FINANCE AND ACCOUNTING SERVICE WORKING CAPITAL FUND



INTEGRITY | SERVICE | INNOVATION

ABOUT THIS DOCUMENT

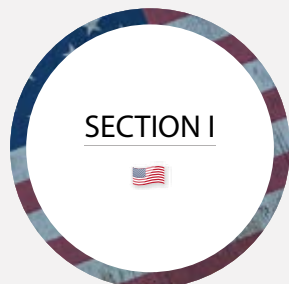
Defense Finance and Accounting Service (DFAS) is pleased to present the Fiscal Year (FY) 2021 Agency Financial Report (AFR). This report provides high-level financial information for the FY related to our mission and stewardship of resources.

The purpose of the DFAS FY 2021 AFR is to inform the President, Congress, and the American people about how DFAS used Federal resources entrusted to the Agency to reliably deliver first-class accounting and finance services to the Department of Defense (DoD).

The AFR highlights our activities, accomplishments, progress, and financial analysis for the FY. It contains our Financial Statement Audit Report along with management's assurances on internal controls.

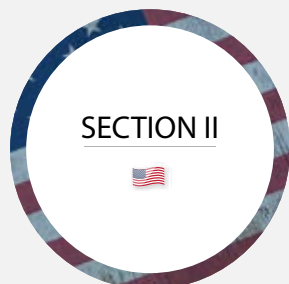
This report is prepared in compliance with the Office of Management and Budget's (OMB) Circular No. A-136, Financial Reporting Requirements. The AFR is available online at www.dfas.mil.

HOW THIS DOCUMENT IS ORGANIZED



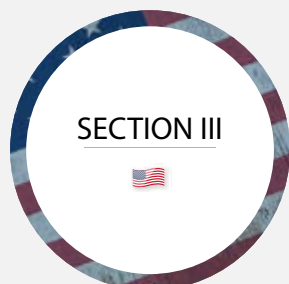
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section provides a high-level overview of our organizational structure and mission; selected accomplishments; analysis of financial performance; and management's assurances on systems, legal compliance, and controls.



FINANCIALS

This section begins with a letter from our Chief Financial Officer and includes our Agency's independently audited financial statements and notes, along with the related Independent Auditor's Report.



ADDITIONAL INFORMATION (UNAUDITED)

This section contains a glossary of acronyms.





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DIRECTOR'S MESSAGE



AUDREY Y. DAVIS

Hello, and thank you for taking a moment to review the DFAS FY 2021 Agency Financial Report. This report is far more than a presentation of our financial statements; it provides a picture of the close alignment and partnerships we have with our Department leadership and our customers, and is a snapshot of our dedication to proudly serving America's heroes over the past 30 years.

In this document, you will learn about various projects we have underway or have completed throughout the fiscal year. For example, we continue to lead in audit results, earning our 22nd consecutive unmodified audit opinion on the DFAS Working Capital Fund financial statements. We also successfully completed the final year of our five-year plan with incredible results. As we maintained a distanced presence from each other and the majority of our employees worked from home, the DFAS team of diverse talent, skill, and perspectives continued to execute our mission and successfully closed our four strategic priorities of People, Audit Steadiness, Business Environment Modernization (BEM) and Agency Operational Health (AOH).

As we enter FY 2022, we continue to focus on delivering value to our customers through partnerships. We have also articulated a new five-year strategy to lay the groundwork for the road ahead. Part of our new strategy are enhanced vision and mission statements, which guide us in keeping our commitment to excellence. These statements are our compass.

Our enhanced Vision is to be a valued partner in financial management by consistently delivering first-class service and products. Our enhanced Mission is to deliver financial excellence and quality pay services to our customers. Our Core values remain the same: Integrity, Service, and Innovation. These fundamental values fully support our vision and mission.

These enhanced vision and mission statements, along with our core values, serve as the foundation of our strategy and drive success for our new four strategic priorities for FY22-26: Strengthen Customer Partnerships, Modernize the Business Environment, Enhance Performance, and Invest in People. Through these strategic priorities, we seek to reflect the value our alignment and relevance with our partners create.

During this past fiscal year, DFAS has molded the challenge of the pandemic into opportunity, and I am proud of the way the DFAS workforce has continued to exceed goals and expectations. I want to thank our people, who perform and produce results with unwavering dedication. The backbone of our proven record of success, it is our collective knowledge, skill, and determination, which allows the DFAS Team of Teams to be the shared service provider you can count on year after year. At DFAS, it is in our DNA to seek continuous improvement to make things better, and I am grateful to lead the dedicated DFAS workforce who support the men and women of our armed forces and the Nation every day.



Audrey Y. Davis

SECTION I

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DFAS AT A GLANCE

INTRODUCTION

STRATEGIC RESILIENCE

AUDIT SUCCESS

DFAS CELEBRATES 30 YEARS

MANAGEMENT ASSURANCES

COMPLIANCE AND REGULATION

FINANCIAL DISCUSSION ANALYSIS



A Soldier looks out from the back of an Army CH-47 Chinook during Northern Edge over Alaska, May 10, 2021. (U.S. Air Force photo taken by Senior Airman Duncan Bevan)

DFAS AT A GLANCE



OUR AGENCY

The DoD established DFAS in 1991 to provide finance and accounting services for DoD components during times of peace and conflict. Today, we support military and civilian customers throughout the world. Our mission emphasizes the importance of DFAS' leadership role in standardizing and improving finance and accounting activities across the federal government.

DFAS pays all DoD military personnel, retirees and annuitants; civilians for all of DoD; and additional federal customers. DFAS is also a shared services provider, supporting electronic government initiatives in partnership with customers such as the Executive Office of the President, the Department of Energy, the Department of Veterans Affairs, the Department of Health and Human Services, and the U.S. Agency for Global Media.

Financed as a working capital fund, instead of through direct appropriations, DFAS bills its customers for the costs required to provide services. The Agency sets annual billing rates for services two years in advance based on anticipated customer workload and estimated costs calculated to offset any prior year gains or losses.

DFAS' operations are subject to oversight by the DoD as well as the executive and legislative branches of the federal government. DFAS has consistently improved its financial processes, systems and tools to understand, manage and improve cost directly aligned to the National Defense Strategy (NDS). These improvements include shedding outdated management practices and structures, while integrating insights from business innovation. The Agency aims to support military readiness and achieve reform through greater performance and affordability, predictive analytics and continuous communication. We have always focused on the goal of providing services at the best value for our customers.



WHAT WE DO

DFAS is the principal DoD executive for finance and accounting requirements, systems, and functions. That role includes the responsibility to direct the consolidation, standardization, and integration of finance and accounting requirements, functions, procedures, operations, and systems within the Department of Defense.

OUR MISSION

Lead our customers in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and financial information.

OUR VISION

To be a recognized leader in financial management by consistently delivering first-class service and products.

OUR CORE VALUES

INTERGIRTY

Doing what is right

SERVICE

Remain a trusted financial partner

INNOVATION

Creating better ways to do business

An F-35A Lightning II and two F-16 Fighting Falcons, assigned to Eielson Air Force Base, Alaska, fly above the Joint Pacific Alaska Range Complex, July 28, 2021. The aircraft participated in air refueling with an Alaska Air National Guard KC-135R Stratotanker. (U.S. Air Force photo by Staff Sgt. Kaylee Dubois)

OUR REVENUE STREAMS

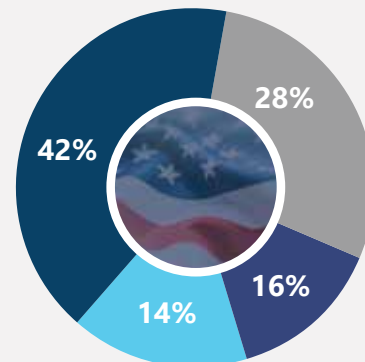
Accounting and Reporting \$611.8 MILLION

Payroll \$418.2 MILLION

**Debt Management
and Payment Services** \$230.3 MILLION

IT and Other \$202.9 MILLION

TOTAL REVENUE \$1.5 BILLION



FINANCE AND ACCOUNTING SERVICES



PAY PEOPLE AND VENDORS



OUR CUSTOMERS

WITHIN THE DoD



ALL DoD MILITARY PERSONNEL, RETIREES,
ANNUITANTS AND CIVILIAN PERSONNEL
DEFENSE AGENCIES AND
THE OFFICE OF THE SECRETARY OF DEFENSE
MAJOR DoD CONTRACTORS AND VENDORS

OUTSIDE OF THE DoD



DFAS BY THE NUMBERS

11,316

NUMBER OF EMPLOYEES



OVER 37%

**OF DFAS
EMPLOYEES
ARE VETERANS**



OVER 50%

**OF WORKFORCE HAS EARNED
A BACHELORS,
MASTERS, or PHD DEGREE**



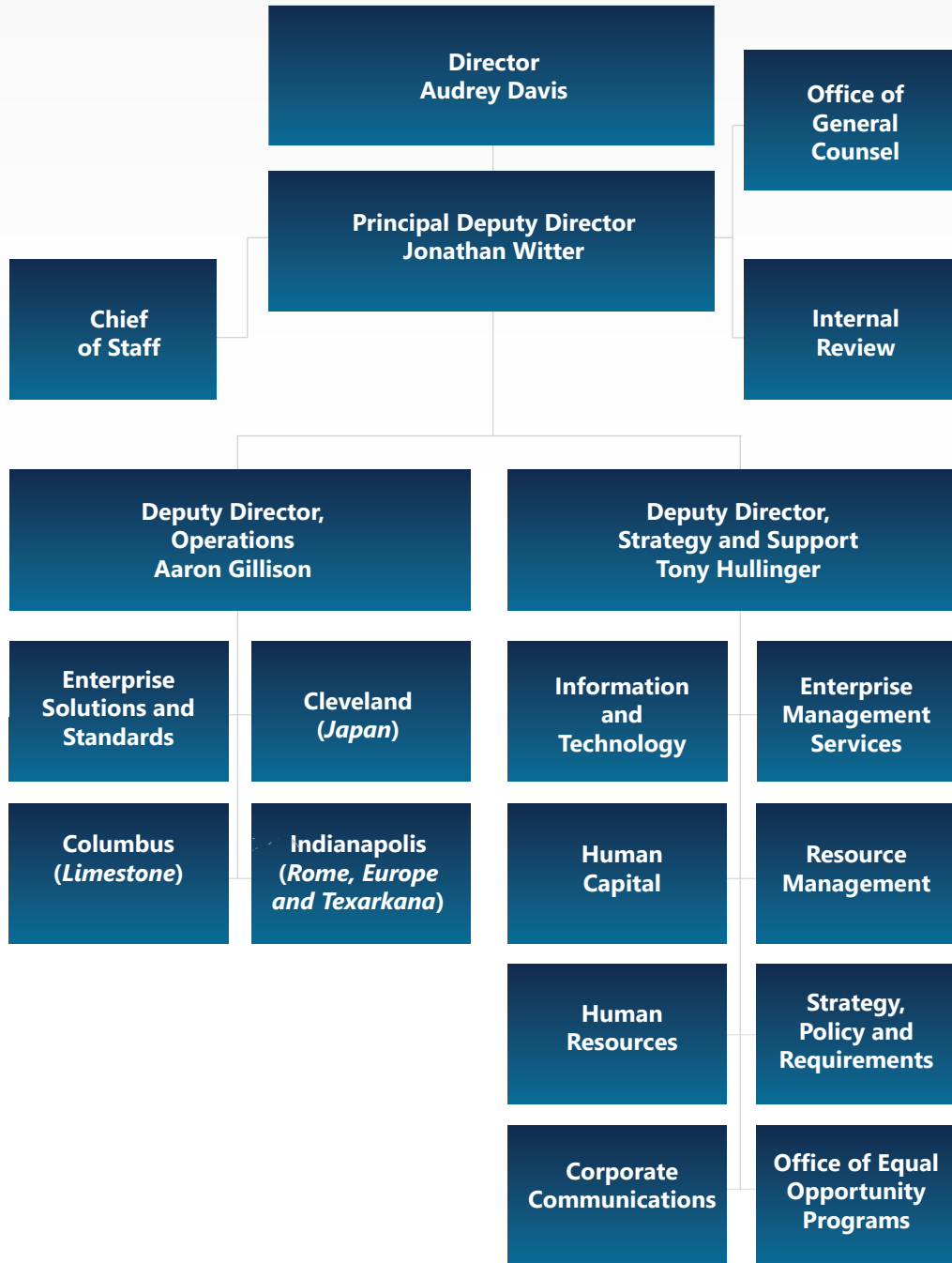
47.8

**AVERAGE AGE
OF DFAS EMPLOYEE**



AS OF SEP. 30, 2021

ORGANIZATIONAL CHART



EXECUTIVE BOARDS



BOARD OF DIRECTORS

Approves DFAS' strategy, oversees the budget formulation and execution, approves recommendations from the Enterprise Business Council, and acts as the Agency's Internal Audit Committee
 Members: Director, Chair; Principal Deputy Director; Deputy Director, Operations; and Deputy Director, Strategy and Support

STRATEGIC COUNCIL

Evaluates content and structure of the DFAS strategy, corporate operational dashboard, and other Agency priorities to successfully execute strategy
 Members: Director, Chair; Principal Deputy Director; Deputy Director, Operations; Deputy Director, Strategy and Support; DFAS senior executives and key GS-15s

ENTERPRISE BUSINESS COUNCIL

Serves as the DFAS governance body chartered to fulfill a number of statutory/regulatory requirements and provides a forum for discussion and vetting of business case analyses and requirements for enterprise-wide programs
 Members: Principal Deputy Director, Chair; and appointed members

OUR LOCATIONS



INTRODUCTION



U.S. Marines with III Marine Expeditionary Force takeoff from a landing zone using a UH-1Y Venom helicopter attached to Marine Light Attack Helicopter Squadron 169 during a Special Patrol Insertion and Extraction rigging training exercise on Camp Hansen, Okinawa, Japan, Sept. 9, 2021. (U.S. Marine Corps photo by Lance Cpl. Justin Marty)

Introduction

Fiscal Year (FY) 2021 marks the fifth and final year of the DFAS FY 2017-2021 Strategic Plan. While the plan itself has four areas: People, Business Environment Modernization, Agency Operational Health, and Audit Steadiness, we also inducted a new Secretary of Defense and wanted to ensure DFAS was making Department of Defense (DoD) priorities part of the DFAS Strategy. Secretary of Defense Lloyd J. Austin III had three top priorities when he took his new position. They are: Taking Care of our People, Succeeding through Teamwork, and Defending our Nation. As DFAS focused on the final year of its strategy, we displayed strategic resilience, continued to have audit success, celebrated thirty years of service, and continued to make an efficient impact by focusing on customers.



Strategic Resilience

DFAS focused on being mindful stewards of tax dollars and thriving while completing our final year of the strategic plan. As the year came to a close, DFAS celebrated huge milestones of success when strategic initiatives that spanned over the last five years were completed. DFAS proved that our commitment to innovation and adaptation could help the entire Agency strive toward strategic resilience in an unprecedented environment.



Audit Success

The DFAS Audit Steadiness approach adopts audit strategies, accounting principles, and internal control toolsets into daily business practices to achieve and sustain DoD audit goals. DFAS Working Capital Fund is celebrating its 22nd consecutive unmodified financial statement audit opinion. Our best practices are documented and followed in order to depict accurate financial statements for the organization. As a service provider, we continued to make strides toward downgrading the Fund Balance with Treasury DoDIG material weakness while we focused on giving first-class customer service to our customers as they worked to achieve and sustain their own audit goals.



DFAS Celebrates Thirty Years

We take a look back at some key milestones from the past three decades as DFAS celebrates our thirtieth anniversary. We highlight DFAS giving first-class customer service and being mindful of tax dollars throughout the thirty years. As the Agency enters into the next decade, we take a look back at our history, highlight our directors, audit successes, and how we came together to support our nation and work-force in unforeseen circumstances.



U.S. Marines with III Marine Expeditionary Force (MEF) prepare to takeoff during a Special Patrol Insertion and Extraction (SPIE) rigging training exercise on Camp Hansen, Okinawa, Japan, Sept. 9, 2021. (U.S. Marine Corps photo by Lance Cpl. Justin Marty)

STRATEGIC RESILIENCE



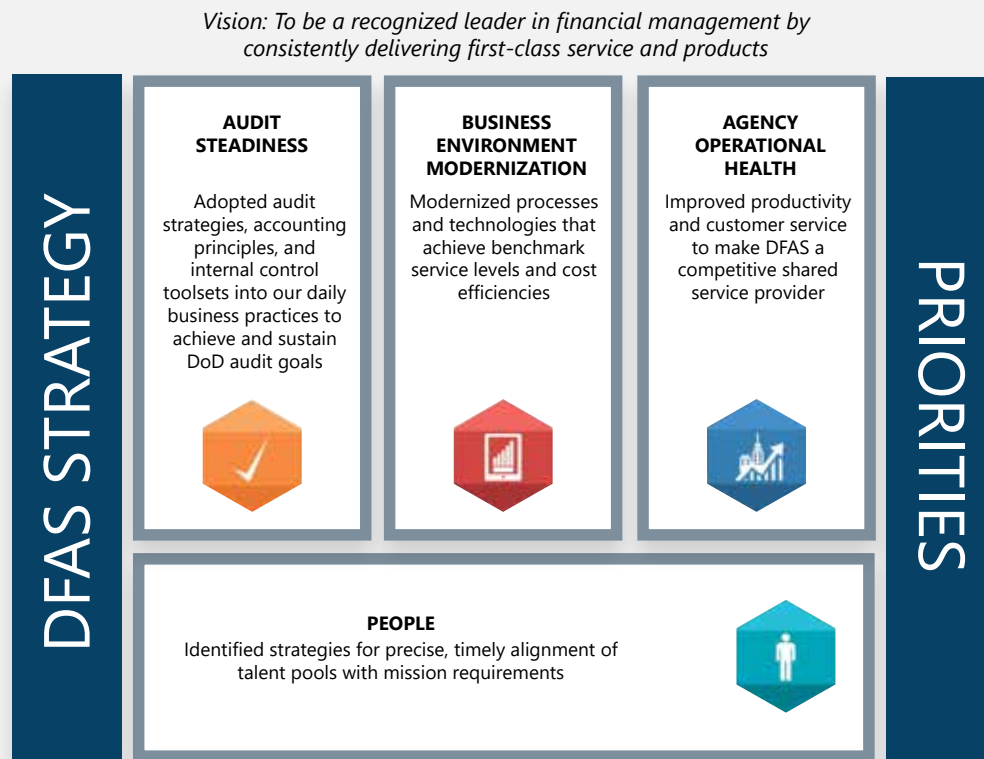
Soldiers position a Stryker vehicle during Rifle Ready 2, an emergency deployment readiness exercise, at Bemwo Piskie Training Area, Poland, July 29, 2021. (U.S. Army photo by Spc. Osvaldo Fuentes)

Strategic Resilience

As one of the world's largest finance and accounting operations, DFAS supports both military and civilian customers. Our mission emphasizes the importance of DFAS's role as a primary contributor in improving finance and accounting activities across the Department of Defense (DoD). Our strategy supports our efforts to meet and exceed customer expectations now and in the future. DFAS actively works to prepare for the future by setting and meeting strategic goals that have been carefully developed to allow the Agency to maximize value for its customers. In FY 2021, DFAS reached the end of its FY 2017-2021 strategic plan and is celebrating achievements in each of its four priority areas: People, Audit Steadiness, Business Environment Modernization (BEM), and Agency Operational Health (AOH). By defining what success looks like, these priorities allowed DFAS to focus its efforts on improving performance and fill gaps in order to be prepared for the future.

Anticipating Future Data Analytics Needs – Agency Operational Health (AOH) and People

Through its Annual Business Refresh, which is DFAS's annual process to ensure its strategy is on track to achieve desired results, DFAS leadership determined that data analytics must be included in strategic planning. Now, as FY 2021 concludes, data analytics is a powerful example of our strategic success.



Mission: To lead our customers in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and financial information.

Huge amounts of data flow through DFAS every day, and DFAS's accountants are experts at managing that data. As technology advances, DFAS leadership recognizes that even more could be done with the data. By including data analytics initiatives in its strategic plan, DFAS set itself up to be able to answer predictive questions for the DoD. In other words, DFAS would be able to answer questions its customers hadn't yet asked.

A key component of success is the initiative that created DFAS's Data Analytics Center of Excellence, or DACoE. This group of data scientists uses the data over which DFAS has stewardship to achieve comprehensive Agency-level data governance and diagnostic analytical capabilities. In other words,

DFAS achieved success by enhancing its ability to deliver insights that improve leadership's ability to manage DoD funds. Data analytics success is an excellent demonstration of how the DFAS strategy supports the National Defense Strategy priorities to defend the nation and succeed through teamwork.

One example of data analytics in action is the Mechanization of Contract Administration Services (MOCAS) analytics project. MOCAS is a system used to manage payments to vendors who have contracts with the DoD. Many details of the contract are included within MOCAS, including amounts owed, dates that payments are due, and the duration that repeated payments should be made. By using advanced

technology to look at this data in new ways, DFAS data scientists were able to identify situations where funds would not be available when the payments were due. Essentially, DFAS was able to predict a situation before it happened and work with its customers to avoid the problem. By using data to look for solutions, DFAS was able to save \$1.26 billion for MOCAS payments to its contractors.

This accomplishment could not have been realized without properly aligning talent with mission requirements and customer needs. Another data analytics initiative was used to analyze the DFAS workforce to determine the specialized training required for utilizing advanced data analytics tools and techniques. Specific positions were identified whose primary purpose is data analytics, and a core training program has been developed to provide the skillsets needed. By the end of FY 2021, nearly 300 DFAS employees participated in these training opportunities. These analysts work throughout DFAS and partner with the DACoE, ensuring opportunities to use data for the benefit of the Agency are fully recognized.

Improving Fund Balance with Treasury – Audit Steadiness

One of the most important aspects of ensuring the DoD attains an unmodified audit opinion is its management of cash balances. The primary DoD cash account, known as Fund Balance

with Treasury (or FBWT), is a significant focus of auditors every year. One of DFAS's responsibilities in the DoD community is to partner with other DoD Agencies to gather and report cash balances to the United States Treasury.

Each DoD component or agency has a unique cash balance. Identifying those unique cash balances is important to auditors because it demonstrates solid management of the Department's fiscal resources. You can compare these cash balances (FBWT) to your checkbook and how important it is that you know the balance in your account. By knowing all the deposits and withdrawals made from your account, you are confident that you know the remaining balance. In the same way, but on a much larger and more complex scale, DFAS gathers and reports all the deposits and withdrawals made by the DoD every month. Making sure every one of these millions of transactions are properly identified to the correct owner is the focus of one of DFAS's strategic initiatives. By partnering with its customers to ensure the cash reporting process has appropriate internal controls, DFAS has significantly decreased the percentage of funds at risk for being improperly identified. During FY 2021, the percentage of funds at risk was reduced to less than 3% of the DoD's total cash. In other words, more than 97% of all DoD cash transactions (\$618.06 billion)

were confirmed to be accurately identified. DFAS continues efforts to improve on that record and is on track to surpass that mark in future years.

Reducing Legacy Systems – Business Environment Modernization (BEM)

Legacy Systems are systems that DFAS has identified as being ready for retirement. Although useful when first programmed, many have been in use for many years and no longer meet the needs of current financial reporting requirements. By reducing (i.e., retiring) these legacy systems, DFAS can make better use of its resources, strengthen internal controls, and improve auditability. For these reasons, Reducing Legacy Systems is an important strategic initiative.

Five years ago, DFAS planned the aggressive strategic goal of retiring 20 legacy systems by the end of FY 2021. Meeting this goal required strong collaboration between DFAS systems employees and the people using those systems (both internally by DFAS and externally by our customers). Plans had to be made, then executed, to move the functionality of the retiring system into an 'enduring' system, or a system that will take DFAS into the future. Once functionality moved to the enduring system, additional actions were required to fully retire the system and allow DFAS to use those resources in other ways.

The Reduce Legacy Systems initiative has been very successful, and in FY 2021 the project team retired its 20th system, meeting the goal DFAS set for itself five years ago. In addition to the improved functionality for users of the enduring systems, DFAS has realized savings of more than \$3.5 million in FY 2021, and nearly \$8 million over the five year period. A new list of 15 systems to retire has been developed for the next five years, and DFAS looks forward to continued success in this area.

Modernizing Travel Payments – Agency Operational Health (AOH)

Any time a military member travels for official business, they must submit a travel voucher in order to receive reimbursement for their expenses. Travel vouchers have traditionally been paper documents filled out by hand by the traveler. These documents could be hard to process due to poor handwriting or because of missing or inaccurate information, resulting in delayed payment to the traveler. DFAS recognized an opportunity and executed a strategic initiative to implement an automated process that improves customer service and reduces the cost of processing travel vouchers. The improved functionality is called SmartVoucher and is an online travel voucher form that guides the traveler through the submission process by using a series of prompts to ensure correct information is included on the form. DFAS partnered with Army Military Pay Offices (AMPO) at more than 30 locations to implement the SmartVoucher



A paratrooper controls his parachute after landing during Exercise Falcon Leap, Sept. 14, 2021. (U.S. Army National Guard photo by Sgt. Remi Milslagle)

tool and train the AMPO staff so they could assist military travelers in using the new process. Work to achieve full utilization of Smart-Voucher technology is ongoing, but early indications of success include a greatly reduced rate of travel vouchers being returned for missing/improper information (less than 5% of all SmartVoucher forms processed). This initiative is a positive example of the partnership between DFAS and its military customers and the benefits it can bring to service members.

Embracing Robotics – Agency Operational Health (AOH)

When the term robotics is discussed, one might think of machines used in manufacturing facilities, but robotics is now being used in office environments as well. In recent years, DFAS technical and accounting personnel have begun looking at Robotic Process Automation (RPA) as a way to work more efficiently. An RPA is a software program that can perform simple, consistent, repetitive processes. Similar to an actual mechanical robot, a software robot can be programmed to do specific things, like use data from one system to populate forms in

another, download reports and save them in a file, and other basic activities.

Last year, DFAS launched a strategic initiative to explore opportunities with RPAs (we call them 'bots'). The initiative team worked with several offices throughout DFAS, and in its first year, delivered 12 bots that eliminated manual, repetitive tasks and allowed staff members to use their time performing more complex tasks. To build on that success, DFAS set the goal for FY 2021 to double the number of bots implemented. That goal was surpassed, and the team was able to launch one extra bot than originally planned.

An example of what these DFAS RPAs can do is the bot that automated the validation of electronic fund transfer (EFT) information on travel claims. This bot automatically validates the banking information on travel payments, which is an essential step to ensure the payment goes to the correct account. Prior to this initiative, DFAS analysts performed this validation manually. With the bot in place, more than 280,000 travel payments were validated automatically over a 12 month period, making that time available for the analysts to perform other mission tasks.

A New Plan

DFAS executes its strategy using specifically designed 5-year plans. FY 2021 was the last year of its most recent plan, and the achievements described above built momentum that the Agency will leverage to move into the future. DFAS recently unveiled its FY 2022-2026 strategic plan, which will enable DFAS to achieve its mission to deliver financial excellence and quality pay services for our customers. The new plan utilizes four new priorities to focus efforts on initiatives that will increase value to our customers through partnership: Strengthen Customer Partnerships, Enhance Performance, Invest in People, and Modernize the Business Environment.



A U.S. Army paratrooper helps a Dutch paratrooper control his parachute in the Netherlands during Falcon Leap, Sept. 16, 2021. Falcon Leap is NATO's largest technical airborne exercise, with more than 1,000 paratroopers from 12 different nations training with one another's equipment for two weeks.

(U.S. Army photo by Sgt. Remi Milsagle)

AUDIT SUCCESS



Aviation Boatswain's Mate (Handling) 1st Class Martre Gober signals to an AV-8B Harrier attached to Marine Attack Squadron (VMA) 214 on the flight deck of the amphibious assault ship USS Essex (LHD 2), Sept. 19, 2021. (U.S. Navy photo by Mass Communication Specialist 3rd Class Isaak Martinez)

Audit Success

This year, the Defense Finance and Accounting Service (DFAS) Working Capital Fund (WCF) proudly celebrated its 22nd consecutive unmodified financial statement audit opinion. Williams Adley & Company performed the DFAS WCF financial statement audit and their audit report is included in this document. We were also able to lead our customers toward their audit achievements through unmodified SSAE18 opinions performed by a variety of audit firms, including Williams Adley & Company, by delivery of thousands of key supporting documents, process walkthroughs, and dedication to DoD-wide goals. An SSAE18 pays particular attention to internal control, extending into the controls over information systems involved in financial reporting. It is intended for use by Certified Public Accountants performing attestation engagements, the preparation of a written opinion about a subject, and the client organizations preparing the reports that are the subject of the attestation engagement.

Forging Ahead

As the COVID-19 pandemic continued, DFAS continued to deliver audit support virtually. We hosted three financial process walkthroughs and sixteen IT walkthroughs via skype, teleconference, and Defense

Collaboration Services (DCS). Similarly, we utilized a method from the previous year to ping assets to test the existence of network equipment.

As in years past, we continued to leverage tried and true processes that assisted in our audit success. We hosted daily calls between DFAS mission areas involved in audit testing and sampling and the Independent Public Accountant (IPA) to ensure a quick turnaround on sample documentation and explanations of DFAS processes and policies. We also continued to have weekly meetings with the IPA Management Team where they provided a weekly summary of the information gathered during sampling to DFAS leadership to hold all parties accountable for due outs, maintain a positive relationship, and sustain an open flow of communication.

As seasoned professionals on both sides continued to navigate the pandemic, the sustained open flow of communication once again proved key to audit success. During FY 2021, nearly 250 requests were fulfilled, totaling roughly 2,400 documentation packages. We had a timeliness rate of 97% on all requests. This is the highest timeliness rate DFAS has achieved in the past three years, proving our at-home work environment is productive.

During FY 2021, the collective DFAS team focused on addressing four prior-year notices of findings

(NFRs) from issuance to remediation by establishing regular progress updates, which were provided to DFAS & the Office of the Secretary of Defense (OSD) leadership to ensure milestones were met. DFAS received three new NFRs in the FY 2020 audit, with one NFR reissued from FY 2019 audit.

The first NFR (improvement needed in information and technology control areas) found control weaknesses in the areas of access control, segregation of duties, and configuration management. Access control policies have been updated to address training, procedures, and segregation of duties. Charters have also been updated to reflect current operations by clarifying the types of change requests, Program Trouble Reports, and System Change Requests (SCRs) for implementation and remediation. DFAS measured success this year when additional testing performed by the IPA did not find any exceptions, which validated the recommendations have been adequately addressed. This NFR was successfully closed.

The second NFR (inaccurate recording of Property Plant & Equipment (PP&E) balances) cited improper balances of Internal Use Software, Construction in Progress, and Capitalized Equipment. Additional quality reviews were coordinated between accounting and PP&E stakeholders to verify the accuracy of input into the Defense Property Accountability System (DPAS). DFAS implemented an Audit Command Language tool to automate the population of the

missing data elements from an existing accounting report and it is on track to close in FY 2022.

The third NFR (untimely certification of prior year recoveries) noted DFAS did not ensure funds certifier signatures were received on obligating documents in the same fiscal year as the document approver's signature. Further, DFAS did not have a clear policy on fund certifier signature requirements when removing excess funding. An automated report for Permanent Change of Station transactions was distributed to track documents and ensure requisite signatures were attained, and obligations were recorded within the appropriate accounting period and do not cross fiscal years. An internal DFAS policy was also published to address fund certifier signatures to provide consistency across the Agency and provide auditors clear guidance for testing. The Corrective Action Plan (CAP) for this NFR is completed, validated and closed by the IPA.

The re-issuance of a FY 2019 NFR for untimely clearing of Fund Balance with Treasury (FBWT) reconciling items was completed and closed at the end of the fiscal year 2021 audit. This NFR was a result of FBWT variances between e-Biz and the Treasury Cash Management Report (CMR) not being cleared within 90 days per the Treasury Financial Manual (TFM). Significant progress was made to clear a backlog of aged transac-

tions, and an overhauled escalation process was put in place to reduce variances from aging in the future.

Service Provider Accomplishments and Milestones

Annually, the DoD sets goals and priorities to help remediation efforts toward processes and issues that have resulted in past audit findings and material weaknesses. DFAS actively supports the following Department audit priorities: Real Property, Information Technology, Basic Financial Reporting Internal Controls, Audit Opinion Progress, and FBWT. Ms. Sikora, our senior executive leading the FBWT effort, hosted her weekly teleconference where she went around to each Military Service and Agency to ensure each party was committed to downgrading the material weakness (issued by the DoDIG) in FY 2022. With every party making a verbal agreement during this meeting, DFAS will continue to forge forward to make the downgrade come to fruition by continuing to collaborate with internal and external customers.

In support of our customers, DFAS, the service provider, continued to perform FY 2021 walkthroughs virtually and on a very large scale, hosting more than 250 unique sessions. At the beginning of the year, a comprehensive FBWT walkthrough, via our annual FBWT Summit, to communicate key initiatives and share accomplishments was conducted for nearly 500 auditor and customer participants. One of the many accomplishments shared in this forum was our success in building a repeatable,



Sailors move an AV-8B Harrier. (U.S. Navy photo by Mass Communication Specialist 3rd Class Isaak Martinez)

sustainable universe of transactions and management analyses, and in significantly reducing balances/variances for Statement of Differences, Suspense Accounts, the Cash Management Report, and Deposits, all of which impact a customer's FBWT auditability. As the DoD's FBWT lead, DFAS established strategic goals to drive customer and service provider engagement, collaboration, and monitoring that enabled significant achievements. A notable achievement early in FY 2021 was the support we provided to assist the DISA Working Capital Fund in obtaining its first unmodified audit opinion. The intensive actions taken over the past year have positively affected the DoD's overall auditability. To mitigate the remaining issues, DFAS is developing and maintaining key reconciliations, detailed universes of transactions, and management analyses. We will continue to work to sustain overall and overaged balances at immaterial levels. Efforts will continue on building a materiality methodology and processes to review FBWT risk areas for financial statement disclosures. Further, we are adopting effective internal controls, business

processes, and process narratives to detect and prevent significant risk. Success in these areas is essential to downgrading this material weakness.

In FY 2021, DFAS continued to support the DoD customer standalone audits. In pursuit of this support, we fulfilled more than 10,000 auditor requests, resulting in the submission of over 60,000 pieces of supporting documentation. This thorough, timely support allowed our customers to achieve incremental audit goals. We also celebrated the sustainment of the 29th consecutive unmodified opinion for the Military Retirement Fund (MRF) and the 19th consecutive modified opinion for the Medicare-Eligible Retiree Health Care Fund (MERHCF). These two trust funds make up a significant portion of the investment portfolio for the DoD and thus are celebrated annually when these favorable opinions are issued.

DFAS has continued audit efforts, which includes Statements on Standards for Attestation Engagements (SSAE18s) (Figure 1). These SSAE18s are performed by various IPAs and are examinations of key processes and internal controls that are common across multiple customers. The results of the SSAE18 examinations can assist component auditors in

Results of DFAS SSAEs							
Assessable Unit	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Civilian Pay Service Inaugural Year FY 2005	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Military Pay Service Inaugural Year FY 2013	Modified, Qualified	Modified, Qualified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Standard Disbursing Service Inaugural Year FY 2013	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Contract Pay Service Inaugural Year FY 2014	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Financial Reporting Service Inaugural Year FY 2014	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified
Defense Cash Accountability System (DCAS) Inaugural Year FY 2016		Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified
Vendor Pay Service	CAPS-W		Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified
	One Pay			Modified, Qualified	Modified, Qualified	Unmodified	Unmodified
	DAI				Modified, Qualified	Modified, Qualified	Modified, Qualified
	IAPS				Modified, Qualified	Modified, Qualified	Unmodified
	GFEB5						Modified, Qualified
ELAN Hosting Service				Modified, Qualified	Unmodified	Modified, Qualified	Unmodified

Figure 1—Statement on Standards for Attestation Engagements (SSAE) Number 18 Results, FY 2015-2021. Overseen by the American Institute of Certified Public Accountants (AICPA), SSAE18 governs the way organizations report on their various compliance controls.

gaining assurance over DFAS services provided to our customers. In turn, this also reduces duplicative audit workload for DFAS. In FY 2021, DFAS reached 90% aggregate scope coverage across the SSAE18 assessable units and achieved seven unmodified opinions and five favorable modified opinions. DFAS continues to implement procedures and best practices to safeguard unmodified opinions in the future.

System Access Controls

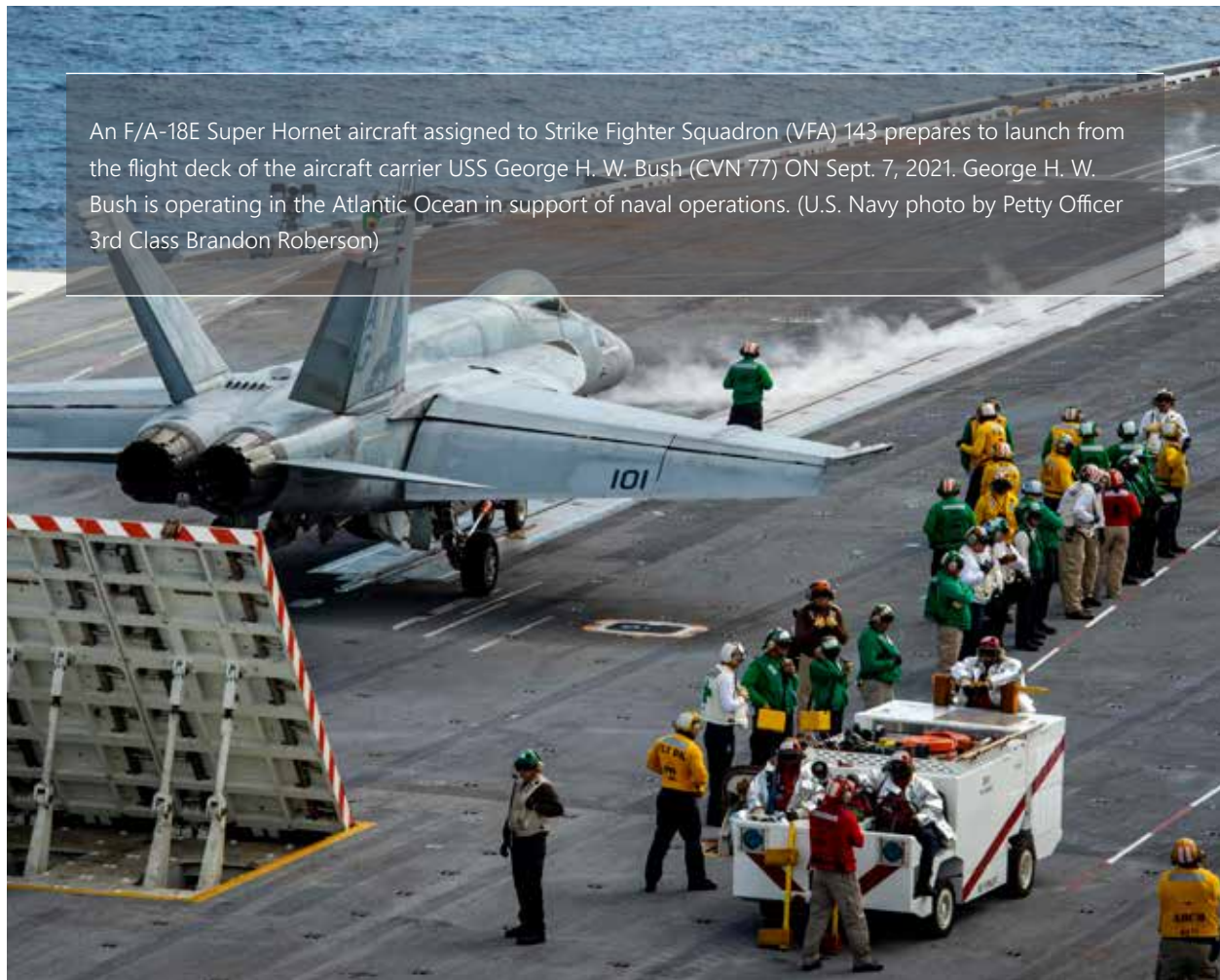
DFAS has taken significant steps to improve security and processes for managing system access for both its employees and the military customers we support. These efforts will improve the visibility of current system users and streamline efforts to manage those users to ensure the right people have the correct financial systems access for the exact purpose needed.

This year, DFAS has completed the Agency Access Controls initiative which has improved 40 DFAS systems’ internal controls over user reporting, prevented permissions with conflicts of interest, and developed universal requirements for a more automated access control infrastructure. The multi-year effort analyzed and implemented 120 user reporting improvements and formally documented each system’s internal segregation of duties matrices. These efforts have strategically poised DFAS to be a proactive partner for the next step: building an automated and streamlined access management infrastructure to further enhance the security around critical financial data.

DFAS has also partnered with DISA to define and develop an Identity, Credential, & Access Management (ICAM) DoD-wide enterprise tool. We worked closely with DISA to share our universal requirements for systems access controls. These requirements reflect modern security and access management policy and address DoD audit findings for multiple DoD organizations whom we support. Although we are not the only participating DoD organization in this pilot, DFAS's preparatory efforts have enabled us to become an influential early adopter with two financial systems fully engaged in the pilot development of the DoD ICAM Enterprise Services.

Making Progress Every Year

As we move into FY 2022, DFAS will be implementing a new five-year strategy that will assist in future audit goals. A main focus will be downgrading the DoD FBWT material weakness. DFAS will continue to evolve and work in an ever-changing financial and accounting service provider field while focusing on delivering the best customer service.



An F/A-18E Super Hornet aircraft assigned to Strike Fighter Squadron (VFA) 143 prepares to launch from the flight deck of the aircraft carrier USS George H. W. Bush (CVN 77) ON Sept. 7, 2021. George H. W. Bush is operating in the Atlantic Ocean in support of naval operations. (U.S. Navy photo by Petty Officer 3rd Class Brandon Roberson)

DFAS CELEBRATES 30 YEARS



The U. S. Space Force successfully launched the Tactically Responsive Launch-2 (TacRL-2) mission on a Northrop Grumman Pegasus XL rocket on June 13.

(Courtesy Photo)

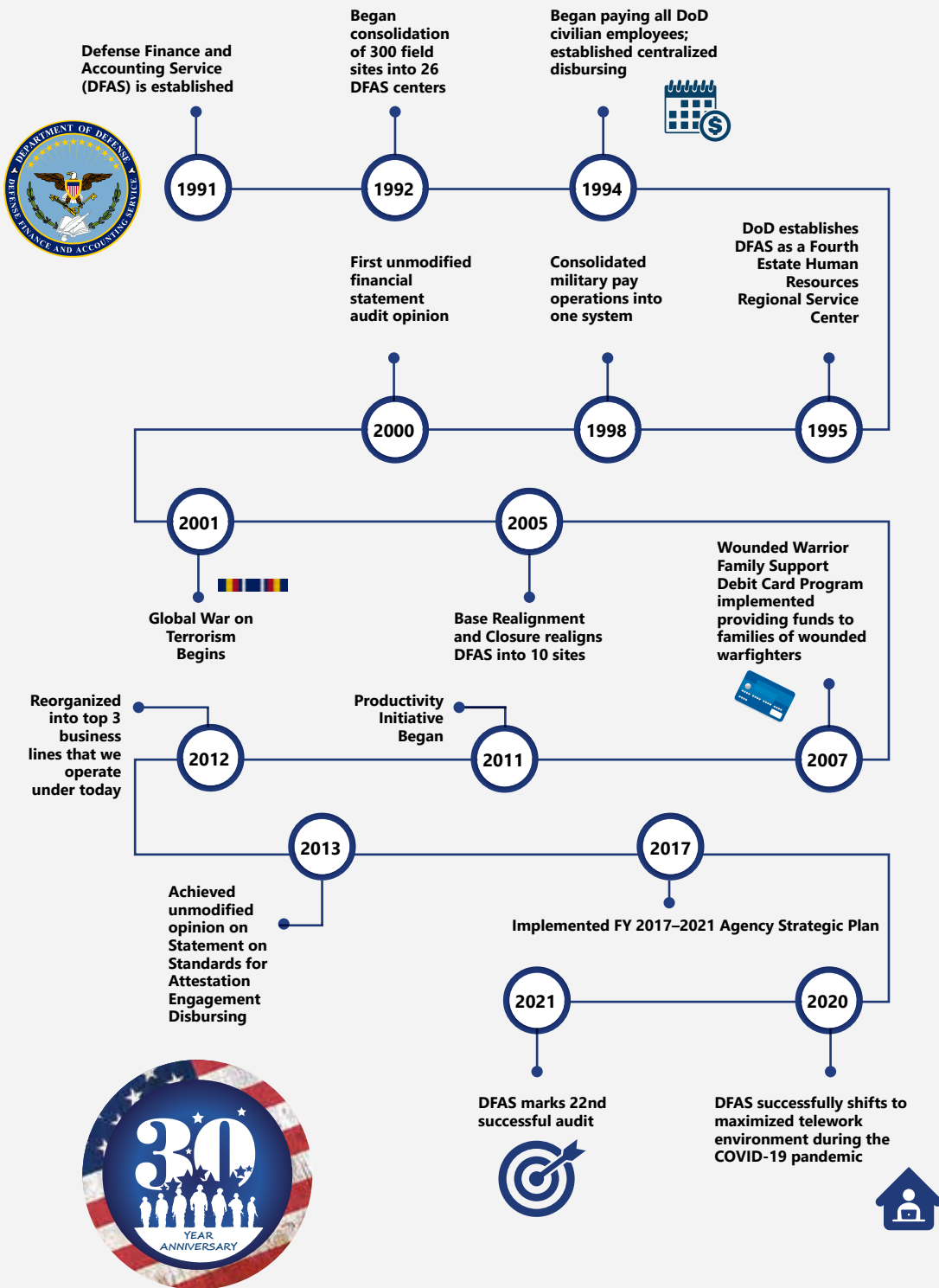
Celebrating Thirty Years

The pearl is the traditional 30-year anniversary gift. Pearls are the ultimate symbol for wisdom. Valued for their calming effects, pearls represent serenity while being able to strengthen valuable relationships and convey a sense of safety. Pearls also represent integrity and loyalty. While DFAS will not be handing out any physical pearls to our customers or employees, DFAS has prided itself on the figurative pearls we provide by strengthening valuable customer relationships and performing financial services with integrity and safety. As DFAS celebrates its thirty-year anniversary, here are some highlights, which have helped DFAS become the pillar of financial services for the Department of Defense (DoD).

A New Agency

In January 1991, Deputy Secretary of Defense Donald J. Atwood created DFAS to consolidate finance and accounting operations, reduce costs, and strengthen financial management. An agency of the DoD, DFAS is responsible for administering finance and accounting services for the military and other members of the Defense Department. The Agency provides services primarily for military service men and women, including processing military, civilian, retiree, travel, and contract/vendor pay, and managing military health care and benefits. Since our inception, DFAS has faced many unique challenges over the past thirty years, but one thing is certain, we have always put the customer first.

30 YEARS OF DFAS MILESTONES



The Early Years

The first two years proved to provide a mission nobody expected as the creation of DFAS coincided with Operations Desert Shield and Desert Storm. As a result, DFAS employees and leaders ensured support for the warfighter while also working behind the scenes to consolidate more than 300 installation-level finance and accounting offices into 26. The merging of offices proved to be a benefit to our nation as we were able to realign important funds to serve our warfighter.

By 1994, DFAS had worked diligently to also process the pay for all DoD employees. By doing this, DFAS continued to serve the mission of consolidation and alleviated duplicative work. With all employees pay under the same umbrella, DFAS could further focus on being good stewards of taxpayer funds. As the 1990s quickly passed, DFAS had several different Directors focused on the mission at hand. As audit became important, DFAS started to focus on getting an unmodified financial statement opinion for its working capital fund. By 2000, DFAS achieved this goal.

One of our darkest days as a nation came on September 11, 2001, when we were attacked on United States soil. The Global War on Terror began shortly thereafter. Thousands of America's heroes were deployed for humanitarian,

peacekeeping and combat efforts. Meanwhile, DFAS leadership, under Mr. Thomas Bloom, was diligently working in the background to ensure our heroes were paid properly, and our leaders were looking at how to realign funds to assist the warfighter. We also responded to meet the special needs of deployed service members through the Mobilized and Wounded Warrior Pay Management Organization. One of our top priorities at the time, and to this day, is to meet with each wounded service member within 72 hours of admittance to the hospital.

By 2005, under the leadership of Mr. Zack Gaddy, the Base Realignment and Closure Act (BRAC) realigned DFAS from 26 sites down to 10. BRAC is a process to increase DoD efficiency by coordinating the realignment and closure of military installations. These BRAC mandates closed on time and within budget while still taking care of the people at the closing sites. During his tenure, DFAS established several new programs to include the Wounded Warrior Pay Management Program to improve pay support to wounded service members, which ensured they and their families were taken care of during a traumatic time. DFAS established a Financial Management Center of Excellence to act as the integrator for Enterprise Resource Planning initiatives and accelerate system delivery through the standardiza-

The definition of our ultimate success is what we do daily—proudly serving America's heroes—the individual Soldier, Sailor, Airman, Marine, Guardian, civilian employee, retiree, and their annuitants. I am confident each of you will continue to contribute as you have in the past, so together we meet and exceed the challenges of the next 30 years.

*Audrey Davis,
Director*

tion of DoD finance and accounting core business practices. DFAS also established the Global War on Terror Cost of War (CoW) Program Management Office and created more credible, transparent, timely and accurate CoW reports, which allowed senior decision makers to better support the warfighter.

A New Era

Mrs. Teresa McKay took over as DFAS Director in 2008, and was committed to the DFAS mission and vision for over a decade. During her time, Mrs. McKay led many initiatives to accomplish multiple DoD-wide priorities. One priority was the productivity initiative launched in 2011, which allowed the Agency to do more advanced and detailed trend and cost analysis. The data provided a better understanding of the amount of productive time employees spent on their primary jobs and our overall value for the Agency and customers. This information enabled Agency leadership to determine the proper mix of workload for employees in various areas. In 2012, DFAS also had a reorganization, which created the three business lines we operate today: Operations,

In the last thirty years, eight different Directors have led the agency:

1991: Albert Conte

1993: John Springett

1995: Richard Keevey

1997: Gary Amlin

1999: Thomas Bloom

2004: Zack Gaddy

2008: Teresa McKay

2020: Audrey Davis

Strategy and Support, and The Director's Office. These organizational changes aligned with the Department's broader efficiency efforts; streamlined the business operating environment; optimized core mission and support organization structures; and recognized success and progress in skills and competencies. Due to the reorganization, DFAS saved nearly \$200 million between 2012 and 2017, further reducing DoD costs and allowing funds to be redirected to the warfighter.

During Ms. McKay's tenure, DFAS grew into being a crucial asset in helping the DoD become audit ready. Secretary Leon E. Panetta set a deadline of September 30, 2014, for the DoD to produce an auditable Statement of Budgetary Resources. This benchmark represented a significant step forward in

the Department becoming audit ready on the remaining three financial statements by the Congressionally mandated deadline of September 30, 2017. In turn, Mrs. McKay established the Office of Audit Readiness to further support our customer's audit goals.

Resiliency as a New Director

Ms. Audrey Davis took over as the DFAS Director in 2020, just as the world entered a global pandemic, which forced the majority of our workforce to work away from DFAS sites due to local stay at home orders. DFAS quickly pivoted to full-time telework for the vast majority of our workforce and proved we could be successful in any environment. DFAS quickly added a priority to focus more on employee safety while meeting the mission. Within weeks, Ms. Davis had the opportunity to lead the DFAS workforce by implementing the deferral of \$2.5 billion in OASDI taxes for 2.7 million customers and adjusting the normal debt collection period from four to twelve months. In addition, DFAS ensured proper pay and benefits to 3 million civilians and military personnel and 600,000 vendors while delivering effective IT, training, communications, and reporting. As a result, then Deputy Secretary of Defense, Mr. David L. Norquist, recognized DFAS for preparedness and sustained mission support. DFAS also partnered with federal providers vaccinating

voluntary employees, successfully transitioned the Texarkana Finance mission from paper to electronic processes (which were implemented within 72 hours to allow employee telework capability during the pandemic), and paused 78,500 new out of service debts totaling \$187.3 million and 17,500 treasury referral debts totaling \$82 million.

Another highlight was transferring the Defense Military Pay Office (DMPO) and the Lead Defense Travel Administrators (LDTA) workload back to the Army. The Army was the only Military Service to pay DFAS to perform this type of work at the field level. In an average month, the DMPOs processed over 400K transactions resulting in accurate pay to approximately 460K Soldiers. LDTAs served as the main point of contact for travel functions at various Army installations and managed travel program sustainment. DFAS worked diligently behind the scenes to ensure all 919 employees would have a seamless transition. This included getting an approved exception to policy to maintain systems access for all 919 employees, coordinating with payroll teams to ensure all employees were paid on time, and establishing weekly communication between the employees and leadership. When the day arrived, the missions and all 919 employees transitioned to the Army without any issues.

First-Class Customer Care

The past thirty years brought unique challenges for us to master and turn into opportunities to enhance our focus on the mission and the warfighter. DFAS continues to provide value-added services to our customers just as we have over the past three decades. We will continue to execute first-class customer service with unwavering integrity, innovation, and agility in a constantly evolving environment. We look forward to the future and everything it has in store.

An Air Force KC-46 aircraft from Pease Air National Guard Base, N.H., participate in an elephant walk, Sept. 8, 2021. (U.S. Air Force photo by Staff Sgt. Victoria Nelson)



MANAGEMENT ASSURANCES





DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, IN 46249-0201

MEMORANDUM FOR THE OFFICE OF THE UNDER SECRETARY OF DEFENSE
(COMPTROLLER) (OUS(D)) DEPUTY CHIEF
FINANCIAL OFFICER (DCFO)

SUBJECT: Annual Statement of Assurance (SoA) Required Under the Federal Managers'
Financial Integrity Act (FMFIA) for Fiscal Year (FY) 2021

As the Director of the Defense Finance and Accounting Service (DFAS), I recognize DFAS is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA of 1982. Our SoA provides specific information on how the assessment of internal controls was conducted in accordance with the Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, and the Government Accountability Office (GAO) Green Book, GAO-14-704G, Standards for Internal Control in the Federal Government. Based on the results of the assessment, DFAS can provide assurance that internal controls over operations, reporting, and compliance are operating effectively, with the exception of one material weakness in Financial Reporting related to the Agency's service provider operations as of September 30, 2021.

DFAS conducted its assessment of the effectiveness of internal controls over operations in accordance with OMB Circular No. A-123, the GAO Green Book, and the FMFIA. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around Security Assistance Accounts (SAA) activities. I am able to provide assurance that internal controls over DFAS' operations and compliance are operating effectively, with the exception of one material weakness in Financial Reporting related to the Agency's service provider operations.

DFAS conducted its assessment of the effectiveness of internal controls over reporting, including internal and external financial reporting, in accordance with OMB Circular No. A-123, Appendix A. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around SAA activities. Based on this assessment, I am able to provide reasonable assurance that internal controls over reporting, including internal and external reporting, and compliance are operating effectively.

DFAS conducted an internal review of the effectiveness of internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around SAA activities. Based on the results of this evaluation, I am able to provide reasonable assurance that internal controls over financial systems are in

compliance with FMFIA, Section 4; Federal Financial Management Improvement Act (FFMIA), Section 803; and OMB Circular No. A-123, Appendix D.

DFAS also conducted an assessment of entity level controls including fraud control in accordance with the GAO Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. The *“Internal Control Evaluation (TAB A)”* section and the *“Assessment of Entity Level Controls (TAB B)”* section provide specific information on how DFAS conducted this assessment. This internal review also included an evaluation of the internal controls around SAA activities. Based on the results of this assessment, I am able to provide reasonable assurance that entity-level controls including fraud controls are operating effectively.

DFAS is hereby reporting that no Antideficiency Act violation has been identified during our assessments of the applicable processes.

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Audrey Y. Davis
Director

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COMPLIANCE AND REGULATIONS



DFAS management is responsible for compliance with existing laws and regulations related to financial reporting. DFAS did not identify any instances of non-compliance during FY 2021. The following describes specific compliance assertions and efforts taken by DFAS management to maintain compliance applicable to DFAS Financial Reporting.

Federal Financial Management Improvement Act of 1996

DFAS conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Based on the results of this assessment, as of June 30, 2021, the internal controls over the integrated financial management systems utilized in the compilation of the DFAS financial statements, were in compliance with OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996.

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act of 2014 (codified, as amended, at 31 U.S.C. 6101 note) establishes a Government-wide standard for financial data and disclosure to USASPEND-ING.gov. This enables taxpayers and policy makers to track federal spending more effectively.

DFAS is compliant and completed implementation in 2nd quarter FY 2017, prior to the DoD required due date of May 2018. DFAS has implemented adequate internal controls to mitigate the risk of non-compliance by requiring change request approvals from all entities exposed.

Antideficiency Act

Section 1341, Title 31, United States Code (31 U.S.C. 1341 [1990]) limits DFAS and its agents to making or authorizing only expenditures or obligations that do not exceed the available appropriations or funds. Additionally, DFAS and its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law.

As stated in 31 U.S.C. 1517 (2004), DFAS and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken.

The DFAS 7040.1-I, DFAS Financial Management Instruction, Enclosure 14, provides agency policy for investigating and reporting ADA violations. During FY 2021, DFAS has no ADA violations to report.

Debt Collection improvement Act of 1996

Public Law 104-134 Debt Collection Improvement Act of 1996 (Updated April 30, 1999) is legislation that provides an opportunity for the federal government to move toward its goal of increased electronic commerce and improved cash and debt collection management. The Act enhances debt collection government-wide, and mandates the use of electronic funds transfer for federal payments, allows Federal Reserve Bank Treasury Check Offset, and provides funding for the Check Forgery Insurance Fund.

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

DFAS implemented debt management controls to meet the requirements of the DCIA, OMB Circular No. A-129, Policies For Federal Credit Programs and Non-Taxable Receivables and other laws as applicable, including:

- Treasury Offset Program Referral of debts more than 120 days delinquent;
- Write-offs of delinquent debt older than two years;
- 1099-C Reporting when closing out debts; and
- Credit Bureau Reporting of delinquent non-tax, out-of-service debts.

Government Charge Card Abuse Prevention Act

The Government Charge Card Abuse Prevention Act (Public Law 112-194) requires all federal agencies to establish safeguards and internal controls for government charge card programs and establish penalties for violations. DFAS is in compliance with the current requirements of PL 112-194 for both the Government Purchase Card and Government Travel Charge Card Programs.

Prompt Payment Act

The Prompt Payment Act (codified as amended in 31 U.S.C. 3901-3907) ensures federal agencies pay vendors in a timely manner. Prompt Payment ((5 Code of Federal Regulation [CFR] 1315), formerly OMB Circular A-125, Prompt Payment) requires DFAS to pay commercial obligations within certain periods and to pay interest penalties when payments are late. In compliance with the Statute, DFAS paid \$11,167 of Prompt Payment Interest penalties during FY 2021.

Improper Payments Elimination and Recovery Improvement Act of 2012

The Improper Payments Elimination and Recovery Improvement Act of 2012 (31 U.S.C 3321 note) requires federal agencies to review spending to identify, prevent, and report improper payments to reduce error, waste, fraud, and abuse within federal spending. This requirement is done not by DFAS WCF but by DFAS, the service provider. DFAS, the service provider, handles reporting DoD-wide for all components to include DFAS WCF.

Fraud Reduction and Data Analytics Act of 2015

DFAS implemented the required financial and administrative controls for the fraud risk principle in the Standards for Internal Control

FINANCIAL DISCUSSION AND ANALYSIS



Agency plans its revenue and expenses based primarily on the estimated amount of services our customers will require in the future. In order to assist the DoD in its budgeting process, the Agency's budgeted rates are established two fiscal years in advance. Due to forecasting future budgeted rates, fluctuations in customer demand for services have a direct and significant effect on DFAS' financial performance as a result of utilizing a predominantly labor-based expense structure.

The performance of the Agency can be measured by the Net Cost of Operations which is the difference between expenses and revenue for the year. The Net Position measures the Agency's budgetary health since inception.

Fiscal Years Ended September 30	2021	2020
Net Cost of Operations	\$ 37,199,378	\$ 149,078,245
Net Position	\$ 231,453,233	\$ 198,528,493

Significant Events

In accordance with revised guidance found in DoD FMR Volume 4, Chapter 24 "Real Property," DoD Components (to include Defense Working Capital Funds) are required to transfer real property assets to the host installation once the assets are placed in service. For FY 2021, DFAS has completed the transfer of \$8.0 million net book value of real property to the military services. This removal included \$3.3 million to Air Force and 4.7 million transferred to Army. DFAS has an ending net General Ledger PP&E balance of \$109.9 million for the FY 2021 reporting period.

Financial Statement Analysis

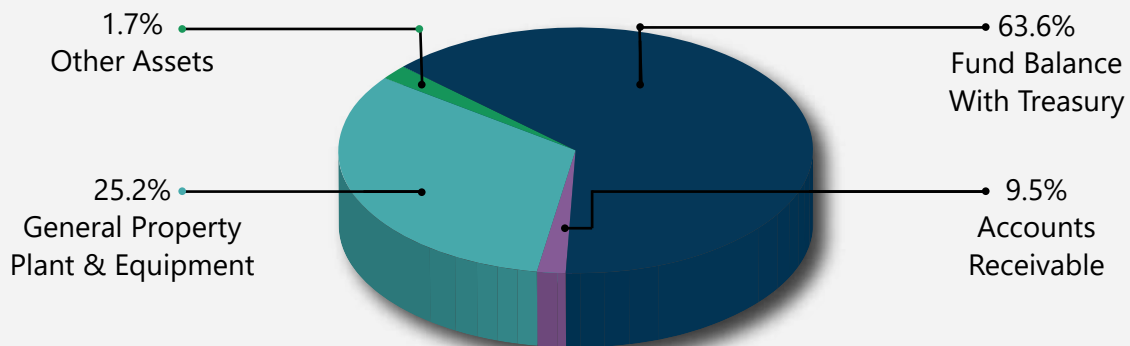
DFAS WCF continues a thorough monthly review process and robust execution reporting to senior leadership in order to outline the status of its financial position and available budgetary resources. Consequently, DFAS leadership is armed with proprietary and budgetary information to make informed business decisions throughout the year in order to manage the DFAS WCF unobligated balance. The Office of the Under Secretary of Defense, (Comptroller) (OUSDC) and the Office of Management and Budget (OMB) are updated quarterly during budget execution reviews. As a result, DFAS stakeholders are provided timely information regarding the current and anticipated DFAS status of budgetary resources in order to evaluate the performance of the organization.

Balance Sheet

The Balance Sheet reflects DFAS' financial position as of September 30, 2021, and details amounts available to provide future economic benefits (assets), owned or available for use by DFAS, compared to the amounts owed (liabilities), requiring the use of available assets, and the difference between them (net position). The table below summarizes the fluctuations in the Balance Sheets from FY 2020 to FY 2021.

As of September 30	2021	2020	Change	% Change
Assets	\$ 435,300,113	\$ 403,087,961	\$ 32,212,152	8.0%
Liabilities	203,846,880	204,559,468	(\$712,583)	(0.3%)
Net Position	\$ 231,453,233	\$ 198,528,493	\$ 32,924,740	16.6%

Composition of Assets



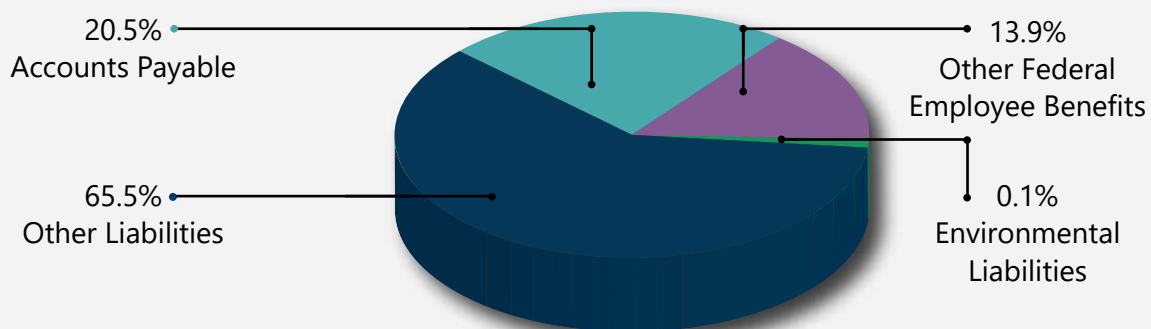
Total WCF Assets of \$435.3 million on September 30, 2021 consisted primarily of \$276.7 million in FBWT, and \$109.9 million in General Property, Plant, and Equipment (PP&E).

Fund Balance with Treasury (FBWT) increased by \$19.9 million (7.7%) due to the early receipt of customer funding and increased revenue in FY 2021. The increased revenue was due to the cash recovery and prior year operating losses built into the FY 2021 billing rates.

Accounts Receivable (Intragovernmental) increased by \$33.8 million (509.4%). The increase is primarily due to an outstanding accounts receivable balance of \$32.9 million for the Air Force.

General Property, Plant, and Equipment decreased by \$21.9 million (16.7%). The decrease is primarily due to a real property transfer as required per the DoD FMR Volume 4, Chapter 24 "Real Property."

Composition of Liabilities



Total Liabilities of \$203.8 million as of September 30, 2021, primarily consists of Other Liabilities for \$133.5 million, Accounts Payable for \$41.8 million, Other Federal Employment Benefits for \$28.3 million, and Environmental Liabilities for \$302 thousand. Other Liabilities consists of \$113.9 million for the

Accrued funded payroll and leave benefits, \$14.4 million for employer contributions and payroll taxes payable, and \$5.2 million for unfunded Federal Employees' Compensation Act (FECA) reimbursements to the Department of Labor.

Statement of Budgetary Resources

The WCF Statement of Budgetary Resources presents the total budgetary resources available to DFAS for use in FY 2021, their status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. It is the only financial statement exclusively derived from the budgetary general ledger in accordance with budgetary accounting rules. As part of the Defense-wide WCF, DFAS' budgetary resources are generated by collecting funds from customers in exchange for providing accounting and financial services.

Fiscal Years Ended September 30	2021	2020	Change	% Change
Gross Outlays	\$ 1,409,773,665	\$ 1,427,762,154	\$ (17,988,489)	(1.3%)
Less Actual Offsetting Collections	\$ (1,429,667,228)	\$ (1,383,989,428)	\$ 45,677,800	3.3%
Net Outlays	\$ (19,893,563)	\$ 43,772,726	\$ (\$63.7)	(145.4%)

Net Outlays decreased by (\$63,666,289) million (145%). The decrease is primarily due to a lower personnel end strength of 10,848 compared to 11,749 in FY 2020. The decrease is from the transfer of over 900 personnel to the Army in October 2020, resulting in decreased Civilian Personnel Compensation.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents 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 Agency's operations. 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 cash, property, and imputed financing costs absorbed by other Federal agencies on DFAS' behalf.

Earned Revenue increased by \$40.3 million 135% due to a planned recovery of prior year operating losses built in the FY 2021 billing rates.

Fiscal Years Ended September 30	2021	2020	Change	% Change
Beginning Balances	\$ 198,528,493	\$ 317,772,426	\$ (119,243,933)	(37.5%)
Total Financing Sources	70,124,118	29,834,312	40,289,806	135%
Less Net Cost of Operations	<u>(37,199,378)</u>	<u>(149,078,245)</u>	(111,878,867)	(75%)
Cumulative Results of Operations	\$ <u>231,453,233</u>	\$ <u>198,528,493</u>	\$ <u>32,924,740</u>	16.6%

Statement of Net Cost

The Statement of Net Cost presents the annual cost of operations for DFAS. The net cost of DFAS' operations equals the program's gross cost less revenue earned from external sources for services provided to the Military Services and other Defense Agencies. The table below illustrates the changes in costs and revenues.

Fiscal Years Ended September 30	2021	2020	Change	% Change
Gross Costs	\$ 1,497,549,420	\$ 1,519,444,802	\$ (21,895,382)	(1.4%)
Less Earned Revenue	(1,460,350,042)	(1,370,366,557)	89,983,485	6.6%
Net Cost of Operations	\$ 37,199,378	\$ 149,078,245	\$ (111,878,867)	(75.0%)

Gross Costs decreased by (\$21.9) million (1.4%) primarily due to a lower personnel end strength of 10,848 compared to 11,749 in FY 2020. The decrease is from the transfer of over 900 personnel to the Army in October 2020, resulting in decreased Civilian Personnel Compensation of \$21.8 million.

Gross Costs by Category	2021	2020	Change	% Change
Payroll Expense	\$ 793,138,076	\$ 821,496,330	\$ (28,358,254)	(3.5%)
Employee Benefits Expense	299,301,512	298,822,949	478,563	0.2%
Contractor Services	196,240,831	178,057,089	18,183,742	10.2%
Imputed Costs	78,179,576	73,701,759	4,477,817	6.1%
Equipment Expense	60,934,249	70,921,941	(9,987,692)	(14.1)%
Lease & Office Expenses	42,917,389	41,826,067	1,091,322	2.6%
Depreciation & Amortization	26,245,984	29,869,575	(3,623,591)	(12.1)%
Miscellaneous Supplies and Materials	1,713,077	2,251,622	(538,545)	(23.9)%
Travel Expense	830,721	2,143,553	(1,312,832)	(61.2)%
Loss on Disposition of Assets	698,038	15,012	683,026	4549.9%
PPA Interest Expense	11,167	50,000	(38,833)	(77.7)%
Bad Debt Expenses	(1,977)	0	(1,977)	100.0%
Other Expenses	(2,659,223)	288,905	(2,948,128)	(1020.4)%
Total	\$ 1,497,549,420	\$ 1,519,444,802	(21,895,381)	(1.4%)

Financial Statement Preface

Based upon timely information and a proactive approach, DFAS produces accurate and timely financial statements. These statements have been prepared to report the overall financial position and results of operations of the Agency pursuant to the requirements of Title 31, United States Code, Section 3515 (b), to include :

1. Balance Sheets
2. Statements of Budgetary Resources
3. Statements of Net Cost
4. Statements of Changes in Net Position

The financial statements and notes are prepared in accordance with federal accounting standards using generally accepted accounting principles and audited by our independent auditor Williams, Adley & Company-DC, LLP.

SECTION II

FINANCIALS

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT

COMPARATIVE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Aviation Boatswain's Mate (Handling) 1st Class Stephen Vaiza, from Socorro, New Mexico, signals to an MH-60S Sea Hawk helicopter assigned to Helicopter Sea Combat Squadron (HSC) 5 to land aboard the aircraft carrier USS George H. W. Bush (CVN 77) on Aug. 26, 2021. George H. W. Bush is operating in the Atlantic Ocean in support of naval operations to maintain maritime stability and security in order to ensure access, deter aggression and defend U.S. allied and partner interests. (U.S. Navy photo by Mass Communication Specialist 2nd Class Steven Edgar)



CHIEF FINANCIAL OFFICER'S MESSAGE



ROSIE TINSLEY

I am pleased to present the Defense Finance and Accounting Service (DFAS) Working Capital Fund Fiscal Year (FY) 2021 financial statements, which led to our 22nd consecutive unmodified financial statement audit opinion.

Like many organizations, we continue to operate efficiently in a virtual environment that safeguards the health and well-being of DFAS personnel, while effectively supporting our customers. We have also expanded our virtual workplace toolkit this year, including the addition of capabilities that have empowered DFAS individual contributors and teams to seamlessly engage across stakeholder communities. These expanded technology solutions have enhanced our outreach, delivering a high return of customer engagement requiring minimal financial investments. While we experienced these innovations, DFAS also achieved explicit strategic and operational mission outcomes resulting from clearly defined objectives, some of which are highlighted in our Management's Discussion and Analysis. These strategies include continuing the retirement of DFAS managed legacy financial systems, as part of the purposeful journey to achieve the target systems environment dominated by Enterprise Resource Planning and key support systems. DFAS also made productive progress in the achievement of data standardization and business process streamlining, and the use of emerging technologies including Robotic Process Automation and Data Analytic platforms to increase efficiency and reduce manual data entry input in piloted workload scenarios.

In FY 2021, the Agency responded purposefully in response to the "Coronavirus Aid, Relief, and Economic Security Act" or the "CARES Act" passed by Congress on March 27, 2020. This legislation, when enacted, included new Social Security tax withholding requirements. In support of these CARES Act provisions, DFAS swiftly executed complex system updates to accommodate these priority initiatives in support of our customers. Additionally, in conjunction with the Department's audit priorities, DFAS partnered with the Office of the Secretary of Defense (Comptroller) and the Military Services to transfer 36 real property assets valued at approximately \$8 million. As a service provider for audit support, we made significant strides this year collaborating with customers towards downgrading the DoD Inspector General material weaknesses for Fund Balance with Treasury. This progress resulted from improvements in key focus areas including variances in deposit accounts, cash management reports, statement of differences, suspense accounts, as well as reducing unsupported Journal Vouchers, intransits, and unmatched disbursements.

As we enter FY 2022, DFAS' steadfast commitment to maintain outstanding operational performance while meeting or exceeding its cost objectives is resolute. In doing so, as an employer of choice, DFAS continues to invest in its workforce and the future with targeted financing for training and technology, applied in a diverse, innovative, thought leadership culture. These investments empower the DFAS team to build upon a proven record of success, and decisively move in a fiscally sound manner, while partnering with customers in financial management successes and concurrently sustaining our unmodified audit opinion.



A handwritten signature in black ink that reads "Rosie Tinsley". The signature is fluid and cursive, written over a light-colored background.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS





Independent Auditor's Report

Director, Defense Finance and Accounting Service
Chair, Defense Finance and Accounting Service Audit Committee

In our audits of the fiscal years 2021 and 2020 financial statements of the Working Capital Fund (WCF) of the Defense Finance and Accounting Service (DFAS), a component of the United States Department of Defense (DoD), we found:

- the DFAS WCF's financial statements as of and for the fiscal years ended September 30, 2021, and 2020, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;¹ and
- no reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes an other matters paragraph related to the required supplementary information (RSI)² and other information included with the financial statements;³ (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments.

Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*, we have audited the DFAS WCF's financial statements. The DFAS WCF's financial statements are comprised of the balance sheets as of September 30, 2021 and 2020; the related statements of net

¹A material weakness is a deficiency, or 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

²The RSI consists of Management's Discussion and Analysis inclusive of the Financial Discussion and Analysis, which are included with the financial statements.

³Other information consists of the Message from the Director, the Message from Chief Financial Officer, and the Other Information Section.

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

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cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 21-04. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

The DFAS WCF's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted auditing standards, U.S. generally accepted government auditing standards, and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, the DFAS WCF's financial statements present fairly, in all material respects, the DFAS WCF's financial position as of September 30, 2021, and 2020, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

The DFAS WCF's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on the DFAS WCF's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

In connection with our audits of the DFAS WCF's financial statements, we considered the DFAS WCF's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to the DFAS WCF's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

The DFAS WCF's management is responsible for maintaining effective internal control over financial reporting, including 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.

Auditor's Responsibility

In planning and performing our audit of the DFAS WCF's financial statements as of and for the year ended September 30, 2021, in accordance with U.S. generally accepted government auditing standards, we considered the DFAS WCF's internal control over financial reporting as a basis for designing 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 the DFAS WCF's internal control over financial reporting. Accordingly, we do not express an opinion on the DFAS WCF's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies⁴ or material weaknesses. We did not consider all internal controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, or to express an opinion on the effectiveness of the DFAS WCF's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our 2021 audit, we identified deficiencies in the DFAS WCF's internal control over financial reporting that we do not consider to be significant deficiencies or material weaknesses. Nonetheless, these deficiencies warrant the DFAS WCF's management's attention. We have communicated these matters to the DFAS WCF's management and, where appropriate, have reported on them separately.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the DFAS WCF's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the DFAS WCF's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

⁴A 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.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of the DFAS WCF's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

The DFAS WCF's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the DFAS WCF.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the DFAS WCF that have a direct effect on the determination of material amounts and disclosures in the DFAS WCF's financial statements and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DFAS WCF.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2021 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the DFAS WCF. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, DFAS WCF's management provided a response, which is presented in *Appendix I*. We did not audit DFAS WCF's response and, accordingly, we express no opinion on the response.

Williams, Ardley & Company, DC, LLP

Washington, DC
November 3, 2021

MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT



Appendix I - Management Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE
8899 EAST 56TH STREET
INDIANAPOLIS, IN 46249-0201

November 3, 2021

Mr. Kola A. Isiaq, Engagement Partner
Williams, Adley and Company-DC, LLP
1030 15th Street NW, Suite 350 West
Washington, DC 20005

Dear Mr. Isiaq:

I have reviewed the draft Independent Auditor's Report dated October 26, 2021, regarding the Fiscal Year 2021 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. I am satisfied by the outcome and accept this report on behalf of DFAS.

A key strategic priority for the Department of Defense is to achieve full auditability of all its operations, and I am pleased to see the result of this audit demonstrates DFAS' commitment towards that desired outcome.

Your staff's professionalism and attentiveness, while conducting this audit, is greatly appreciated. If there are any additional requirements needed for completion, please contact my action officer, Mr. Jason Monday, at (317) 212-2674 or james.j.monday.civ@mail.mil.

Sincerely,

A handwritten signature in black ink, appearing to read "Audrey Y. Davis".

Audrey Y. Davis
Director

Proudly Serving America's Heroes
www.dfas.mil



OFFICE OF THE DIRECTOR

DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219

November 3, 2021

Mr. Kola Isiaq
Engagement Partner
Williams, Adley and Company, LLP-DC
1030 15th Street NW Suite 350 West
Washington, DC 20005

Dear Mr. Isiaq:

I have received and reviewed a copy of the draft Independent Auditor's Report for the Fiscal Year 2021 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. On behalf of the Audit Committee as its Chair, I thank you and your staff for an objective and thorough audit of these financial statements.

DFAS clearly continues to demonstrate its commitment to maintaining an unmodified audit opinion and to sound financial management. DFAS management continually reviews its processes for improvements to ensure sound business processes and internal controls, and I am confident DFAS will continue to enhance controls and improve processes based on your teams' recommendations.

Williams Adley and Company staff and the DFAS team continue to have a collaborative professional working relationship that has again ensured an efficient and successful audit demonstrated by another unmodified opinion.

I appreciate and thank you for your team's continued professionalism, dedication, and hard work in support of sound financial management and reporting at DFAS.

Sincerely,

A handwritten signature in black ink that reads "Joseph P. Bentz".

Joseph P. Bentz
Chair
Defense Finance and Accounting Service
Financial Statement Audit Committee

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COMPARATIVE FINANCIAL STATEMENTS



BALANCE SHEETS

As of September 30, 2021 and 2020	2021	2020
Assets		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 276,710,206	\$ 256,816,643
Accounts Receivable, Net (Note 3)	40,536,991	6,652,052
Other Assets	1,662,330	809,333
Total Intragovernmental Assets	\$ 318,909,527	\$ 264,278,028
Accounts Receivable, Net (Note 3)	858,728	991,658
General Property, Plant and Equipment, Net (Note 4)	109,873,571	131,795,392
Advances and Prepayments	5,658,287	6,022,883
Total Other than Intragovernmental	116,390,586	138,809,933
Total Assets	\$ 435,300,113	\$ 403,087,961
Liabilities (Note 5)		
Intragovernmental:		
Accounts Payable	\$ 18,231,072	\$ 17,981,834
Other Liabilities (Notes 8 and 10)	19,556,507	19,060,790
Total Intragovernmental Liabilities	\$ 37,787,579	\$ 37,042,624
Accounts Payable	\$ 23,558,305	\$ 24,334,834
Other Federal Employment Benefits (Note 6)	28,295,297	31,018,751
Environmental and Disposal Liabilities (Note 7)	302,000	260,000
Other Liabilities (Notes 8 and 10)	113,903,699	111,903,259
Total Other than Intragovernmental	166,059,301	167,516,844
Total Liabilities	\$ 203,846,880	\$ 204,559,468
Commitment and Contingencies (Note 9 and 10)		
Net Position		
Cumulative Results of Operations	231,453,233	198,528,493
Total Net Position	\$ 231,453,233	\$ 198,528,493
Total Liabilities and Net Position	\$ 435,300,113	\$ 403,087,961

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

STATEMENTS OF NET COST

Fiscal Years Ended September 30	2021	2020
Program Costs		
Gross Costs	\$ 1,497,549,420	\$ 1,519,444,802
(Less: Earned Revenue)	(1,460,350,042)	(1,370,366,557)
Net Cost of Operations (Note 11)	\$ 37,199,378	\$ 149,078,245

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

STATEMENTS OF CHANGES IN THE NET POSITION

Fiscal Years Ended September 30	2021	2020
Cumulative Results of Operations		
Beginning Balances	\$ 198,528,493	\$ 317,772,426
Other Financing Sources		
Transfers in/out without reimbursement (Note 4)	(7,878,183)	(43,867,447)
Imputed financing	78,179,576	73,701,759
Other	(177,275)	-
Other Financing Sources	70,124,118	29,834,312
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections- See Note 11)	(37,199,378)	(149,078,245)
Net Change in Cumulative Results of Operations	32,924,740	(119,243,933)
Total Net Position	\$ 231,453,233	\$ 198,528,493

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

STATEMENTS OF BUDGETARY RESOURCES

Fiscal Years Ended September 30	2021	2020
Budgetary Resources		
Unobligated Balance from prior year budget authority, net	\$ 188,341,912	\$ 233,589,124
Contract Authority	8,630,519	20,113,618
Spending Authority from offsetting collections	1,401,681,714	1,373,192,024
Total Budgetary Resources (Note 13)	\$ 1,598,654,145	\$ 1,626,894,766
Status of Budgetary Resources		
New obligations and upward adjustments (total)	\$ 1,409,916,757	\$ 1,442,870,568
Unobligated balance, end of year		
Apportioned, unexpired accounts	188,676,916	184,024,198
Unapportioned, unexpired accounts	60,472	0
Total Budgetary Resources (Note 13)	\$ 1,598,654,145	\$ 1,626,894,766
Net Agency Outlays	\$ (19,893,563)	\$ 43,772,726

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

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NOTES TO THE FINANCIAL STATEMENTS



Note 1. Summary of Significant Accounting Policies

1.A. Mission of the Reporting Entity

The Defense Finance and Accounting Service (DFAS), a component of the Department of Defense (DoD), was established in 1991 by the Secretary of Defense to reduce the cost of DoD financial and accounting operations, and to reform financial management throughout DoD. The mission of DFAS is to lead our customers in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and financial information.

Operating as a Working Capital Fund (WCF), DFAS functions similarly to a private corporation by obtaining revenue through charging customers fixed prices for its services. DFAS sets its rates annually, two years in advance, based on anticipated workload and estimated costs calculated to offset any prior year gains or losses. Unlike the private sector, DFAS has little flexibility to adjust prices in the year of execution unless coordinated with the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). DFAS operations are subject to DoD, Executive Branch, and Legislative Branch oversight. DFAS programs and initiatives are guided by the Under Secretary of Defense Comptroller and DFAS' Chief Financial Officer.

1.B. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the DFAS WCF, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DFAS WCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles (U.S. GAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements"; and the Department of Defense (DoD), Financial Management Regulation (FMR).

FASAB is the official accounting standards-setting body of the Federal Government. The accompanying financial statements account for all resources for which the DFAS WCF is responsible unless otherwise noted.

1.C. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities, at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ materially from those estimates. Significant estimates and assumptions in these comparative financial statements require

the exercise of judgment and are used for, but not limited to, allowance for doubtful accounts, environmental liabilities, pension and other post-retirement benefit expenses, and the Federal Employee Compensation Act (FECA) Liability.

1.D. Appropriations and Funds

The DFAS WCF does not receive appropriations and funds as general, trust, special, or deposit funds, as it is only a working capital (revolving) fund. The DFAS WCF uses these funds to execute its missions and subsequently report on resource usage.

Working capital funds receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

1.E. Basis of Accounting

DFAS presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis less the Eliminations. The Statement of Budgetary Resources is presented on a combined basis. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use Federal funds.

1.F. Revenues and Other Financing Sources

Revenue is recognized when earned and services have been rendered. Revenue is generated by sales of accounting and finance services to the DFAS customers through a reimbursable order process. The majority of services rendered by DFAS are provided to the Military Departments and other DoD agencies.

The goal of a WCF organization is to breakeven over an extended period of time. In accordance with the DoD FMR, Volume 3, Chapter 19, the Accumulated Operating Results (AOR) and Net Operat-

ing Results (NOR) serve as the primary points of reference for determining the need to adjust billing rates. Working Capital Fund organizations adjust future billing rates to counter the effects the fluctuations have on the AOR. The positive and negative adjustments are normal business practices occurring when the net cost of operations is not zero. Because of the nature of a WCF, the unanticipated impacts on workload and cost fluctuations will result in profits or losses during any given year. Accumulated Operating Results is tracked from inception and requires constant routine monitoring to account for the fluctuating costs of conducting business.

1.G. Recognition of Expenses

For financial reporting purposes, U.S. GAAP requires the recognition of operating expenses in the period incurred. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue.

1.H. Accounting for Intragovernmental Activities

Intragovernmental costs and exchange revenue represent transactions made between two reporting entities within the Federal government. Costs and earned revenues with the public represent transactions made between the reporting entity and a nonfederal entity. The classification of revenue or cost as “intragovernmental”

or “public” transactions is defined in the DoD FMR Volume 4, Chapter 1.

The Treasury Financial Manual Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government,” provides guidance for reporting and reconciling intragovernmental balances. The Defense Finance and Accounting Service is able to fully reconcile intragovernmental transactions with all federal agencies including Federal Employees’ Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Intra-entity costs and revenue represent transactions DFAS conducted with itself in the normal course of business. All intra-entity transactions have been removed, so the financial statements and footnotes present fairly not including transactions with interrelated parties.

Imputed financing represents the cost paid on behalf of DFAS by another Federal entity. The Defense Finance and Accounting Service recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees’ Compensation Act; (3) losses in litigation proceedings; and (4) military payroll for service members assigned to DFAS.

1.I. Funds with the Department of Treasury

The DFAS WCF monetary financial resources of collections and disbursements are maintained in U.S. Treasury (Treasury) accounts. The disbursing offices of DFAS process the majority of the DFAS' cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS submits reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBWT account.

The Treasury maintains and reports the Defense Working Capital Fund (DWCF) fund balances at the Treasury Index (TI) appropriation sub-numbered level. Defense Agencies, to include DFAS, 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 Treasury.

1.J. Accounts Receivable

Accounts receivable represents transactions occurring in the normal course of business by providing financial services to our customers. Accounts receivable from other federal entities or the public include accounts

receivable, claims receivable, and refunds receivable. Claims receivable are transactions where DFAS has a right to cash (debt) from an outstanding customer account. Refunds receivable occur when DFAS receives a refund for a previous paid expense.

On an annual basis, DFAS reviews all outstanding nonfederal customer accounts over 360 days to estimate the allowance for uncollectible accounts. 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. In addition, significant accounts receivable balances may be reviewed individually, regardless of age.

DFAS does not recognize an allowance for estimated uncollectible amounts from other federal agencies as receivables from other federal agencies are considered to be inherently collectible. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial Manual.

1.K. General Property, Plant and Equipment (PP&E)

The WCFs capitalizes all PP&E used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.

General PP&E is carried at historical acquisition cost plus capitalized improvements. General PP&E, including real property, are capitalized at cost if the acquisition is \$250,000 or more. The asset must also have a useful life of two or more years. All General PP&E is depreciated based on the historical cost using the straight-line method over the estimated useful lives of the assets, which range from 2 to 40 years. Normal repairs and maintenance are charged to expense as incurred.

Title 10, United States Code (U.S.C.) 2682, prohibits DoD agencies from owning real property (i.e. buildings). Therefore, DoD has implemented the recognition criteria of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant and Equipment," to report the financial position of its member agencies. As implemented by DoD regulations, ownership of real property is not a prerequisite to asset recognition. DoD FMR Volume 4, Chapter 6, states that legal ownership usually, but not always, is the determinant factor when determining which DoD component recognizes a particular General PP&E asset for accounting and reporting purposes in the financial statements. Asset recognition may also be based on the "Preponderance of Use" principle. This concept recognizes the DoD agency gaining the most benefit by virtue of space usage should capitalize the asset

as General PP&E on their Balance Sheet.

1.L. Leases

Lease payments for the rental of equipment and operating facilities are classified as operating leases. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable. Office space and leases entered into by DFAS are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration (GSA) bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.M. Other Assets

Other assets include advances and prepayments permitted by law, legislative action, or presidential authorization as mandated by Title 31, U.S.C 3324. The Department of Defense has implemented the recognition criteria of (SFFAS) No. 6, "Accounting for Property, Plant and Equipment)," to report advances and prepayments. As implemented by DoD FMR Volume 4, Chapter 5, payments made in advance of the receipt of goods and services should be reported as an asset. They are shown on the Balance Sheet as Other Assets. Components of advances and prepayments include travel and labor advances, tuition assistance, subscriptions, postage; as well as, approved contractual and intragovernmental prepay agreements. DFAS policy is to expense

and/or properly classify assets when the related goods and services are received.

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with U.S. GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received.

1.N. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government", as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from 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. DFAS recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility of incurring a loss or additional losses. DFAS'

risk of loss and resultant contingent liabilities arise from various administrative proceedings, legal actions, and potential claims.

1.O. Accrued Leave

DFAS reports liabilities for accrued compensatory and annual leave for civilians. Civilian leave is accrued as earned, and the accrued amounts are increased and decreased for actual leave taken and earned. The balances for accrued leave are adjusted monthly to reflect changes. The balances for civilian leave at the end of the fiscal year reflect current pay rates for the leave earned but not taken. Sick and other types of non-vested leave are expensed as taken. To the extent budget resources are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

1.P. Net Position

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

1.Q. Undistributed Disbursements and Collections

Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 5100,

requires agencies to reconcile their FBWT accounts on a regular and recurring basis to assure the integrity and accuracy of their financial reporting data. The DFAS WCF does not have a separate FBWT account. Instead, the Treasury maintains an account for DFAS' collection and disbursement activities.

On a monthly basis, DFAS' collections and disbursements are adjusted with undistributed collections and disbursements to agree with the Treasury. Undistributed collections and disbursements represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the source system and those reported by the Treasury.

The current year collections, disbursements, and cash transfers applicable to DFAS' operations are recorded in the financial records during the fiscal year.

1.R. Pensions, Other Retirement Benefits, and Other Post-Employment Benefits

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees, as stated in the SFFAS No. 5, "Accounting for Liabilities of the Federal Government." Factors used in the calculation of pension

and post-retirement health and life insurance benefit expenses were provided by the Office of Personnel Management financial management letters regarding cost factors for pension and other retirement benefits expense.

The cost factor for computing the Federal Employees Health Benefits Program (FEHB) imputed cost was \$8,038 in FY 2020 and \$8,476 in FY 2021. The Federal Employees' Group Life Insurance Program (FEGLI) the cost factor was .02% in both FY 2020 and FY 2021. The cost factor for employees covered by Civil Service Retirement System (CSRS) was 38.5% in FY 2020 and 42.10% in FY 2021. The cost factor for the Federal Employees Retirement System (FERS) was 16.7% in FY 2020 and 18.50% in FY 2021.

DFAS civilian employees participate in the CSRS and FERS, while military personnel are covered by the Military Retirement System (MRS). Employees and personnel covered by FERS and MRS also have varying coverage under Social Security. DFAS funds a portion of the civilian and military pensions. The funded actuarial liability and unfunded actuarial liability for the military personnel are reported in the DoD Military Retirement Fund. The actuarial liability for the military retirement health benefits is recognized in the DoD Agency-wide statements.

For employees participating in FERS, FERS-Revised Annu-

ity Employee (FERS-RAE), and FERS-Further Revised Annuity Employees (FERS-FRAE), DFAS contributes an amount equal to 1% of the employee's basic pay to the tax deferred Thrift Savings Plan (TSP), and matches employee contributions up to an additional 4% of pay. DFAS contributions to the TSP was \$33.4 million for FY 2020 and \$32.6 million for FY 2021. Employees participating in CSRS receive no matching contributions from DFAS.

1.S. Interest on Late Payments

DFAS, on occasion, incurs interest penalties on late payments. All such interest penalties are paid to the respective vendor in accordance with the guidelines mandated by the Prompt Payment Act, Public Law, 97-177, as amended.

1.T. Contract Authority

As a WCF, DFAS must recover from customers, through revenue earned, all expenses necessary to operate. DFAS purchases assets using contract authority granted by the OUSD(C) and then recovers the cost over the useful life of the asset through depreciation expense built into the billing rates. DoD FMR, Volume 11B, Chapter 3, Budgetary Resources, defines contract authority as the amount available for obligation and remains available through the end of the fiscal year. At year-end, this amount is reduced to match the amount of executed dollars

through the normal year-end closing processes.

1.U. Contract Audit Backlog

Most DFAS contracts are subject to review by the Defense Contract Audit Agency (DCAA) to include those contracts at the Defense Contract Management Agency (DCMA). To that end, DCMA and DFAS contracting offices are not able to render decisions on the deobligation of contracts and closure until the DCAA contract audit is completed. DCAA has experienced a severe backlog in contracts to be audited since the early 1980's. DCAA, while serving the public interest as its primary customer, performs all necessary contract audits for the DoD and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. The services provided by DCAA include negotiation, administration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. To aide in rectifying the backlog situation, Class Deviation 2012-O0013, "DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals" was issued on July 24, 2012. The intent of the proposal was to incorporate more effective oversight efforts without increasing risk to the Government. In addition, the

proposal serves as a means for decreasing the backlog of incurred cost audits at DCAA. The realization of these efforts will assist with more timely cost adjustments. The extensive reviews potentially affect DFAS' financial position because of related cost adjustments from vendors.

The total cost adjustments from vendors cannot be reasonably estimated for FY 2021, but management believes the amount is immaterial.

1.V. Classified Activities

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

1.W. Reclassifications

Certain FY 2020 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with the current year presentation.

Note 2. Fund Balance with Treasury

As of September 30	2021	2020
Status of Fund Balance with Treasury		
Unobligated Balance:		
Available	\$ 188,883,177	\$ 184,024,198
Unavailable	\$ 60,472	–
Subtotal	188,943,649	184,024,198
Obligated Balance not yet Disbursed	\$ 225,895,488	\$ 230,276,370
Non-FBWT Budgetary Accounts:		
Unfilled Customer Orders without Advance		
	4,271,673	(31,533,340)
Contract Authority	(102,062,590)	(119,224,971)
Receivables and Other	(40,338,013)	(6,725,614)
Total Non-FBWT Budgetary Accounts	\$ (138,128,930)	\$ (157,483,925)
Total FBWT	\$ 276,710,206	\$ 256,816,643

The Treasury records cash receipts and disbursements on DFAS' behalf and are available only for the purposes for which the funds were appropriated. DFAS' fund balances with treasury consists of revolving funds.

The Status of Fund Balance with Treasury (FBWT), as presented in the table above, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available 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 Unobligated Balance Unavailable for \$60,472 consists of the American Rescue Plan Act of 2021 (ARPA).

Obligated Balance Not Yet Disbursed represents funds obligated for goods and services but not paid.

Non-budgetary FBWT includes the amount of Contract Authority DFAS has not liquidated to date, and the uncollected portion of service agreements with other Federal Agencies. Contract Authority is a specific statutory authority permitting DFAS to

Note 2. Fund Balance with Treasury, continued

incur and liquidate obligations in advance of receiving cash. Non-FBWT Budgetary Accounts reduce the Status of FBWT.

Contract Authority and Reimbursable Authority (Spending Authority from Anticipated Collections) does not increase the FBWT when initially posted, but does provide budgetary resources. FBWT increases only after the customer payments for services or goods rendered have been collected. Conversely, appropriations received increase FBWT upon receipt of the budget authority.

Unfilled Customer Orders Without Advance and Reimbursements and Other Income Earned - Receivable provide budgetary resources when recorded. FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

The FBWT reported in the financial statements has been adjusted to reflect the DFAS's balance as reported by Treasury. The difference between FBWT in the DFAS's general ledgers and FBWT reflected in the Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in the DFAS's general ledger as a result of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. When research is completed, these transactions will be recorded in the appropriate individual detailed

accounts in the DFAS's general ledger accounts. For 4th Quarter FY 2021 reporting period, the absolute value for the DFAS' undistributed reconciling adjustment to Treasury was \$9,089,832 for FY 2021 and \$7,727,414 for FY 2020.

Note 3. Accounts Receivable, Net

As of September 30	2021		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 40,536,991	\$ N/A	\$ 40,536,991
Nonfederal Receivables (With the Public)	942,323	(83,595)	858,728
Total Accounts Receivable	\$ 41,479,314	\$ (83,595)	\$ 41,395,719

As of September 30	2020		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	6,652,052	N/A	6,652,052
Nonfederal Receivables (From the Public)	13,956,413	(12,964,755)	991,658
Total Accounts Receivable	20,608,465	(12,964,755)	7,643,710

Other Disclosures

The DoJ provided instruction to the collectability of the AEON debt of \$12.9 million in January 2021. The \$12.9 million debt is no longer reported in the DFAS account, as the debt has been written-off. Since the debt was fully reversed in fiscal year 2020, such write-off did not affect fiscal year 2021 expense accounts.

The largest contributor for the Accounts Receivable balance is the United States Air Force which had a receivables balance of \$32.9 million.

Note 4. General PP&E, Net

As of September 30	2021				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Leasehold Improvements	S/L	Lease term	145,815,486	(125,124,244)	20,691,242
Software	S/L	2-5 or 10	232,634,116	(175,976,272)	56,657,844
General Equipment	S/L	Various	118,131,926	(97,411,302)	20,720,624
Construction-in-Progress	N/A	N/A	11,803,861	N/A	11,803,861
Total General PP&E			\$ 508,385,389	\$ (398,511,818)	\$ 109,873,571

As of September 30	2020				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Leasehold Improvements	S/L	lease term	155,164,608	(121,538,135)	33,626,473
Software	S/L	2-5 or 10	227,304,852	(166,154,616)	61,150,236
General Equipment	S/L	Various	113,636,503	(92,086,758)	21,549,745
Construction-in-Progress	N/A	N/A	15,468,938	N/A	15,468,938
Total General PP&E			\$ 511,574,901	\$ (379,779,509)	\$ 131,795,392

Legend for Valuation Methods:

S/L = Straight Line N/A = Non-Applicable

* Estimated useful service life is 35 years for structures, 40 years for linear structures and 45 years for buildings.

DFAS reported net General Property, Plant & Equipment (PP&E) for \$131.8 million for FY 2020. As of September 30, 2021, DFAS reported a net General PP&E balance of \$109.9 million in its property system. Based on new FY 2020 reporting guidance found in DoD FMR Volume 4, Chapter 24 "Real Property", DoD Compo-

nents were required to transfer all real property assets to the host installations where those assets were placed in service. Based on this directive, DFAS has completed the transfer of \$43.9 million and \$8.0 million net book value of real property to the military services, in fiscal years 2020 and 2021, respectively.

Note 4. General PP&E, Net, continued

As of September 30	2021	2020
General PP&E, Net beginning of year	\$ 131,795,392	\$ 187,538,255
Capitalized acquisitions	13,138,132	18,009,171
Dispositions	(698,038)	(15,012)
Transfers in/(out) without reimbursement	(7,938,655)	(43,867,447)
Revaluations (+/-)	(177,274)	0
Depreciations expense	(26,245,984)	(29,869,575)
General PP&E, Net end of year	\$ 109,873,571	\$ 131,795,392

Note 5. Liabilities Not Covered by Budgetary Resources

As of September 30	2021	2020
Intragovernmental Liabilities		
Other	5,171,110	5,806,963
Total Intragovernmental Liabilities	\$ 5,171,110	\$ 5,806,963
Nonfederal Liabilities		
Other Federal Employment Benefits	26,528,888	25,283,604
Environmental and Disposal Liabilities	302,000	260,000
Other Liabilities	0	4,054,786
Total Nonfederal Liabilities	\$ 26,830,888	\$ 29,598,390
Total Liabilities Not Covered by Budgetary Resources	\$ 32,001,998	\$ 35,405,353
Total Liabilities Covered by Budgetary Resources	\$ 171,844,882	\$ 169,154,115
Total Liabilities	\$ 203,846,880	\$ 204,559,468

Intragovernmental Other Liabilities are the unfunded liabilities for Federal Employees' Compensation Act (FECA). The FECA liability represents the billed and unbilled amount owed to the Department of Labor related to employee compensation for wages lost due to a job-related injury.

Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year.

Refer to Note 8, Environmental and Disposal Liabilities for additional details and disclosures.

Nonfederal Other Liabilities consists of unfunded compensatory and credit annual leave liability for FY 2020. In FY 2021, it was reclassified to other federal employment benefits. Refer to Note 7, Other Federal Employment Benefits, for additional details.

Note 6. Other Federal Employment Benefits

As of September 30	2021		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	22,764,256	0.00	22,764,256
Other – Unfunded Leave	5,531,041	(1,766,409)	3,764,632
Total Other Federal Employment Benefits	28,295,297	(1,766,409)	26,528,888
Other benefit-related payables included in Intragovernmental Other Liabilities	19,556,507	(14,385,397)	5,171,110
Total Other Federal Employment Benefits	\$ 47,851,804	\$ (16,151,806)	\$ 31,699,998

As of September 30	2020		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	25,283,605	0.00	25,283,605
Other – Unfunded Leave	5,735,147	(1,680,361)	4,054,786
Total Other Federal Employment Benefits	31,018,752	(1,680,361)	29,338,391
Other benefit-related payables included in Intragovernmental Other Liabilities	19,060,790	(13,253,827)	5,806,963
Total Other Federal Employment Benefits	\$ 50,079,542	\$ (14,934,188)	\$ 35,145,354

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits, or better known as Federal Employees' Compensation Act (FECA). This includes the expected liability for death, disability, medical, and other estimated miscellaneous costs. Historical benefit payment patterns are used to predict the future costs after being discounted to present value using the OMB economic assumptions for 10-year U.S. Treasury notes and bonds. The DOL provides an

estimated actuarial liability for future workers' compensation benefits at the DoD Level only, and DFAS' reported FECA liability is based on the DoD Agency-wide allocation method using an average based on the last three annual chargeback bills for actual claims submitted and approved by the DOL. The allocated portion of the actuarial liability for future workers' compensation benefits for DFAS for FY 2021 is \$26,528,888 and FY 2020 was \$25,283,604.

Note 7. Environmental and Disposal Liabilities

As of September 30	2021	2020
Environmental Liabilities — Nonfederal		
Other Accrued Environmental Liabilities — Non-BRAC		
Asbestos	302,000	260,000
Total Environmental and Disposal Liabilities	\$ 302,000	\$ 260,000

Applicable Laws and Regulations for Cleanup Requirements

DFAS is required to clean up contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk. DFAS accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. DFAS is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations.

DFAS follows the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, Public Law 96-510), Superfund Amendments and Reauthorization Act of 1986 (SARA, Public Law 99-499), Resource Conservation and Recovery Act (RCRA, Public Law 94-580) or other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require DFAS to clean up contamination in coordination with regulatory agencies, current owners of property damaged by DFAS, and third parties with partial responsibility

for environmental restoration. Failure to comply with agreements and legal mandates puts DFAS at risk of incurring fines and penalties.

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

Accounting estimates for environmental liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if the investigation of the environmental sites reveals contamination levels differing from estimate parameters.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

DFAS uses engineering estimates and independently validated models are used by DFAS to project environmental costs. The models include the Remedial Action Cost Engineering Requirements application and the Normalization of Data System. The models are

validated by DFAS in accordance with DoD Instruction 5000.61, DoD Modeling and Simulation Verification, Validation, and Accreditation, and estimates liabilities based on data received during preliminary assessment and site investigation. Engineering estimates are primarily used by DFAS after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, DFAS complies with accounting standards to charge costs to current operating periods. Cleanup costs are expensed by DFAS for General PP&E placed into service prior to October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, DFAS expenses cleanup costs associated with the asset life that has passed since the General PP&E was placed into service. The remaining cost over the life of the assets are systematically recognized by DFAS.

For General PP&E placed into service after September 30, 1997, DFAS expenses associated environmental costs using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The full cost to clean up contamination is expensed by DFAS for Stewardship PP&E when the asset is placed into service.

In accordance with reporting requirements for asbestos, DFAS reports liabilities for buildings and

facilities containing both friable and non-friable asbestos. At this time DFAS is unable to reasonably estimate an amount of the total cleanup costs related to friable and non-friable asbestos.

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

Estimates revised by DFAS result from overlooked or previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope. Although DFAS is unaware of pending changes, environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology.

Note 8. Other Liabilities

As of September 30	2021		
	Current	Noncurrent	Total
Intragovernmental			
Other Federal Employee Benefits	\$ 19,556,507	0	\$ 19,556,507
Total Intragovernmental Other Liabilities	\$ 19,556,507	\$ 0	\$ 19,556,507
Other than Intragovernmental			
Other Federal Employee Benefits	\$ 113,903,699	\$ 0	\$ 113,903,699
Total Other than Intragovernmental	\$ 113,903,699	\$ 0	\$ 113,903,699
Total Other Liabilities	\$ 133,460,206	\$ 0	\$ 133,460,206

As of September 30	2020		
	Current	Noncurrent	Total
Intragovernmental			
FECA Reimbursement to the Department of Labor	\$ 2,704,693	\$ 3,102,270	\$ 5,806,963
Employer Contribution and Payroll Taxes Payable	13,253,827	0	13,253,827
Total Intragovernmental Other Liabilities	\$ 15,958,520	\$ 3,102,270	\$ 19,060,790
Nonfederal			
Accrued Funded Payroll and Benefits	\$ 111,903,259	\$ 0	\$ 111,903,259
Accrued Unfunded Annual Leave	4,054,786	0	4,054,786
Employer Contribution and Payroll Taxes Payable	1,680,361	0	1,680,361
Total Nonfederal Other Liabilities	\$ 117,638,406	\$ 0	\$ 117,638,406
Total Other Liabilities	\$ 133,596,926	\$ 3,102,270	\$ 136,699,196

Note 9. Operating Leases

As of September 30	2021		
	Asset Category		
	Land and Buildings	Equipment	Total
Federal			
Fiscal Year			
2022	\$ 26,073,897	\$ 1,062,078	\$ 27,135,975
2023	27,455,814	1,118,368	28,574,182
2024	28,910,972	1,177,642	30,088,614
2025	30,443,254	1,240,057	31,683,311
2026	32,056,746	1,305,780	33,362,526
After 5 Years	47,250,751	1,374,986	48,625,737
Total Future Lease Payments Due	\$ 192,191,434	\$ 7,278,911	\$ 199,470,345
Non-Federal			
Fiscal Year			
2022	\$ 219,380	\$ 0	\$ 219,380
2023	225,881	0	225,881
2024	133,976	0	133,976
2025	0	0	0
2026	0	0	0
After 5 Years	0	0	0
Total Non-Federal Future Lease Payment	\$ 579,237	\$ 0	\$ 579,237
Total Future Lease Payments	\$ 192,770,671	\$ 7,278,911	\$ 200,049,582

Other Disclosures

DFAS does not have any capitalized leases. All DFAS leases are operating leases for rent, where DFAS is the lessee. In order to estimate the future years' payments due, DFAS used the current Consumer Price Index (CPI) rate of 5.3%.

While a portion of DFAS' leases are cancelable, at this time all of the amounts under commitment are reasonably expected to be future expenses, and are therefore included in the above schedule.

Note 10. Commitments and Contingencies

The Defense Finance and Accounting Service has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Defense Finance and Accounting Services records contingent liabilities in Note 9, Other Liabilities.

The Defense Finance and Accounting Service reports one legal action with individual claims greater than the FY 2021 materiality threshold of \$530 thousand. This action totals approximately \$1 million. The OGC has classified this claim "reasonably possible."

Note 11. General Disclosures Related to the Statements of Net Cost

Fiscal Years Ended September 30	2021	2020
Gross Cost	\$ 1,497,549,420	\$ 1,519,444,802
Less: Earned Revenue	(1,460,350,042)	(1,370,366,557)
Total Net Cost	37,199,378	\$ 149,078,245

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. DFAS captures its current processes and reports accumulated costs for major programs as required by the Government Performance and Results Act. Additionally, DFAS has fully implemented unit cost reporting and reports these costs by responsibility segment on a monthly basis as required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 55, "Amending, Inter-entity Cost Provisions."

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a non-federal entity.

The Statement of Net Cost significantly changed from fiscal year 2020 due to the transfer of 919 personnel to the Army in October 2020 resulting in a decreased Civilian Personnel Compensation. Earned revenue also saw a drastic change due to a planned recovery of prior year operating losses built in the fiscal year 2021 operating rates.

Note 12. Disclosures Related to the Statements of Budgetary Resources

Fiscal Years Ended September 30	2021	2020
Intragovernmental:		
Unpaid	22,125,331	\$ 24,831,833
Prepaid/Advanced	1,662,330	809,333
Total Intragovernmental	23,787,661	\$ 25,641,166
Nonfederal:		
Unpaid	32,330,514	\$ 36,216,860
Prepaid/Advanced	5,658,286	6,022,883
Total Non-federal	37,988,800	\$ 42,239,743
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	61,776,461	\$ 67,880,909

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget." Category A relates to appropriations for a specific period of time (e.g., Military Personnel appropriation), and category B relates to appropriations for a specific project (e.g., Military Construction appropriation). The total amount of DFAS' obligations incurred for \$1,409,710,496 is classified as Reimbursable Apportionment Category B.

Reconciliation Differences

Under OMB Circular A-11, Federal agencies are to report budgetary information in the Statement of Budgetary Resources (SBR) based on budget terminology, definitions, and guidance issued. OMB Circular A-11 also states that the information on the SBR should

be consistent with budget execution information reported in the President's Budget. Additionally, per SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," agencies are to provide a financial statement footnote disclosure to explain significant differences between amounts presented in the SBR and amounts described as actuals in the President's Budget. However, since DFAS is a component of the DoD rather than a separate Federal agency as envisioned by OMB requirements, an analysis of information reported in both the SBR and the Report on Budget Execution (SF-133) at September 30, 2021 is performed. There are no differences between the SBR and the SF-133, Report on Budget Execution and Budgetary Resources & Budget Program and Financing Schedule.

Note 13. Reconciliation of Net Cost of Operations to Net Outlays

As of September 30	2021		
	Intragovernmental	With the public	Total
Net Cost of Operations (SNC)	\$ (938,761,925)	\$ 975,961,303	\$ 37,199,378
Components of the Net Cost That are Not Part of Net Outlays			
Property, plant, and equipment depreciation	\$ 0	\$ (21,921,821)	\$ (21,921,821)
Increase (decrease) in assets:			
Accounts Receivable	33,612,399	(132,930)	33,479,469
Other assets	852,997	(364,598)	488,399
(Increase)/decrease in liabilities:			
Accounts payable	(301,286)	776,529	475,243
Environmental and disposable liabilities		(42,000)	(42,000)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(171,128)	(2,000,440)	(2,171,568)
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed to the agency	0	2,723,455	2,723,455
Imputed Cost	(78,179,576)	0	(78,179,576)
Total Components of Net Costs That Are Not Part of Net Outlay	\$ (44,186,594)	\$ (20,961,805)	\$ (65,148,399)
Components of Net Outlays That Are Not Part of Net Cost:			
Other	7,878,183	177,275	8,055,458
Total Components of Net Outlays That Are Not Part of Net Costs	\$ 7,878,183	\$ 177,275	\$ 8,055,458
Net Outlays	\$ (975,070,336)	\$ 955,176,773	\$ (19,893,563)
Agency Outlays, Net, Statement of Budgetary Resources			\$ (19,893,563)
Reconciling Differences			\$ 0

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SECTION III

ADDITIONAL
INFORMATION
(UNAUDITED)

GLOSSARY OF ACRONYMS AND ABBREVIATIONS

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Soldiers move a 128-ton firetruck as far as possible within 60 seconds to win a competition against British and Romanian troops. (U.S. Army photo by Capt. Aimee Valles)



GLOSSARY OF ACRONYMS AND ABBREVIATIONS



Acronym	Description
ACL	Audit Command Language
ADA	Anti-Deficiency Act
AFR	Agency Financial Report
Agency	Defense Finance and Accounting Service
AOR	Accumulated Operating Results
BEM	Business Environment Modernization
BRS	Blended Retirement System
CAPS-W	Computerized Accounts Payable System for Windows
CEDMS	Corporate Electronic Document Management System
CERCLA	Comprehensive Environmental Response and Liability Act
CET	Continuing Education Training
CPI	Consumer Price Index
CSRS	Civil Service Retirement System
CSSP	Cyber Security Service Provider
DAI	Defense Agencies Initiative
DATA	Digital Accountability and Transparency Act
DCI	Debt Collection Improvement Act
DCMA	Defense Contract Management Agency
DDRS	Defense Departmental Reporting System
DDRS-B	Defense Departmental Reporting System–Budgetary
Department	Department of Defense
DFAS	Defense Finance and Accounting Service
DISA	Defense Information Systems Agency
DoD	Department of Defense
DoD IG	Department of Defense Inspector General
DoD-EC	DoD Expeditionary Civilian
DOL	Department of Labor
DSET	Digital Signature Enforcement Tool
DWCF	Defense Working Capital Fund
eLAN	Enterprise Local Area Network
ELDP	Executive Leadership Development Program
ERP	Enterprise Resource Planning
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FEGLI	Federal Employees' Group Life Insurance Program
FEHB	Federal Employee Health Benefits

SECTION III

ADDITIONAL INFORMATION (UNAUDITED)

Acronym	Description
FEMA	Federal Emergency Management Agency
FERS-FRAE	FERS-Further Revised Annuity Employees
FIAR	Financial Improvement and Audit Readiness
FFMIA	Federal Financial Management Improvement Act
FMFIA	Federal Managers Financial Integrity Act
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FY	Fiscal Year
GF	General Fund
GFEBIS	General Fund Enterprise Business System
GSA	General Services Administration
HR	Human Resources
IPA	Independent Public Accountants
IRS	Internal Revenue Service
IT	Information Technology
JVs	Journal Vouchers
MD&A	Management's Discussion and Analysis
MICP	Managers' Internal Control Program
MOCAS	Mechanization of Contract Administration Services
MRS	Military Retirement System
NFR	Notice of Findings and Recommendations
NOR	Net Operating Results
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OUSD	Office of Under Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
PCS	Permanent Change of Station
PII	Personally Identifiable Information
PP&E	Property, Plant, and Equipment
RPA	Robotic Process Automation
RCRA	Resource Conservation and Recovery Act
SARA	Superfund Amendments and Reauthorization Act of 1986
SA	Statement of Assurance
SBR	Statement of Budgetary Resources
SF-133	Report on Budget Execution and Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards

NOTES PAGES



SECTION III

ADDITIONAL INFORMATION (UNAUDITED)

