



# DEFENSE FINANCE AND ACCOUNTING SERVICE WORKING CAPITAL FUND



# 2019 AGENCY FINANCIAL REPORT

INTEGRITY | SERVICE | INNOVATION



## About this Document

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Defense Finance and Accounting Service (DFAS) is pleased to present the Fiscal Year (FY) 2019 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 2019 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 Office of Management and Budget's (OMB) Circular No. A-136, Financial Reporting Requirements. The AFR is available online at [www.dfas.mil](http://www.dfas.mil).

## How this Report is Organized

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## HISTORY OF THE ORIGINS OF THE OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER) AND THE DEFENSE FINANCE AND ACCOUNTING SERVICE



1945

### President Truman

Shortly after World War II ended, the U.S. Government took steps to reorganize and consolidate national security. In December 1945, President Truman summarized the need in a message to Congress. He wrote, *"Technological developments have made the Armed Services much more dependent upon each other than ever before. The boundaries that once separated the Army's battlefield from the Navy's battlefield have been virtually erased. True preparedness now means preparedness not alone in armaments and numbers of men, but preparedness in organization also."*



1949

### Department of Defense

The first Secretary of Defense, James V. Forrestal, assigned one of his three Special Assistants with responsibility "for all budget, accounting, administrative service and reporting activities." In 1949, this arrangement was codified by the legislation that created the Department of Defense. Title IV of the amended National Security Act of 1947 (Public Law 216, 81st Congress) provided for three Assistant Secretaries, one of whom was designated as Comptroller of the Department. Section 401 of the law specified that the Comptroller would be responsible for advising the Secretary on budgetary and fiscal matters, for developing and executing the Defense budget, and for overseeing financial management across the Department.

1986

### Department of Defense Reorganization Act

In 1986, the Department of Defense Reorganization Act (popularly known as "Goldwater-Nichols") changed the title of the position to Department of Defense Comptroller, with the status of an assistant secretary, but without that title. The National Defense Authorization Act of 1995 upgraded the position to Under Secretary.

1995

### National Defense Authorization Act

An act to authorize appropriations for the fiscal year 1995 for military activities of the Department of Defense, military construction, and defense programs of the Department of Energy, to prescribe personnel strengths for such fiscal year for the Armed Forces, and other purposes.

1776-1944

### The Beginning

In the years immediately following World War II, the Department of Defense created the office of the Under Secretary of Defense (Comptroller). Throughout that conflict – and for most of the nation's history – the defense of the United States was the responsibility of two separate organizations: the War Department (overseeing the Army) and the Department of the Navy, each with a budget and financial operations.



1947

### National Security Act

President Truman signed the National Security Act of 1947 and reorganized military forces by merging the Department of War and the Department of the Navy into the National Military Establishment (later the Department of Defense) and creating the U.S. Air Force. The act also created the CIA and the National Security Council.



1965

### Defense Contract Audit Agency

In 1965, Secretary of Defense Robert S. McNamara created the Defense Contract Audit Agency (DCAA) as a separate agency of DoD under the authority, direction, and control of the Under Secretary of Defense (Comptroller) and chief financial officer. DCAA's mission is to provide standardized contract audit services for the Department, as well as accounting and financial advisory services regarding contracts and subcontracts for all DoD components that are responsible for procurement and contract administration.



1991

### DFAS Created

In 1991, Secretary of Defense Dick Cheney created the Defense Finance and Accounting Service (DFAS) to consolidate finance and accounting operations, reduce costs and strengthen financial management.



Today

In the 70 years of their existence, the Department of Defense and the Office of the Under Secretary of Defense (Comptroller) have developed and changed. Today, in addition to managing the development and execution of the Defense budget, there is a renewed emphasis on improving financial management across the Department. Better financial management ensures wise and efficient use of taxpayers' resources. The bottom line, as always, is to ensure that the U.S. military has the resources needed to protect and defend the United States, its interests and its people.

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# Director's Message



It is my honor to share the DFAS FY 2019 Agency Financial Report with you. Far more than just a presentation of our financial statements, this report is a snapshot of our dedication to proudly serving America's heroes every day.

During this past fiscal year, we completed the third year of our five-year plan. Our DFAS team of diverse talents, skills and perspectives continues to execute the four strategic priorities of People, Audit Steadiness, Business Environment Modernization (BEM) and Agency Operational Health (AOH).

In addition, we assessed how and where we could both increase our value for the Department and achieve further results for our customers. This defined focus is a key reason we are a recognized leader in financial management.

We continued to align our efforts with the National Defense Strategy of enhancing readiness, strengthening alliances and partnerships, and driving reform in DoD business practices.

First, we support readiness. We leveraged cost accounting and timekeeping information for DoD customers with the Financial Management Line of Business reporting tool. DFAS continues to utilize data analytics for the Mechanization of Contract Administrative Service system, better known as MOCAS, which has resulted in a reduction of hundreds of millions of dollars in canceled funds. Our consistent work to keep costs down means our heroes can have more.

Second, we strengthen alliances and attract new partners. For example, we collaborated with Defense Security Cooperation Agency to implement 480 Foreign Military Sales grant case reconciliations valued at \$1.4 billion. This collaboration supports global security and the reconciliations are important to reaching an auditable program.

Third, we reform business practices for greater performance and affordability. Created in 1991 to consolidate, standardize and integrate, DFAS is an agency built around reform, and we analyze opportunities for improvement every day. We retired 12 systems during the first three years of our Reduce Legacy Systems initiative, and our cumulative savings for these retirements is over \$1.46 million per year, which is 10% over our targeted savings. In addition, we improved our controls and business processes around unsupported Journal Vouchers during the past fiscal year, which resulted in a reduction of 71.5% and totaled \$11 trillion.

In FY 2020, we are committed to accomplishing even more as we build upon a proven record of success. Our people perform and produce results with unwavering dedication. I am grateful to lead the dedicated DFAS employees who support the men and women of our armed forces and the Nation every day, and doing so is my greatest source of pride.



A handwritten signature in black ink that reads "Teresa McKay". The signature is fluid and cursive.

**TERESA MCKAY**  
Director



## **SECTION I**

# **Management's Discussion and Analysis (Unaudited)**

## **TOPICS COVERED**

DFAS at a Glance

Introduction

Human Capital

Data Analytics to Drive Business Insights

Emerging Technology

Global Audit Environment

Management Assurances

Compliance and Regulation

Financial Discussion and Analysis





## 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.

In 1995, DoD established DFAS as a Regional Service Center for Human Resources (HR) operations to provide overhead efficiencies for defense agencies and Office of the Secretary of Defense components. DFAS currently provides HR services for seven defense agency customers.

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.



## Our Vision

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

## Our Mission

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

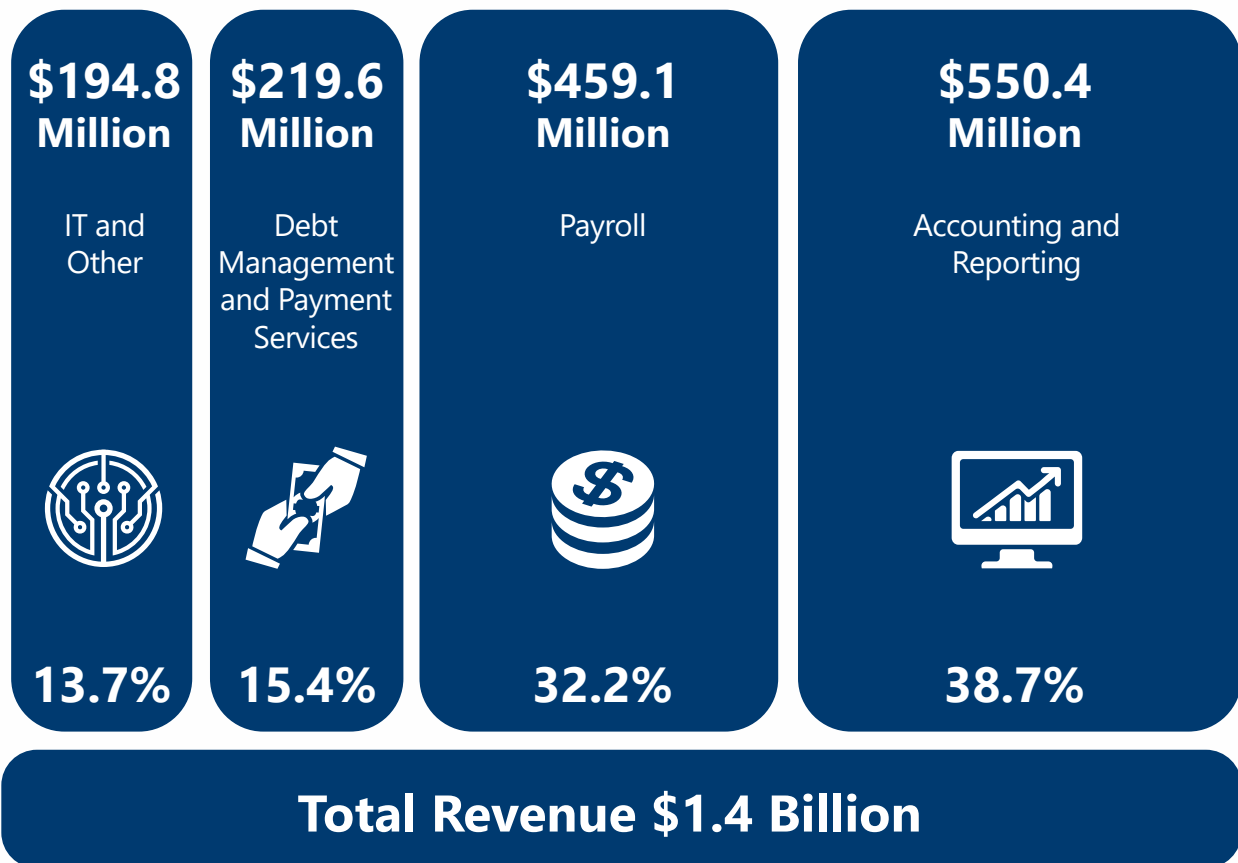
## Our Core Values

**Integrity:**  
Doing what is right

**Service:**  
Remain a trusted financial partner

**Innovation:**  
Creating better ways to do business

## Our Revenue Streams



## 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 Customers Within the DoD

All DoD military personnel, retirees, annuitants  
and civilian personnel



Major DoD  
contractors and vendors

Defense Agencies  
and the Office of the  
Secretary of Defense

## Our Customers Outside of the DoD

Executive Office of the President

Department of Energy

Department of Veterans Affairs

Department of Health & Human Services

U.S. Agency for Global Media

Foreign partners



## Employer of Choice

### Career

- Career Development Programs
- Job Interest Alignment
- Stability of Federal Employment
- Cross-Training/Rotational Opportunities
- On-The-Job and Classroom Training
- Tuition Assistance
- Certification Reimbursement



### Compensation

- Competitive Compensation
- Defined Pension Plan
- Thrift Savings Plan (TSP) (similar to 401K)
- Flexible Spending Accounts
- Health/Dental/Vision Insurance

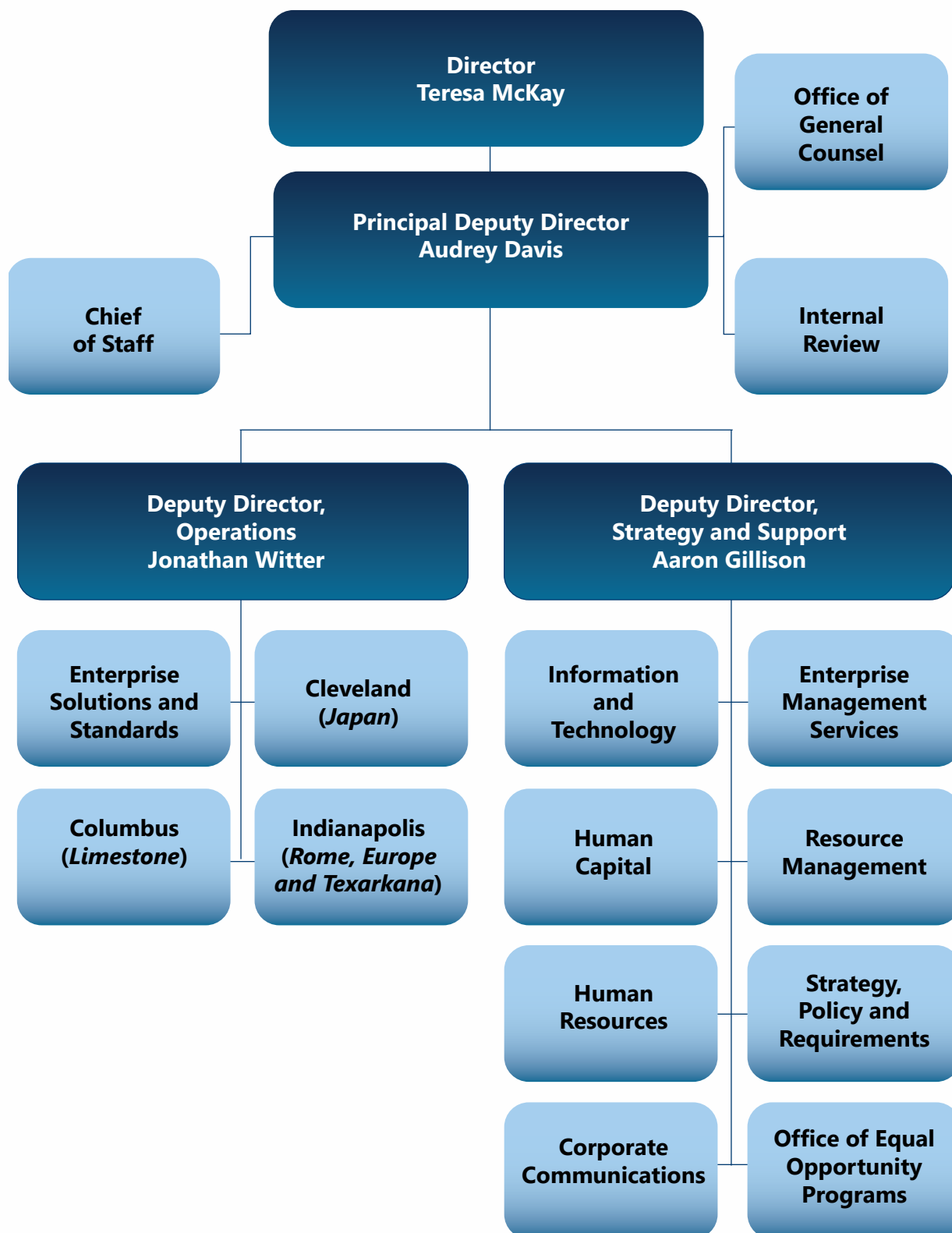


### Work-Life Balance

- Flexible Work Schedules
- Annual Leave (13 days progressing to 26 days/year)
- Sick Leave (13 days/year)
- Telework Opportunities
- Family and Medical Leave
- 10 Holidays/year
- Employee Assistance Programs



## Organizational Structure





## 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 or other fact-based analyses and requirements for enterprise-wide programs

Members: Principal Deputy Director, Chair; and appointed members

## Our Locations



HEADQUARTERS – INDIANAPOLIS, IN

LIMESTONE, ME | ROME, NY | BRATENAHL, OH | CLEVELAND, OH  
COLUMBUS, OH | TEXARKANA, TX | ALEXANDRIA, VA  
KAISERSLAUTERN, GERMANY | YOKOTA AIR BASE, JAPAN

## Introduction



Lisa Hershman (right), who is currently performing the duties of the Defense Department Chief Management Officer, provides insight to Andrea Pressley, Finance Mission Area Customer Operations director. Hershman visited the Defense Finance and Accounting Service on Aug. 9, 2019, and met with several mission area representatives. (DoD photo by Eileen Hernandez)

*During fiscal year (FY) 2019 we continued our focus on the DFAS Strategic Priorities of People, Business Environment Modernization, Agency Operational Health and Audit Steadiness. This focus established a collective approach where employees achieved best practices by integrating latest technologies to maximize performance while decreasing costs and adopting audit strategies and internal control toolsets into daily work practices. As part of the efforts supporting our Strategic Priorities, DFAS concentrated on four crucial areas: Human Capital, Emerging Technology, Data Analytics to Drive Business Insights and Global Audit Environment.*



**HUMAN CAPITAL**, our most important asset, is an essential resource, and DFAS recognizes the economic value of its employees' experience and skills. The Agency continued to take great strides this FY in directing, investing and developing its workforce to continue to flourish in a dynamic work environment.

DFAS is committed to investing in the development of its people by providing ongoing training and continuing education opportunities. Required certifications help employees accentuate and strengthen the skills that they possess to advance in their careers while achieving the Agency's goals.



### EMERGING TECHNOLOGIES

refers to those new technologies that are being developed or will be making advancements within the next few years. These radical innovations are characterized by fast growth and a prominent impact within a field for a competitive gain.

DFAS continues to advance in running enterprise databases and consolidating applications. Migrating databases and their applications that use the same software to consolidate platforms allows DFAS to provide maximum end-to-end efficiency and cybersecurity. Coinciding with the use of modern technology, the Agency continues to eliminate and retire legacy systems that require costly maintenance.

With ever-changing external pressures, DFAS must expand the automation of systemic processes and increase efficiencies, which will positively impact customers as well. Long wait times and slow responses from antiquated systems have a huge impact on customer satisfaction. With the use of technological advances on the rise, the customer experience landscape is evolving. Customers benefit when we leverage and maintain the latest software applications and support services.

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### DATA ANALYTICS TO DRIVE BUSINESS

**INSIGHTS** use advanced, automated techniques and tools to examine and analyze large amounts of data and draw intelligent conclusions. Raw data is extracted, prepared and consolidated to support

analysis for reporting entities.

The benefits they deliver include speed and efficiency, giving DFAS immediate insight to gauge customer needs and drive strategic decisions on products



and services.

DFAS has continued to improve its data integrity by increasing standardization across the DoD reporting network. This consistency in how financial data is represented on budgetary reports and financial statements further

ensures the increased accuracy and completeness of information submitted to federal reporting authorities.

The DFAS **GLOBAL AUDIT ENVIRONMENT** encompasses the DoD Consolidated Audit, which includes the DFAS WCF audit and support to the military components and Other Defense Organizations (ODOs) audits. DFAS is streamlining financial reporting processes as well as improving ways to safeguard assets. These steps ensure that best practices are followed and an accurate financial depiction of the organization is presented to the users of the financial statements.



As auditors gain an understanding of an entity's internal controls related to financial statement reporting, management can also detect trends and isolate any gaps that may require corrective actions. Through implementation of internal risk assessments and internal control testing, we have placed major focus on many process improvements. We have also strengthened customer relations to achieve mutual audit objectives.

## Human Capital



A Succession Program team member from the Human Capital Program Office speaks to a group of employees from DFAS Indianapolis during a Succession Program Refresh event Nov. 8, 2018. The team conducted briefings throughout DFAS in the months leading up to the launch of the expansion of the program, that will now include GS-12 supervisors who are interested in developing their leadership skills. (DoD photo by Jaime Charlson, Human Capital)

***DFAS maintains its vision of being a recognized leader in DoD's financial management services by continuing its commitment to having the right people, in the right place, at the right time. In addition to talent acquisition and talent development, DFAS focuses on retaining and developing leaders who are equally committed to DFAS' goal of delivering first-class service and products.***

### Career Broadening Initiatives

In support of the continuity and development of a strong leadership team, DFAS made significant changes to improve its highly effective Succession Program. The refreshed program includes an updated mentoring event, new timing for the program cycles and increased developmental opportunities, in addition to an expanded population. As a result, 59 senior managers at the GS-15 level benefited from this program. This was a 10% increase over last FY with a 72% participation rate. The program generated savings for the Agency by switching to a biennial cycle, which allowed participants more time to develop their leadership competencies and extended executive education opportunities to 29 additional participants. We also expanded the program by adding 197 GS-12 supervisors, allowing DFAS to address the development gap between journeyman accountant and senior manager. As part of the Succession Program, there is an annual mentoring event to increase peer networking opportunities.

For employees desiring more personalized development of their leadership skills, the Coaching Program is a specific, goal-directed exchange of ideas for the purpose of achieving focused job-related results. This program is available to employees who show the potential of being future leaders at DFAS. Participants are nominated through the succession program or by leadership referral. Development activities include completing a 360° leadership assessment, coach matching and four telephone coaching sessions with a certified professional leadership coach external to DFAS. There was a 25% increase in the Coaching Program enrollment, with 259 participants having fulfilled the program requirements in FY 2019.

DFAS also offers the Mentoring Program, which is open to all grades at any time. It's an opportunity to receive one-on-one career development advice from DFAS employees in positions at higher grade levels and not in their chain of command. There is an online Mentoring database that matches mentees with potential mentors. Mentoring partnerships can be short or long term and the scope of the relationship is more encompassing and focuses on broader themes.

While the programs above highlight some of DFAS' career broadening initiatives, DFAS also offers higher education and leadership development programs. The higher education programs include tuition assistance and mission related degree programs. The leadership development programs include a one-year, cohort based developmental program, a two-year foundational program and a 10-month executive leadership program. The DoD Executive Leadership Development Program is designed to provide structured, experiential learning opportunities with Warfighters to enable deliberate development of a diverse cadre of future leaders with the joint and interagency perspectives and competencies needed to lead teams, projects and people.

### **Right People, Right Place, Right Time**

DFAS recognizes that developing the workforce is necessary to be more efficient and better able to support the mission. One area of focus has been increasing data analytic capabilities. This fiscal year, 89 employees completed Audit Command Language (ACL) blended classes, and nearly 1,300 employees completed ACL online courses. With these skills, DFAS teams developed 120 general ledger reconciliations in ACL and supported another 49 in Advanced Analytics (Advana). This resulted in recognition by the American Society of Military Comptrollers (ASMC) with their meritorious award. The outcome provides an automated, repeatable, and sustainable end-to-end reconciliation process to ensure Military Services and Other Defense Organization customers are audit-ready. The implementation of new data analytic tools utilizing ACL in FY 2018 resulted in an estimated \$415,000 savings across 48 projects. During FY 2019 an additional 90 projects were completed with estimated savings of \$567,000. There are sixteen active projects, seven of which have a primary goal identified as reduction in cycle time and the remaining with a projected savings of \$596,000. DFAS has integrated ACL into regular work practices, and the tool has been installed on over 2,200 employee desktops. We also developed an online collaboration page where employees can find and share useful information about the ACL analytic tool.

In addition, DFAS increased offerings for Java, Standard Query Language (SQL) and Extensible Markup Language (XML) training, resulting in completion by 238 targeted employees. This training maximizes new technology capabilities in the Defense Cash Accountability System (DCAS) and Deployable Disbursing System (DDS) related to cash management business environment modernization efforts. Those capabilities also transferred over to Defense Departmental Reporting System (DDRS). These training opportunities enhanced the competency of the targeted workforce as well as positions the agency for future tech-

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*DFAS has achieved 99.6% completion rate of DoD required FM certifications.*

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nology and data analysis initiatives requiring these skills.

There were also 213 employees who attended COGNOS data analytics training. COGNOS Analytics is an enterprise business analytics platform for data discovery and reporting that automates the creation of reports and dashboards, providing the ability to analyze customer data. It is designed so that we can easily prepare, create and visualize content using built-in intelligence as a guide.

Employees are also learning and gaining experience with the Agile Project Management Methodology, which is an approach that includes the client and product owner in each step of the process. This allows for constant collaboration between all stakeholders throughout the life of the project. To adjust to this new paradigm, DFAS has developed an Agile Transformation Team to administer a training program that includes: (1) Agile Boot Camp, (2) Infusion and Sustainment Metrics and (3) Outreach. Eight teams graduated from Agile Boot Camp and are now in sustainment. There are also currently eight teams active in the Agile Boot Camp. The outcome included a reduction in production times and re-work, when comparing pre-Agile to post-Agile data.

### **Enhancing the Workforce through Training**

In FY 2019, DFAS targeted specific areas to enhance training to ensure employees are better equipped to accommodate our customers' changing needs. To demonstrate our commitment to being a recognized leader in financial management, DFAS strives to be a front-runner in required training initiatives.

To ensure consistency across the DoD audit efforts, DFAS implemented agency-wide audit training programs with a 97% satisfac-

tion rate, including two workshops with 276 attendees and seven web trainings completed by 1,959 employees. These programs served as role model for audit training across DoD.

DFAS also rolled out a new customer service awareness training program in FY 2019. It is an online, interactive course that tests skills in managing difficult situations, communicating effectively, and collaborating with others to best serve our customers. Participants gain practical tips and learn to access resources and tools for collaboration and world-class customer service, in order to maintain healthy professional relationships and interact effectively with customers.

To exemplify dedication across the agency, DFAS employees are on track to complete 218,000 hours of financial management and leadership training for the DoD FM Certification program by December 2019. DFAS leads the DoD with 99.6% completion of the required initial certifications and continuing education and training.

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*DFAS Employees completed 90 Lean Six projects related to ACL with \$567K in savings.*

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Another focus area is the training for new supervisors. This training includes topics such as leadership, team dynamics, communications, conflict management, organizational change, employee development and security. This training is required by OPM within one year of appointment. DFAS exceeds this requirement with 100% completion of new supervisor training within 90 days.

### **Breakthrough Successes**

Some noteworthy examples of how DFAS values its most important asset, Human Capital, is by supporting employees and customers who were affected by the government shutdown and by encouraging employees to seek certifications.

DFAS issued retroactive pay to 99% of furloughed employees at multiple federal agencies within three days of the end of the government shutdown, and all employees within a week. In addition, the Agency quickly processed retroactive pay actions for nearly 25,000 federal employees impacted by the Executive Order for the pay increase, based on pay tables released March 28, 2019. DFAS processed 24,545 more retroactive adjustments the next pay period and an additional 6,353 manual retroactive adjustments over the next three pay periods. Manual retroactive adjustments were required due to intervening actions such as promotions and within grade increases.

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*555 DFAS employees completed the Lean Six White Belt training.*

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The in house Lean 6 certification program combines training, coaching and process improvement projects. Employees earn a White, Green, or Black Belt certification depending on the complexity of the project.

DFAS employees completed 220 Lean6 process improvement projects, achieving \$6.17 million in savings and reallocation of resources during FY 2019.

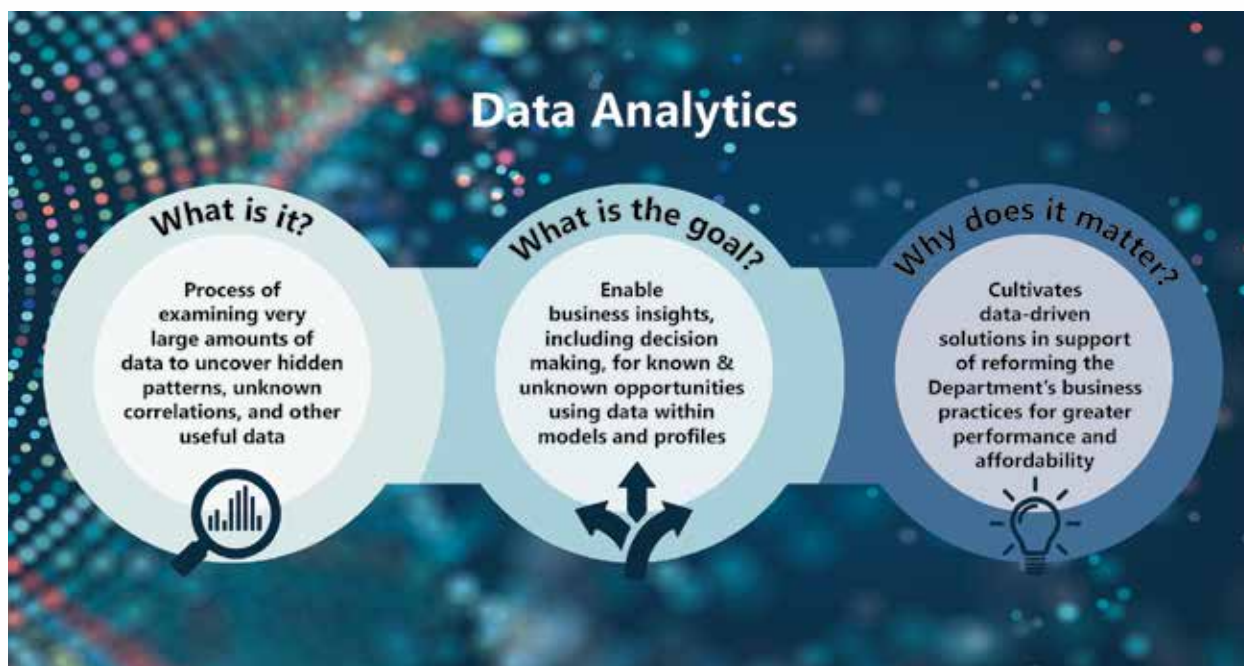


The United States Corps of Cadets assembled on the Plain, Aug. 17, 2019 for the Acceptance Day Parade to officially welcome the Class of 2023 into the Corps. (U.S. Army photo by Cadet Amanda Lin)

**“The relationship with DFAS has been amazing, they have really gone out of their way to ensure we are getting what we are requesting because they understand that we are trying to better our Soldiers’ training, and they have a passion for Soldiers’ pay.”**

U.S. Army Reserve Sgt. 1st Class Karen Ardon  
326th Financial Management Support Center FM training NCO  
United States Army Financial Management Command

## Data Analytics to Drive Business Insights



Data Analytics Overview (Photo illustration by Eileen Hernandez)

*The DFAS Data Analytics initiative aligns technology skillsets of personnel to their job function to ensure people understand and can apply technology solutions to help DFAS maximize insight from its extensive information sources. This results in increased data integrity and allows for multifaceted analysis.*

### Enhanced Data Analytics

During FY19, DFAS continued to mature its data analytics capabilities from descriptive analytics (insight into past performance) to predictive analytics (forecasting what will happen in the future). By making this shift, DFAS improves its ability to provide real-time, forward-looking data relevant to decision making. One example of implementing predictive analytics is a dashboard that was created to forecast surges in overaged invoices in the Mechanization of Contract Administration Services (MOCAS), a contract payment system. This dashboard brings together and compares inventory, productivity and staffing data to predict invoice inventory a month in advance, enabling DFAS to realign resources appropriately.

Another illustration of DFAS' use of data to support management decisions is the General Fund Enterprise Business System (GFEBS) Unmatched Transactions (UMTs) Reduction Initiative. This initiative focuses on reducing the inflow and volume of UMTs that result from transactions that arrive in the accounting system with incomplete information. Using data analytics, DFAS identified systemic and business process changes required to reduce the inflow of UMTs. These changes improved the system's ability to automatically process IPAC transactions and increased the interface rate from 61% to 91%.

DFAS further embraced business intelligence in decision making by accelerating the Programming Phase of the President's Budget Request for FY 2021 (PBR21) and linking program



requirements with final budget decisions and customer impacts. Focusing on the DoD Comptroller's "CFO of the Future," DFAS leveraged enhanced data analytics to build preliminary customer rates from the initial programming position, prior to the budget kickoff. These rates were developed four months ahead of schedule, which was the earliest this preliminary information has ever been provided. DFAS senior leadership used this data to better link how resourcing decisions impacted customers for informed budgeting decisions.

These changes more accurately connect DFAS execution and budgetary reporting to the Office of Secretary of Defense (OSD) and Office of Management and Budget (OMB). Testing and validation of the new reporting data structure verifies the changes are 100% compliant with the new regulation and pass error checks which help to eliminate reporting inconsistencies and the need for manual adjustments.

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*SFIS initiative adds clarity, consistency and improved integrity to financial reporting.*

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### **Data Standardization**

Data standardization focuses on adopting enterprise-wide standards for processing financial information and for financial reporting. In FY 2019, we continued our initiative to support data standardization with the Standard Financial Information Structure (SFIS). The SFIS initiative requires a data structure that supports budgeting, financial accounting, cost/performance, interoperability, and external reporting across the DoD, as mandated by the Under Secretary of Defense (Comptroller)/Chief Financial Officer.

The OMB Digital Accountability and Transparency Act of 2014 (DATA Act) requires improvements to data integrity in financial

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*DFAS piloted the use of Robotics Process Automation in 2019.*

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reporting. With the implementation of SFIS, DFAS is making sweeping changes beyond what is required. In the DFAS accounting system (e-Biz), each Cost Element Code (CEC) is aligned to a specific Object Classification. As a result, there is added clarity, consistency and improved integrity in the information reported to the DoD leadership, Congress and taxpayers.

Understanding the multiple facets of this project, the Agency developed an internal database tool to track SFIS implementation status of DFAS-owned systems and the creation of data stream maps. These data stream maps monitor the status of implementations to determine if they are SFIS compliant, in-progress or not yet compliant. These maps have resulted in enhanced metrics and reporting, which has led to higher success rates. Analysis after implementation revealed that six Enterprise Resource Planning (ERP) database software packages had an overall 98% match rate to Defense Departmental Reporting System (DDRS), which reduced the amount of journal vouchers and eliminated manual cross-walks.

### **Data Governance**

To build upon FY 2019 successes and increase momentum into the future, DFAS has begun developing a Data Analytics Center of Excellence (CoE) that will be staffed with crucial data analytics experts who will partner with, support and guide operational areas in the completion of data analytics projects. The CoE will leverage its expertise and partnership to increase data analytics knowledge throughout DFAS to enhance the data analytics culture, which will generate greater business insights for DFAS, our customers and the Department going forward.

### Breakthrough Successes

Being a recognized leader in financial management not only entails delivering efficient and exceptional financial information, it also means harnessing innovation while developing creative approaches to drive change.

As an example of innovation in FY 2019, DFAS piloted the use of Robotics Process Automation (RPA) technology to replace manual, time-consuming tasks of pulling documents to support financial statement audits. The RPA technology successfully retrieved documents from a web-based electronic file room, allowing over 30 employees to focus on more analytical work. This efficiency supports the President's Management Agenda by shifting manual workload to the execution of other vital tasks that allows DFAS to better meet the aggressive audit timelines mandated by Congress. As DFAS matures its Robotics Program, it will focus on automating more labor-intensive processes to better serve its DoD and non-DoD customers.

While standardizing data, the Agency looks for creative approaches to add value to the services we provide. As part of the Office of the Deputy Chief Management Officer (ODCMO) Financial Management Line of Business Initiative, DFAS supported the Department's first end-to-end review of costing for financial management. The Agency demonstrated that we could link all costs to the categories and activities in a costing model that we developed. This resulted in DFAS providing significant FM services to the Department at an 86% savings compared to the cost of compiling this data manually.

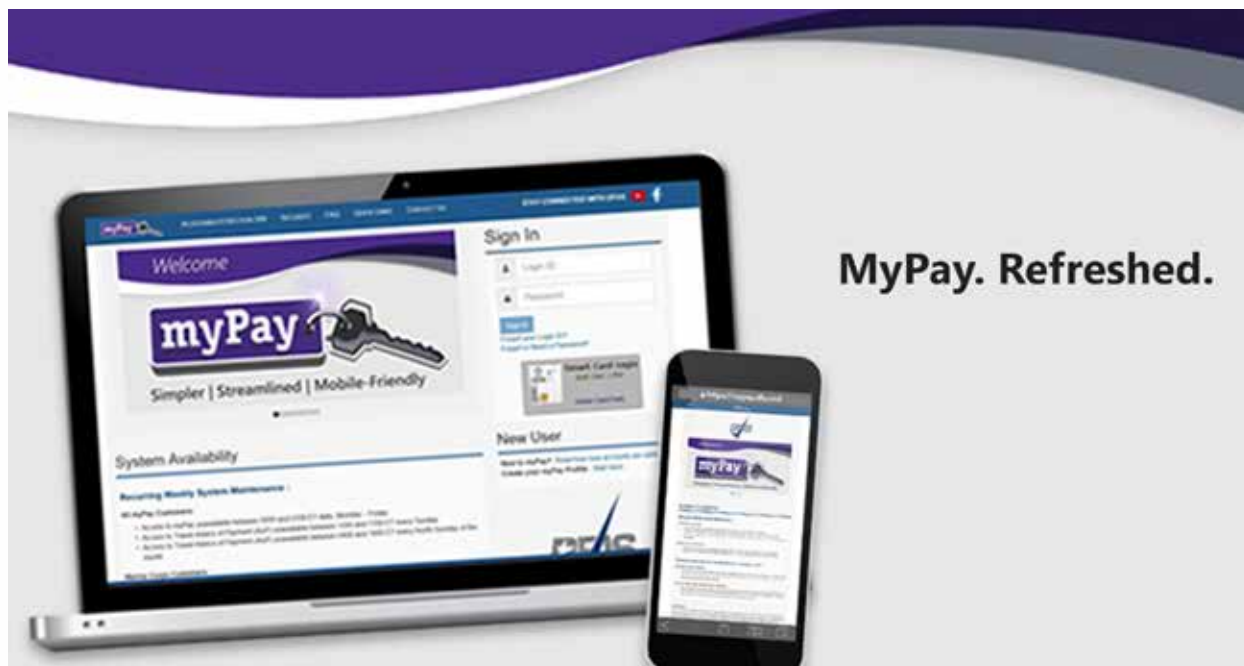


Second Lieutenants Tom Vasko and Phillip Haly, students at the Basic Officer Course, fire their M249 light machine gun during the Crew Served Weapons Live Fire Exercise, at Marine Corps Base Quantico, Virginia, Aug. 27, 2019. (U.S. Marine photo by 2nd Lt. Isaac Lamberth)

**“I am so impressed by all of the data here, and I also appreciate your focus on the process and outcomes. A lot of organizations focus on output. You fully embrace industry standards and benchmarking.”**

Lisa Hershman  
Deputy Chief Management Officer  
Department of Defense

## Emerging Technology



MyPay pay management system received a tech refresh that made the platform simpler, streamlined and mobile-friendly. It provides access for more than five million active military, federal civilian, military retiree and annuitant customers to enjoy the upscale application's expanded functionality. (DoD photo illustration by Eileen Hernandez)

*In FY 2019, DFAS continued to seek innovative methods to leverage technology as a way to streamline processes and provide added value to our customers. During the year, we reached our objectives to retire several outdated systems, and recognized the need to develop and implement new platforms.*

### Systems Retirement and Implementation

In order to drive efficiencies and strengthen collaboration with our customers, DFAS is migrating from using the Waterfall Methodology, an approach where performance has to move across organizational boundaries, to the more collaborative Agile methodology. Within the Agile framework, larger efforts are broken down into smaller, more manageable tasks completed together in a much shorter time-frame. As an example, the Defense Corporate Database/Defense Corporate Warehouse (DCD/DCW) integration of Agile Methodology into their software lifecycle development process has resulted in a 44% reduction in time from receipt of a system change to when it was implemented in the production environment. The implementation also yielded a 12% decrease of rework required from test defect reports during the testing of system changes.

In order to optimize the operating environment, DFAS set a goal to eliminate 20 legacy systems in the FY 2017-2021 time-frame, with three legacy systems targeted for retirement in

FY 2019. DFAS exceeded the FY 2019 goal by retiring four systems: International Civilian Pay System (ICPS), Suspense Aging Monitoring System (SAMS), Cash History On-line Operator Search Engine (CHOOSE), and Transportation Support System (TSS). Estimated annual savings from these retirements is \$1.5 million. Over the past three years, DFAS retired a total of 12 systems, and is on track to meet its FY 2021 outcome goal.

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*Text message alerts increase customer satisfaction and decrease customer service call volume.*

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One example of the ongoing commitment to leverage technology is the use of the Oracle SuperCluster (OSC) platform. The OSC platform standardizes performance for core applications and provides greater reliability and availability. In FY 2019, subject matter experts from Oracle, DFAS and Defense Information Systems Agency (DISA) engineered and completed a reconfiguration of the OSC platform. These updates allowed DFAS to optimize OSC's ability to efficiently host multiple systems in separate environments and maintain required security and data boundaries. This platform was first obtained to host Defense Departmental Reporting System (DDRS) and immediately reduced report generation and month-end production times. We also successfully migrated DCD/DCW to the OSC platform after the reconfiguration was complete. Partial migration of Operational Data Store (ODS) and Wounded In Action (WIA) databases were completed, with full migration expected by February 2020. Transition to the OSC improves processing of interface files by at least 25%, application response time by 25% and report generation processing by over 50% for users. Once complete, estimated annual savings for all four hosted systems (DDRS, DCD/ DCW, ODS, WIA) will exceed \$1 million.

### Enhancing Customer Experience

DFAS is dedicated to delivering first-class service and products to our customers. To this end, the Agency consistently looks for ways to enhance the customer experience. In FY 2019, DFAS modernized its communication delivery methods.

For example, text message alerts were implemented to provide military and civilian travelers using the Integrated Automated Travel System (IATS) status updates throughout the process of their travel claim submission. The goal was to reduce the number of calls received in the customer care center by 20% in relation to these statuses while also minimizing the number of duplicate submissions. Studies have shown that text messages have a much higher rate of penetration than email, because they can be accessed from anywhere and are typically shorter and received in lower volume. For FY 2019, nearly 50,000 claim submissions for Military Permanent Change of

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*Smart device technology aids in the productivity of deaf and hard of hearing employees.*

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Station opted to receive claim status updates via a text message on personal cellphones. Testing of the initial pilot boasted zero calls for status and zero duplicate submissions. Feedback has been overwhelmingly positive, with a 98% satisfaction rate.

In another example, the MyPay pay management system was upgraded to make the platform simpler, streamlined and mobile-friendly. It provides access for more than five million active military, federal civilian, military retiree and annuitant customers. In addition to an overall modernization of the application's design, the MyPay homepage features a graphic carousel to highlight important customer messages up front. Navigation

improvements allow users with multiple pay accounts – such as civilian, military retiree and military reserve pay – to move among accounts without returning to the main menu.

### **Breakthrough Successes**

Over the past year, the Agency pursued its vision to be a recognized leader in financial management. Following are some examples of breakthrough successes that demonstrate the delivery of first-class service and products.

DFAS pinpointed a need for employees requiring auditory assistance. We planned, developed and rapidly executed procurement of smart device technology with high-quality videophone capabilities. Within two months of initialization of the project, the new automation was deployed to all 42 deaf and hard of hearing employees that utilize American Sign Language, plus the five interpreters who assist them. To support full inclusion, DFAS also obtained large monitors for two employees who are visually impaired and deaf. DFAS supports all equipment internally and with existing staff. Support includes three critical processes: connecting to a hot spot to receive critical technology upgrades, collecting the smart device from departing hear of hearing employees and issuance to new deaf employees at onboarding. This acquisition increased videophone call success for the employees from less than 40% to 100% at four sites. Participants applauded the achievement as ground-breaking and conducive to more productive meetings.

Another noteworthy breakthrough was the successful migration of 1099 Professional (PRO) hosting from the DFAS server to DISA milCloud 2.0+; leveraging milCloud capabilities enabled file upload speeds six times faster than before. The DFAS data center optimization initiative decreased physical hosting by moving to virtual web and database hosting that consolidated data, enhanced web capability and achieved scalable hosting.



Gunner's Mate 3rd Class Nicolas Valenzuela instructs Fireman Elliott Anderson, from Wayland, Mich., as he fires an M240B machine gun during a live-fire gunnery exercise aboard the Ticonderoga-class guided-missile cruiser USS Chancellorsville (CG 62). (U.S. Navy photo by Mass Communication Specialist 1st Class Jeremy Graham)

**“The Department of Defense must embrace a more agile approach to technology development to keep pace with rapidly evolving adversaries.”**

Michael Griffin  
Under Secretary of Defense for Research and Engineering  
Department of Defense

## Global Audit Environment



DFAS WCF achieved its 20th consecutive unmodified audit opinion. (DoD photo illustration by Eileen Hernandez)

*In light of the DoD-wide financial statement audit, audit readiness has been at the forefront of DFAS' strategic planning initiatives for a number of years. In FY 2019, we made great strides in support of the DoD and customer audits while simultaneously achieving continued success with the DFAS WCF audit. These achievements better position DFAS to help reach the goals of the Department both internally and externally.*

### Fostering Global Success

In its service provider role, DFAS delivers finance and accounting services to the Army, Navy, Air Force, Marine Corps and Other Defense Organizations (ODO), and maintains the financial statements for 65 individual components as well as the consolidated DoD financial statements. As such, the Agency plays an integral role in supporting the financial statement audits of these customers. This role includes preparing process maps, conducting walk-throughs, documenting internal controls, providing supporting documentation, creating and performing reconciliations, conducting internal audit testing, implementing customer Corrective Action Plans (CAPs) and addressing Notice of Findings and Recommendations (NFRs).

DFAS leads the Department in the highest volume of validated CAPs, with over 49% of DFAS CAPs successfully validated. A CAP is validated when an independent auditor verifies that the CAP successfully resolves all or part of an NFR. These validated CAPs resulted in DFAS successfully supporting the Secretary of Defense's goal of 10% FY 2018 NFR closure for the Department.



DFAS champions eight Statements on Standards for Attestation Engagements (SSAE)18(s) which are formal examinations of our controls as a service provider. These engagements allow an Independent Public Accounting (IPA) firm to assert that DFAS internal controls are designed and operating effectively. The main outputs of an SSAE18 are the System and Organization Controls (SOC1) Reports, which are designed by the American Institute of Certified Public Accountants (AICPA) and provide valuable information to customers about processes they have outsourced to DFAS. The reports also allow IPAs and customers to gain trust and confidence in the services we perform and the controls related to those services. The assertions are performed on common DFAS processes that support three or more customers. DFAS successfully sustained unmodified audit opinions for Civilian Pay, Disbursing, Military Pay and Contract Pay SSAE18s and received its first unmodified opinion for Electronic Local Area Network (eLAN) Hosting Services. The remaining processes related to Financial Reporting, Vendor Pay, and Defense Cash Accountability System (DCAS) sustained modified opinions. DFAS continues to expand the scope to pursue improvements to its service provider audits.

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*As a service provider, DFAS fulfilled over 13,000 auditor requests, supplying over 20,000 documents.*

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In addition to examining its own processes, DFAS supports multiple audit efforts associated with the DoD wide consolidated financial statements. The Agency completed over 100 multi-day auditor walkthroughs and fulfilled over 13,000 auditor requests (supplying over 20,000 documents in a timely manner). This support contributed to many successes, such as unmodified opinions, and improved others' positions toward achieving audit goals.

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*DFAS WCF achieved its 20th consecutive unmodified audit opinion.*

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### **Sustained Success**

In addition to supporting the DoD and guiding our customers toward their audit goals, DFAS adapted to the ever-changing external requirements of new systems, regulations, and guidelines to achieve its own 20th consecutive unmodified opinion. As part of the DFAS WCF audit, 242 Provided by Client (PBC) listings were tested. This testing resulted in the request for documentation to support 768 samples and hundreds of non-sample inquiries, totaling nearly 3,000 documents submissions. Openness to process improvement, constructive dialogue and top-down support from senior management, contributed to a successful 20th opinion.

Programs such as Audit Ready Every Day (ARED) enables the Agency to maintain its unmodified opinion. ARED focuses on past NFRs as well as other opportunities for improvement that surface during the audit cycle. A dedicated project team works in conjunction with various organizational points of contact within DFAS to ensure key milestones are met and progress is made. This approach equips DFAS with the insight to mitigate known findings and act proactively to avoid future findings.

This fiscal year, DFAS also had a stronger focus on Process Improvement Opportunities (PIOs). PIOs are identified by the auditors during testing to alert the Agency of smaller issues that could become problems in the future if preventative action is not taken. PIOs are not exceptions or NFRs; they simply serve a way for DFAS to proactively address potential items of concern if not mitigated. PIOs are handled similarly to formal findings in that an identified project lead ensures action is taken

and progress is made on the documented concerns.

One example of a PIO for which corrective action was taken was the employee exit process. Formerly, when an employee left the Agency, it was primarily up to the employee's supervisor to ensure computer equipment was returned in a timely manner. To address this PIO, the Agency developed a standardized Personnel Departure Workflow in which the supervisor inputs exiting employee information. Accountable Property Officers responsible for equipment receive daily reports from the workflow and input the data into a tracking system to trigger asset pick-up. The new process also includes the creation of a database that tracks the status of the equipment from employee departure through pick-up, providing management visibility of outstanding asset retrievals. For outstanding equipment close to the 30 day benchmark, management is notified until action is taken. In addition to improving property accountability, enhancements to the employee exit process also provided the Agency with a 26% improvement in timely access removals for DFAS separations. Since implementation, nearly 90% of the system accesses for individuals who have departed the Agency were removed or mitigated within a timely manner. This improved capability is expected to increase as the process continues to mature.

The Agency also places an emphasis on the auditor-client relationship to ensure constant communication and mutual efforts to achieve audit goals. This emphasis includes daily audit update calls during each phase of the audit (internal control testing, interim testing and year end testing). These meetings allow the auditor and applicable DFAS personnel to collaborate and discuss any questions or issues that surface during testing. Similarly, weekly meetings are held between the auditors and DFAS executives to give status updates and raise any concerns. This dialogue can often help reduce the likelihood of an NFR being issued by ensuring the audit team receives sufficient support from management

and allows the IPA an opportunity to elevate concerns that could be addressed by leadership.

Another way that DFAS maintains a solid relationship with the auditors is through an established audit support team, available year-round to act as liaisons and support the audit's progress. The audit support team's sole focus is making sure the auditors and DFAS personnel are working in tandem, that milestones are met and that both parties receive what they need to complete their mission. These dedicated personnel participate in the walk-throughs, understand what documentation the auditors need and work directly with the organizations across DFAS to ensure the IPA has the right level of supporting documentation. This interaction increases efficiencies and enhances outcomes by providing the right information within the established timeframe.



380th Expeditionary Security Forces Squadron Airmen take cover and fire from behind a barrier during a simunition proficiency firing course held on Al Dhafra Air Base, United Arab Emirates, Sept. 29, 2019. Al Dhafra hosted the first course of this kind in the U.S. Air Forces Central Command area of responsibility to align with the line of effort to increase lethality, as well as allowing Defenders to maintain proficiency with their weapon. (U.S. Air Force photo by Tech. Sgt. Jocelyn A. Ford)

**“I appreciate all the heavy lifting that was done this past year in producing a clean/unmodified Audit Opinion for the Military Retirement Trust Fund. As you’re aware, it was just one out of a handful of audits that received an unmodified opinion, and I believe it’s the largest audit within DoD in terms of dollars - \$813B. In fact, this is the 24th consecutive year of having an unmodified audit opinion for the MRF. I think this speaks well of those professionals you have who are maintaining the high standards.”**

U.S. Army Col. Bradford O. Whitney  
Office of the Under Secretary of Defense

# Management Assurances





**DEFENSE FINANCE AND ACCOUNTING SERVICE**  
 8899 EAST 56<sup>TH</sup> STREET  
 INDIANAPOLIS, IN 46249-0201

MEMORANDUM FOR SECRETARY OF DEFENSE  
 DEPUTY SECRETARY OF DEFENSE

THROUGH: Elaine McCusker, Acting Under Secretary of Defense (Comptroller)

SUBJECT: Fiscal Year 2019 Statement of Assurance (SoA) Required Under the Federal  
 Managers' Financial Integrity Act (FMFIA)

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 Circular No. A-123 (OMB Circular No. A-123), *Management's Responsibility for Enterprise Risk Management and Internal Control*; and the Green Book, GAO-14-704G, *Standards for Internal Control in Federal Government*. Based on the results of the assessment, DFAS can provide *reasonable assurance* that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2019.

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. I am able to provide a *modified statement of assurance* that internal controls over DFAS' operations and compliance are operating effectively, with the exception of one material weakness for 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. Based on this assessment, I am able to provide an *unmodified statement of 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. Based on the results of this evaluation, I am able to provide an *unmodified statement of 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.

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8899 EAST 56<sup>TH</sup> STREET  
INDIANAPOLIS, IN 46249-0201

MEMORANDUM FOR SECRETARY OF DEFENSE  
DEPUTY SECRETARY OF DEFENSE

THROUGH: Elaine McCusker, Acting Under Secretary of Defense (Comptroller)

SUBJECT: Fiscal Year 2019 Statement of Assurance (SoA) Required Under the Federal  
Managers' Financial Integrity Act (FMFIA)

DFAS also conducted an assessment of entity level controls including fraud control in accordance with the Green Book, OMB Circular No. A-123, the Fraud Reduction and Data Analytics Act of 2015, and GAO Fraud Risk Management Framework. The "*Internal Control Evaluation (TAB A)*" section and the "*Assessment of Entity Level Controls (TAB B)*" section provides specific information on how DFAS conducted this assessment. Based on the results of this assessment, I am able to provide *reasonable assurance* that entity-level controls are operating effectively.

A handwritten signature in cursive script that reads "Teresa McKay".

Teresa A. McKay  
Director

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**Note:** The assurances stated on pages 35-36 are to be read in conjunction with this memorandum.

**Note:** The material weakness referenced above for Financial Reporting, included DFAS WCF within its population but the resulting failures were related to DFAS in the service provider capacity to the Services and Defense Agencies. DFAS WCF has mitigating controls for the weaknesses identified.

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# Compliance and Regulations





## 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 2019. 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, 2019, 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 USASPENDING.gov. This enables taxpayers and policy makers to track federal spending more effectively.

DFAS is compliant and completed implementation in second 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 DoD FMR, 7000.14-R, Volume 14, provides department policy for investigating and reporting ADA violations. During FY 2019, DFAS had 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 nontax 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

\$50,000 of Prompt Payment Interest penalties during FY 2019.

### **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 in the Federal Government (also known as the "GAO Green Book") and OMB Circular A-123. DFAS implementation included: leading practices for managing fraud risk; identifying risks and vulnerabilities to fraud, including with respect to payroll, beneficiary payments, large contracts, and purchase and travel cards; and establishing strategies, procedures, and other steps to curb fraud.

### **Audit Disclosures**

During FY 2019, auditor-identified findings were classified as control deficiencies and did not have a material impact to the DFAS WCF financial statements.

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# Financial Discussion and Analysis



*DFAS continues to provide financial and accounting services at the lowest cost possible. The 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	2019	2018
Net Cost of Operations	\$ 111,342,366	\$ 89,435,607
Net Position	\$ 317,722,426	\$ 342,067,490

## Significant Events

Last year, DFAS implemented Standard Financial Information Structure (SFIS) compliance requirements into their general ledger reporting system as mandated by the Department of Defense (DoD). This directive improves interoperability between accounting systems and the Defense Departmental Reporting System (DDRS). Another accomplishment in FY 2019 was the successful upgrade of the DDRS interface, utilizing Global Exchange (GEX). This fulfilled all requirements set forth by the Standard Financial Information Structure (SFIS) Version 10.0 Maintenance Release (MR) schema. The interface drastically improves the transparency, accuracy, and completeness of financial data submitted to the reporting system. The new SFIS 10.0 MR structure has also increased reporting efficiencies by removing the need to maintain complex, systemic cross-walks which previously caused process delays. DFAS expects these efficiencies to increase in FY 2020 once trading partner data is electronically passed through the interface, therefore eliminating manual tasks and reducing process time by several days.

## Financial Statement Analysis

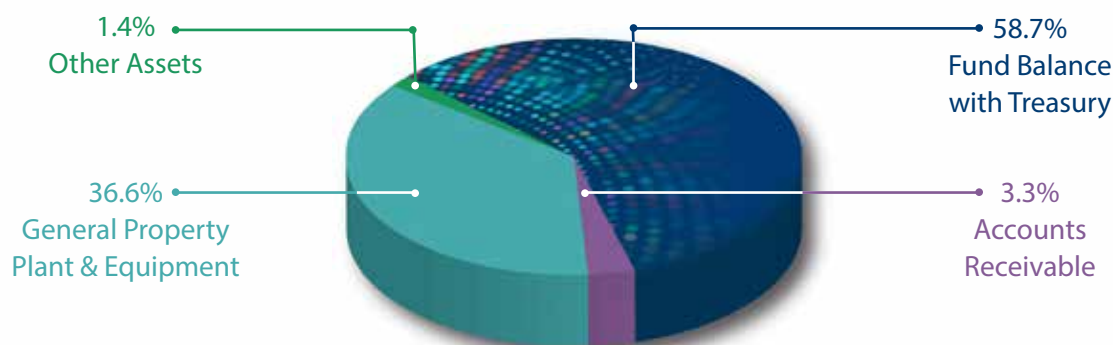
DFAS WCF continues a thorough, monthly review process and robust execution reporting to senior leadership in order to outline the status of its financial position and available budgetary resources. Consequently, DFAS leadership is armed with proprietary and budgetary information to make informed business decisions throughout the year in order to manage the DFAS WCF unobligated balance. The Office of Under Secretary of Defense (Comptroller) OUSD(C) and the Office of Management and Budget 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, 2019, 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 2018 to FY 2019.

As of September 30	2019	2018	Change	% Change
Assets	\$ 511,981,800	\$ 530,002,900	\$ (18,021,100)	(3.4%)
Liabilities	194,209,374	187,935,410	6,273,964	3.3%
<b>Net Position</b>	<b>\$ 317,772,426</b>	<b>\$ 342,067,490</b>	<b>\$ (24,295,064)</b>	<b>(7.1%)</b>

## Composition of Assets

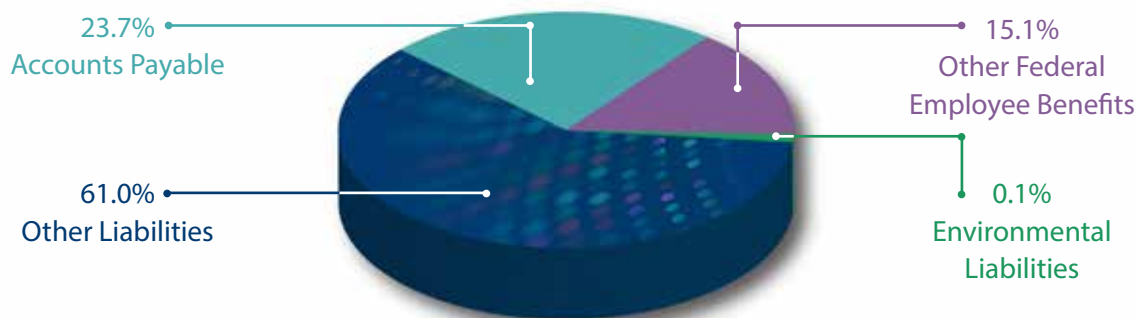


Total WCF Assets of \$512.0 million on September 30, 2019 consisted primarily of \$300.6 million in FBwT, and \$187.5 million in General Property, Plant and Equipment (PP&E).

decreasing when compared to last year; simultaneously, accumulated depreciation/amortization increased when comparing FY 2019 to FY 2018.

FBwT increased by \$10.9 million (3.8%) due to timely receipt of collections from customers this year. General PP&E, net, decreased by \$15.0 million (7.42%). This is primarily attributable to new acquisitions slightly

## Composition of Liabilities



Total Liabilities of \$194.2 million as of September 30, 2019, consisted primarily of \$118.5 million in Other Liabilities, Accounts Payable of \$46.1 million, Other Federal Employment Benefits of \$29.4 million, and \$260 thousand for Environmental Liabilities. Other Liabilities

consists of \$96.6 million for the accrual of funded payroll, benefits, and annual leave. The remaining portion is due to a \$11.7 million liability for Employer Payroll Taxes Payable, \$6.7 million FECA reimbursement to Department of Labor and \$3.5 million for the amount of unfunded leave.

## 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	2019	2018	Change	% Change
Gross Costs	\$ 1,531,646,260	\$ 1,483,173,131	\$ 48,473,129	3.3%
Less Earned Revenue	(1,420,303,894)	(1,393,737,524)	26,566,370	1.9%
<b>Net Cost of Operations (Note 11)</b>	<b>\$ 111,342,366</b>	<b>\$ 89,435,607</b>	<b>\$ (21,906,759)</b>	<b>24.5%</b>

During FY 2019, DFAS' average benefit enrollment was higher than FY 2018 leading to a \$44.2 million higher payroll and employee benefits expense. Another driver of the cost increase is due to the cost factor for Federal Employee Health Benefits (FEHB) which

increased from \$7,151 in FY 2018 to \$7,268 in FY 2019, and the Federal Employees Retirement System (FERS) service cost increasing from 16.2% to 16.9% in FY 2019. This equates to an imputed cost increase of \$6.7 million in FY 2019.



## 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. Ending Cumulative Results of Operations decreased by \$24.3 million (7.1%) primarily due to an increase in employee staffing and employee benefit costs. DFAS also executed an additional 270 work years in FY 2019 than it did in FY 2018.

Fiscal Years Ended September 30	2019	2018	Change	% Change
Beginning Balances	\$ 342,067,490	\$ 351,142,747	\$ (9,075,257)	(2.6%)
Total Financing Sources	87,047,302	80,360,350	6,686,952	8.3%
Less Net Cost of Operations	111,342,366	89,435,607	21,906,759	(24.5%)
<b>Cumulative Results of Operations</b>	<b>\$ 317,772,426</b>	<b>\$ 342,067,490</b>	<b>\$ (24,295,064)</b>	<b>(7.1%)</b>

## Statement of Budgetary Resources

The WCF Statement of Budgetary Resources presents the total budgetary resources available to DFAS for use in FY 2019, 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	2019	2018	Increase (Decrease)	% Change
Gross Outlays	\$ 1,428,008,216	\$ 1,386,180,623	\$ 41,827,593	3.0%
Less Actual Offsetting Collections	(1,438,873,891)	(\$1,378,849,137)	60,024,754	4.4%
<b>Net Outlays</b>	<b>\$ (10,865,675)</b>	<b>\$ 7,331,486</b>	<b>\$ (18,197,161)</b>	<b>(248.2%)</b>

Gross outlays increased by \$41.8 million (3.0%) due to higher Agency average employee benefit enrollment causing payroll and benefit expenses to increase in FY 2019.

Offsetting collections increased by \$60.0 million (4.4%) primarily due to increased efforts this year in collecting outstanding receivable balances from customers.

<b>Gross Costs by Category</b>	<b>2019</b>	<b>2018</b>	<b>Change</b>	<b>% Change</b>
Payroll Expense	\$ 812,352,089	\$ 777,534,915	\$ 34,817,174	4.5%
Employee Benefits Expense	279,931,765	270,501,094	9,430,671	3.5%
Contractor Services	209,957,248	260,336,274	(50,379,026)	(19.4%)
Imputed Costs Funded by DoL	87,047,302	80,360,350	6,686,952	8.3%
Lease & Office Expenses	45,026,219	48,752,442	(3,726,223)	(7.6%)
Depreciation & Amortization	18,695,769	19,334,712	(638,943)	(3.3%)
Non-Recoverable Depreciation/ Amortization	13,230,445	13,329,720	(99,275)	(0.7%)
Travel Expense	6,650,646	7,480,640	(829,994)	(11.1%)
Equipment Expense	56,583,257	3,619,977	52,963,280	1463.1%
Miscellaneous Supplies and Materials	2,229,473	1,634,666	594,807	36.4%
PPA Interest Expense	50,000	52,122	(2,122)	(4.1%)
Other Expenses	(107,955)	236,219	(344,174)	(145.7%)
<b>Total</b>	<b>\$ 1,531,646,258</b>	<b>\$ 1,483,173,131</b>	<b>48,473,127</b>	<b>3.3%</b>

Equipment expense increased by \$52.9 million primarily due to reclassification of expense accounts to be in compliance with the Digital Accountability and Transparency Act (DATA) Act reporting requirements. The realignment of expense categories transferred balances from Contractor Services (object classification 25.1) to Equipment Expense (object classification 31.0) for FY 2019 reporting.

### 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: Balance Sheets, Statements of Budgetary Resources, Statements of Net Cost, 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 the independent accounting firm of Williams, Adley & Company-DC, LLP.



## **SECTION II**



### **Financials**

#### **TOPICS COVERED**

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



## **Chief Financial Officer's Message**



I am proud to share the enclosed Fiscal Year (FY) 2019 Annual Financial Report (AFR) and the results that led to the Agency's 20th favorable unmodified audit opinion for the Defense Finance and Accounting Service (DFAS) Working Capital Fund (WCF), in accordance with United States Generally Accepted Accounting Principles. The Agency's key drivers to consistent audit success remain solid controls and documentation, along with continuous internal control testing.

Through a consistent focus on Department priorities, customer requirements, and sound processes and controls, and with a proven strategy where the priorities remain people, audit, systems, and agency performance, DFAS demonstrated sound financial management practices that delivered key audit results for FY 2019. The Agency completed full implementation of the Standard Financial Information Structure (SFIS) interface between the Agency's accounting system and the Department's financial reporting system, streamlining manual crosswalks, standardizing data to create enhanced transparency, and increasing data integrity. Despite complex conversion requirements and preparation, the DFAS team used a methodical approach to implement this interface and installed strong risk management tactics to ensure a successful and accurate transition. The SFIS implementation is just one example of the Agency's commitment to Department priorities and reliable financial management.

In support of the National Defense Strategy and Department of Defense (DoD) Reform efforts, DFAS continues to identify and implement efficiencies to offset financial requirements associated with new and expanded mission needs. Customer partnerships and engagement, along with data transparency, are key to attaining desired business results, meeting reform objectives, and achieving fiscal excellence.

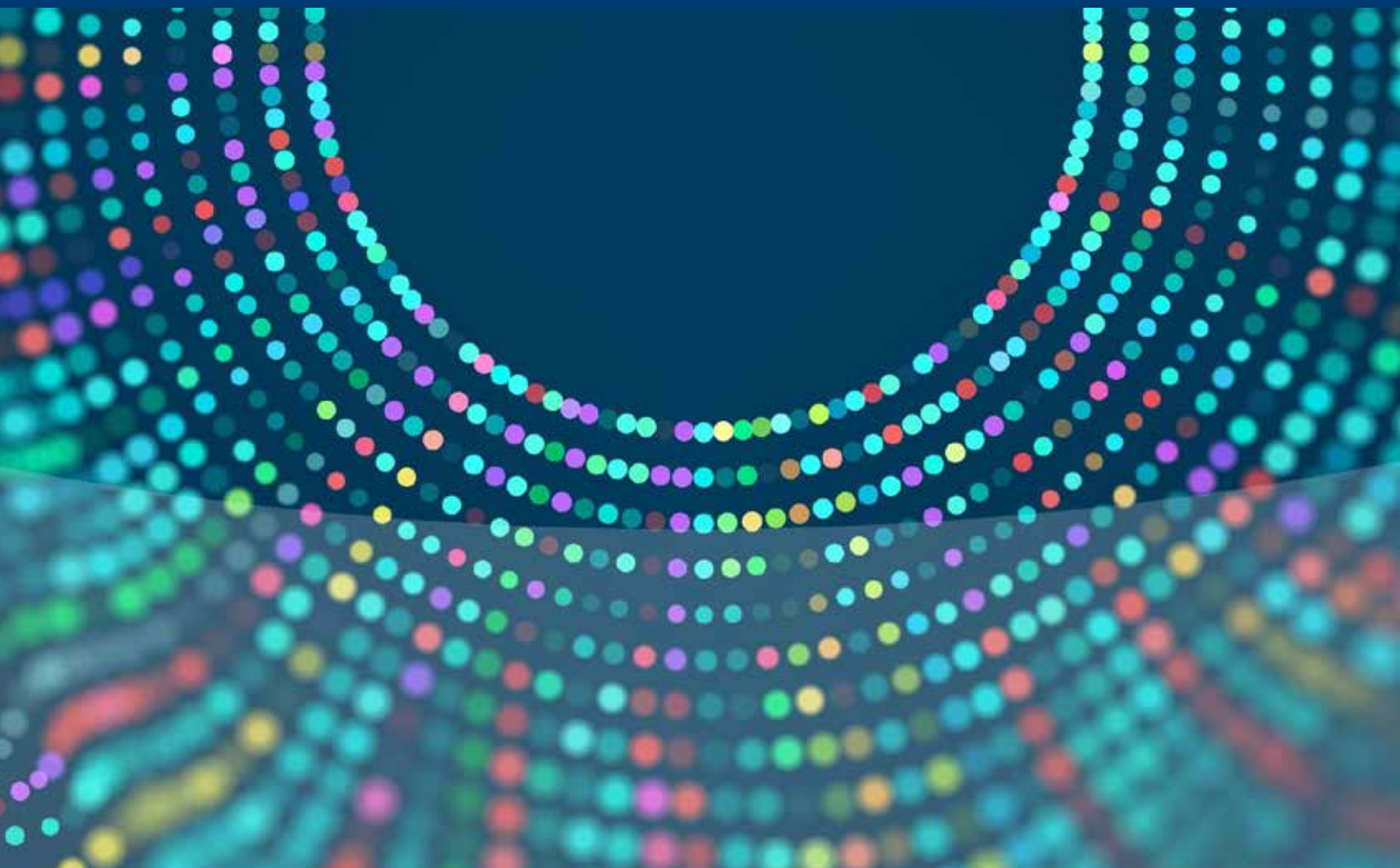
The FY 2020 financial position results from informed projections, robust monitoring capabilities and processes, strong internal controls, and effective and decisive leadership. DFAS will continue to leverage customer relationships, accurate rate building, and data analytics to ensure sufficient resources are available to meet customer requirements. As a recognized leader in financial management, DFAS remains committed to thoughtful stewardship of the Department's resources, and agile in approach to respond to opportunities and constraints as they arise.



A handwritten signature in black ink that reads "Rosie Tinsley". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

**ROSIE TINSLEY**  
Chief Financial Officer

# **Independent Auditor's Report on the Financial Statements**







## Independent Auditor's Report

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

In our audits of the fiscal years 2019 and 2018 financial statements of 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, 2019, and 2018, 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;<sup>1</sup> and
- no reportable noncompliance for fiscal year 2019 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)<sup>2</sup> and other information included with the financial statements;<sup>3</sup> (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

### 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. 19-03, *Audit Requirements for Federal Financial Statements*, we have audited the DFAS WCF's financial statements. The DFAS WCF's financial statements are

<sup>1</sup>A 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.

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

<sup>3</sup>Other information consists of the Message from the Chief Financial Officer, Management's Response to the Independent Auditor's Report, and the Other information Section.

**WILLIAMS, ADLEY & COMPANY-DC, LLP**

*Certified Public Accountants / Management Consultants*

1030 15<sup>th</sup> Street, NW, Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161  
[www.williamsadley.com](http://www.williamsadley.com)

comprised of the balance sheets as of September 30, 2019, and 2018; the related statements of net 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 U.S. generally accepted government auditing standards. 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 government auditing standards 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, 2019, and 2018, 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, 2019, 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 deficiencies<sup>4</sup> or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those 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 2019 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.

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<sup>4</sup>A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**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 2019 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.

*Williams, Adley & Company-DC, LLP*  
Washington, District of Columbia  
November 6, 2019

# Management's Response to the Independent Auditor's Report





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

November 6, 2019

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

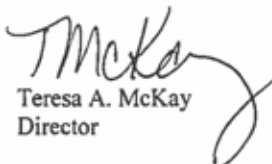
Dear Mr. Isiaq:

I have reviewed the draft Independent Auditor's Report dated October 30, 2019, regarding the Fiscal Year 2019 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.

While I am certainly pleased to see our continued efforts to improve accuracy and reliability of our financial statements, I also appreciate the suggestions for opportunities for further enhancements. It is our mission to ensure that these suggestions are incorporated into our daily processes.

DFAS would like to thank the Williams Adley team for the professional manner in which they conducted this audit. 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](mailto:james.j.monday.civ@mail.mil).

Sincerely,

  
Teresa A. McKay  
Director



OFFICE OF THE DIRECTOR

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

November 6, 2019

Mr. Kola Isiaq  
Engagement Partner  
Williams, Adley and Company, LLP-DC  
1030 15<sup>th</sup> 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 2019 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. As the Chair of the Audit Committee, I very much appreciate the dedication you and your staff have once again committed to ensuring a top-quality audit of these statements. DFAS and the Williams Adley team have formed a strong working relationship, and this effective working relationship and dedication have ensured a successful FY 2019 audit.

Maintaining an unmodified audit opinion is extremely important to DFAS. Your staff has made insightful recommendations to improve DFAS' internal controls, and these observations will help ensure DFAS continues to be successful in sustaining a favorable audit.

Thank you for your collaborative approach and for the courtesies that were afforded by your team during this audit engagement.

Sincerely,

A handwritten signature in black ink, appearing to read "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	2019	2018
<b>Assets</b>		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 300,589,369	\$ 289,723,694
Accounts Receivable, Net (Note 3)	15,623,300	30,577,535
Other Assets (Note 5)	1,642,024	1,078,091
<b>Total Intragovernmental Assets</b>	<b>\$ 317,854,693</b>	<b>\$ 321,379,320</b>
Accounts Receivable, Net (Note 3)	\$ 1,234,917	\$ 1,142,725
General Property, Plant and Equipment, Net (Note 4)	187,538,255	202,531,315
Other Assets (Note 5)	5,353,935	4,949,540
<b>Total Assets</b>	<b>\$ 511,981,800</b>	<b>\$ 530,002,900</b>
<b>Liabilities (Note 6)</b>		
Intragovernmental		
Accounts Payable	\$ 23,045,899	\$ 26,156,973
Other Liabilities (Notes 9 & 11)	16,969,157	14,133,006
<b>Total Intragovernmental Liabilities</b>	<b>\$ 40,015,056</b>	<b>\$ 40,289,979</b>
Accounts Payable	\$ 23,038,154	\$ 18,254,852
Other Federal Employment Benefits (Note 7)	29,411,878	32,199,186
Environmental and Disposal Liabilities (Note 8)	260,000	260,000
Other Liabilities (Notes 9 & 11)	101,484,286	96,931,393
<b>Total Liabilities</b>	<b>\$ 194,209,374</b>	<b>\$ 187,935,410</b>
<b>Net Position</b>		
Cumulative Results of Operations	\$ 317,772,426	\$ 342,067,490
<b>Total Net Position</b>	<b>\$ 317,772,426</b>	<b>\$ 342,067,490</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 511,981,800</b>	<b>\$ 530,002,900</b>

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

## Statements of Net Cost

Fiscal Years Ended September 30	2019	2018
<b>Program Costs</b>		
Gross Costs	\$ 1,531,646,260	\$ 1,483,173,131
Less Earned Revenue	(1,420,303,894)	(1,393,737,524)
<b>Net Cost of Operations (Note 12)</b>	<b>\$ 111,342,366</b>	<b>\$ 89,435,607</b>

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

## Statements of Changes in the Net Position

Fiscal Years Ended September 30	2019	2018
<b>Cumulative Results of Operations</b>		
<b>Beginning Balances</b>	\$ 342,067,490	\$ 351,142,747
<b>Other Financing Sources:</b>		
Imputed Financing Sources	87,047,302	80,360,350
<b>Total Financing Sources</b>	<b>\$ 87,047,302</b>	<b>\$ 80,360,350</b>
<b>Net Cost of Operations (Note 12)</b>	<b>\$ 111,342,366</b>	<b>\$ 89,435,607</b>
<b>Net Change</b>	<b>\$ (24,295,064)</b>	<b>\$ (9,075,257)</b>
<b>Total Net Position</b>	<b>\$ 317,772,426</b>	<b>\$ 342,067,490</b>

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

## Statements of Budgetary Resources

Fiscal Years Ended September 30	2019	2018
<b>Budgetary Resources</b>		
Net Unobligated Balance from Prior Year Budget Authority	\$ 253,962,476	\$ 293,756,510
Contract Authority	10,129,269	20,243,603
Spending Authority from Offsetting Collections	1,400,427,752	1,351,981,523
<b>Total Budgetary Resources (Note 13)</b>	<b>\$ 1,664,519,497</b>	<b>\$ 1,665,981,636</b>
<b>Status of Budgetary Resources</b>		
New obligations and upward adjustments (total)	\$ 1,434,806,619	\$ 1,415,411,553
Unobligated balance, end of year		
Apportioned, unexpired accounts	229,712,878	250,570,083
<b>Total Budgetary Resources (Note 13)</b>	<b>\$ 1,664,519,497</b>	<b>\$ 1,665,981,636</b>
<b>Net Agency Outlays</b>	<b>\$ (10,865,675)</b>	<b>\$ 7,331,486</b>

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) (OUSDC). 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.

In accordance with the Statements of Federal Financial Accounting Standards (SFFAS) 7 - Accounting for Revenue and Other Financing Sources: Detailed Information on the Statement of Financing, paragraphs 80-82, 95-101; Note 14 has been modified to present in appropriate detail the relationship between the net cost of operations, the accrual basis of financial accounting, and net outlays that occurred during the reporting period.

### 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 or funds designated as general, trust, special or deposit. DFAS is financed as a working capital fund, obtaining revenue by charging its customers for the services it provides rather than being funded through direct appropriations. 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 Operating 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 are 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.

### 1.H. Accounting for Intragovernmental Activities

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal government. Costs and 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. DFAS 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. DFAS 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 WCF capitalizes all PP&E used in the performance of its 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. 1, "Accounting for Selected Assets and Liabilities," 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 in FY 2018 was \$7,151 and \$7,268 in FY 2019. The Federal Employees' Group Life Insurance Program (FEGLI) the cost factor was .02% in both FY 2018 and 2019.

The cost factor for employees covered by Civil Service Retirement System (CSRS) was 37.4% in FY 2018 and 38.4% in FY 2019. The cost factor for the Federal Employees Retirement System (FERS) was 16.2% in FY 2018 and 16.9% in FY 2019.

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 Annuity 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 for FY 2019 and 2018 were \$32.1 million and \$30.4 million. 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 2019, 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.

## Note 2: Fund Balance with Treasury

As of September 30	2019	2018
<b>Status of Fund Balance with Treasury</b>		
Unobligated Balance - Available	\$ 229,712,878	\$ 250,570,083
Obligated Balance not yet Disbursed	219,044,203	215,638,193
Non-FBWT Budgetary Accounts		
Unfilled Customer Orders without Advance	(16,635,629)	(18,965,282)
Contract Authority	(115,950,231)	(126,937,808)
Receivables and Other	(15,581,852)	(30,581,492)
<b>Total Non-FBWT Budgetary Accounts</b>	<b>\$ (148,167,712)</b>	<b>\$ (176,484,582)</b>
<b>Total FBWT</b>	<b>\$ 300,589,369</b>	<b>\$ 289,723,694</b>

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

The Status of FBwT reflects the budgetary resources to support FBwT, and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available and represents the cumulative amount of budgetary authority that has not been set aside to cover future obligations.

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

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

For 4th Quarter FY 2019 reporting, DFAS' undistributed reconciling adjustment to Treasury was \$3,478,374 for FY 2019 and \$1,277,353 for FY 2018.

## Note 3: Accounts Receivable, Net

As of September 30	2019		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 15,623,300	\$ N/A	\$ 15,623,300
Nonfederal Receivables (From the Public)	14,199,672	(12,964,755)	1,234,917
<b>Total Accounts Receivable</b>	<b>\$ 29,822,972</b>	<b>\$ (12,964,755)</b>	<b>\$ 16,858,217</b>

As of September 30	2018		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 30,577,535	\$ N/A	\$ 30,577,535
Nonfederal Receivables (With the Public)	14,108,374	(12,965,649)	1,142,725
<b>Total Accounts Receivable</b>	<b>\$ 44,685,909</b>	<b>\$ (12,965,649)</b>	<b>\$ 31,720,260</b>

Accounts Receivable (AR) represent DFAS' claim for payment from other entities. DFAS only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

### Other Disclosures

An allowance for the full amount of an outstanding receivable was recognized during FY 2016. This portion of the AR balance has been referred to the Department of Justice (DoJ) for collection. The amount of the outstanding receivable balance due is \$12.9 million. The Defense Finance and Accounting Services is not allowed to write-off the debt until the DoJ provides instruction to the collectability of the receivable to the Federal Government.



## Note 4: General PP&E, Net

As of September 30	2019				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>Major Asset Classes</b>					
Buildings, Structures, and Facilities	S/L	35, 40, or 45*	\$ 122,812,711	\$ (74,443,408)	\$ 48,369,303
Leasehold Improvements	S/L	lease term	140,634,552	(104,659,962)	35,974,590
Software	S/L	2-5 or 10	314,828,070	(250,943,259)	63,884,811
General Equipment	S/L	Various	148,526,301	(122,907,681)	25,618,620
Construction-in-Progress	N/A	N/A	13,690,931	N/A	13,690,931
<b>Total General PP&amp;E</b>			<b>\$ 740,492,565</b>	<b>\$ (552,954,310)</b>	<b>\$ 187,538,255</b>

As of September 30	2018				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>Major Asset Classes</b>					
Buildings, Structures, and Facilities	S/L	35, 40, or 45*	\$ 122,812,710	\$ (70,575,834)	\$ 52,236,876
Leasehold Improvements	S/L	lease term	140,240,258	(97,555,860)	42,684,398
Software	S/L	2-5 or 10	576,684,588	(507,136,873)	69,547,715
General Equipment	S/L	Various	215,243,835	(190,224,299)	25,019,536
Construction-in-Progress	N/A	N/A	13,042,790	N/A	13,042,790
<b>Total General PP&amp;E</b>			<b>\$ 1,068,024,181</b>	<b>\$ (865,492,865)</b>	<b>\$ 202,531,315</b>

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.

### Other Disclosures

The total Acquisition Value and total Accumulated Depreciation/Amortization value saw a significant decrease when comparing FY 2019 to FY 2018 due to the disposal of Software and General Equipment throughout the fiscal year. The disposal was for a variety of assets that were no longer in use such as legacy software replaced by other systems and had been fully depreciated and amortized.

## Note 5: Other Assets

As of September 30	2019	2018
<b>Intragovernmental Other Assets</b>		
Advances and Prepayments	\$ 1,642,024	\$ 1,078,091
<b>Total Intragovernmental Other Assets</b>	<b>\$ 1,642,024</b>	<b>\$ 1,078,091</b>
<b>Nonfederal Other Assets</b>		
Advances and Prepayments	\$ 5,353,935	\$ 4,949,540
<b>Total Nonfederal Other Assets</b>	<b>\$ 5,353,935</b>	<b>\$ 4,949,540</b>
<b>Total Other Assets</b>	<b>\$ 6,995,959</b>	<b>\$ 6,027,631</b>

## Note 6: Liabilities Not Covered by Budgetary Resources

As of September 30	2019	2018
<b>Intragovernmental Liabilities</b>		
Other	\$ 6,678,863	\$ 7,140,360
<b>Total Intragovernmental Liabilities</b>	<b>\$ 6,678,863</b>	<b>\$ 7,140,360</b>
<b>Nonfederal Liabilities</b>		
Other Federal Employment Benefits	\$ 29,411,878	\$ 32,199,186
Environmental and Disposal Liabilities	260,000	260,000
Other Liabilities	3,525,764	3,199,090
<b>Total Nonfederal Liabilities</b>	<b>\$ 33,197,642</b>	<b>\$ 35,658,276</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 39,876,505</b>	<b>\$ 42,798,636</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 154,332,869</b>	<b>\$ 145,136,774</b>
<b>Total Liabilities</b>	<b>\$ 194,209,374</b>	<b>\$ 187,935,410</b>

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. Refer to Note 7, Other Federal Employment Benefits, for additional details.

## Note 7: Other Federal Employment Benefits

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The Department of Labor annually determines the liability for future workers' compensation benefits, or better known as Federal Employees' Compensation Act. 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 at September 30, 2019, is \$29,411,878 and \$32,199,186 in FY 2018.

## Note 8: Environmental and Disposable Liabilities

As of September 30	2019	2018
Environmental Liabilities — Nonfederal		
Other Accrued Environmental Liabilities — Non-BRAC		
Asbestos	\$ 260,000	\$ 260,000
<b>Total Environmental Liabilities</b>	<b>\$ 260,000</b>	<b>\$ 260,000</b>

### Applicable Laws and Regulations for Cleanup Requirements

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

To clean up contamination, 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. 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

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 9: Other Liabilities

As of September 30	2019		
	Current	Noncurrent	Total
<b>Intragovernmental</b>			
FECA Reimbursement to the Department of Labor	3,209,045	3,469,818	6,678,862
Employer Contribution and Payroll Taxes Payable	10,290,294	0	10,290,294
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 13,499,339</b>	<b>\$ 3,469,818</b>	<b>\$ 16,969,157</b>
<b>Nonfederal</b>			
Accrued Funded Payroll and Benefits	\$ 96,574,841	\$ 0	\$ 96,574,841
Accrued Unfunded Annual Leave	3,525,764	0	3,525,764
Employer Contribution and Payroll Taxes Payable	1,383,681	0	1,383,681
<b>Total Nonfederal Other Liabilities</b>	<b>\$ 101,484,286</b>	<b>\$ 0</b>	<b>\$ 101,484,286</b>
<b>Total Other Liabilities</b>	<b>\$ 114,983,625</b>	<b>\$ 3,469,818</b>	<b>\$ 118,453,443</b>

As of September 30	2018		
	Current	Noncurrent	Total
<b>Intragovernmental</b>			
FECA Reimbursement to the Department of Labor	3,174,121	3,966,239	7,140,360
Employer Contribution and Payroll Taxes Payable	6,992,646	0	6,992,646
<b>Total Intragovernmental Other Liabilities</b>	<b>\$ 10,166,767</b>	<b>\$ 3,966,239</b>	<b>\$ 14,133,006</b>
<b>Nonfederal</b>			
Accrued Funded Payroll and Benefits	\$ 90,403,327	\$ 0	\$ 90,403,327
Accrued Unfunded Annual Leave	3,199,089	0	3,199,089
Employer Contribution and Payroll Taxes Payable	3,328,977	0	3,328,977
<b>Total Nonfederal Other Liabilities</b>	<b>\$ 96,931,393</b>	<b>\$ 0</b>	<b>\$ 96,931,393</b>
<b>Total Other Liabilities</b>	<b>\$ 107,098,159</b>	<b>\$ 3,966,239</b>	<b>\$ 111,064,399</b>

## Note 10: Operating Leases

As of September 30	2019		
	Asset Category		
	Land and Buildings	Equipment	Total
<b>Federal</b>			
Fiscal Year			
2020	\$ 28,021,873	\$ 1,309,417	\$ 29,331,290
2021	28,498,245	1,331,677	29,829,922
2022	28,982,715	1,354,316	30,337,031
2023	29,475,421	1,377,339	30,852,760
2024	29,371,497	1,400,754	30,772,251
After 5 Years	86,478,052	1,424,566	87,902,618
<b>Total Future Lease Payments Due</b>	<b>\$ 230,827,803</b>	<b>\$ 8,198,069</b>	<b>\$ 239,025,872</b>
<b>Non-Federal</b>			
Fiscal Year			
2020	\$ 165,393	\$ 0	\$ 165,393
2021	165,393	0	165,393
2022	0	0	0
2023	0	0	0
2024	0	0	0
After 5 Years	0	0	0
<b>Total Non-Federal Future Lease Payment</b>	<b>\$ 330,786</b>	<b>\$ 0</b>	<b>\$ 330,786</b>
<b>Total Future Lease Payments</b>	<b>\$ 231,158,589</b>	<b>\$ 8,198,069</b>	<b>\$ 239,356,658</b>

### Other Disclosures

DFAS does not have any capitalized leases. In order to estimate the future years' payments due, DFAS used the current Consumer Price Index (CPI) rate of 1.7%.

While all 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 11: Commitments and Contingencies**

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The Defense Finance and Accounting Service is not aware of any contingent liabilities for legal actions in FY 2019.



## Note 12: General Disclosures Related to the Statement of Net Cost

Fiscal Years Ended September 30	2019	2018
<b>Gross Cost</b>	\$ 1,531,646,260	\$ 1,483,173,131
<b>Less: Earned Revenue</b>	(1,420,303,894)	(1,393,737,524)
<b>Total Net Cost</b>	<b>\$ 111,342,366</b>	<b>\$ 89,435,607</b>

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. Addition-

ally, 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.

## Note 13: Disclosures Related to the Statement of Budgetary Resources

Fiscal Years Ended September 30	2019	2018
<b>Intragovernmental:</b>		
Unpaid	\$ 8,966,434	\$ 21,873,928
Prepaid/Advanced	1,642,024	373,759
<b>Total Intragovernmental</b>	<b>\$ 10,608,458</b>	<b>\$ 22,247,687</b>
<b>Nonfederal:</b>		
Unpaid	\$ 55,786,349	\$ 48,623,534
Prepaid/Advanced	5,353,935	5,653,871
<b>Total Nonfederal</b>	<b>\$ 61,140,284</b>	<b>\$ 54,277,405</b>
<b>Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period</b>	<b>\$ 71,748,742</b>	<b>\$ 76,525,092</b>

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, \$1,434,806,619 is classified as Reimbursable Apportionment Category B.

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 and Budgetary Resources (SF-133) at September 30, 2019, is performed. There are no differences between the SBR, the SF-133 and the Budget Program and Financing Schedule.

### 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

## Note 14: Reconciliation of Net Cost of Operations to Net Outlays

As of September 30	2019		
	Intragovernmental	With the public	Total
<b>Net Cost of Operations (SNC)</b>	\$ (891,767,176)	\$ 1,003,109,542	\$ 111,342,366
<b>Components of the Net Cost That are Not Part of Net Outlays</b>			
Property, plant, and equipment depreciation	\$ 0	\$ (31,926,214)	\$ (31,926,214)
Other	0	592,148	592,148
Increase (decrease) in assets:			
Accounts Receivable	(14,999,641)	92,192	(14,907,449)
Other assets	563,932	404,395	968,327
(Increase)/decrease in liabilities:			
Account payable	3,156,480	(4,783,302)	(1,626,822)
Salaries and benefits	(3,297,648)	(4,226,218)	(7,523,866)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	461,497	2,460,634	2,922,131
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed to the agency	(87,047,302)	0	(87,047,302)
<b>Total Components of Net Costs That Are Not Part of Net Outlay</b>	<b>\$ (101,162,682)</b>	<b>\$ (37,386,365)</b>	<b>\$ (138,549,047)</b>
<b>Components of Net Outlays That Are Not Part of Net Cost:</b>			
Acquisition of capital assets	6,442,863	9,898,143	16,341,006
<b>Total Components of Net Outlays That Are Not Part of Net Costs</b>	<b>\$ 2,280,359</b>	<b>\$ 14,060,647</b>	<b>\$ 16,341,006</b>
<b>Net Outlays</b>	<b>\$ (990,649,499)</b>	<b>\$ 979,783,824</b>	<b>\$ (10,865,675)</b>
<b>Agency Outlays, Net, Statement of Budgetary Resources</b>			<b>\$ (10,865,675)</b>
<b>Reconciling Differences</b>			<b>\$ 0</b>



## **SECTION III**



### **Other Information**

#### **TOPICS COVERED**

Glossary of Acronyms and Abbreviations

Notes Pages



# **Glossary of Acronyms and Abbreviations**



<b>Acronym</b>	<b>Description</b>
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
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
DCAA	Defense Contract Audit Agency
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
FECA	Federal Employee Compensation Act

FEGLI	Federal Employees' Group Life Insurance Program
FEHB	Federal Employee Health Benefits
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FERS-FRAE	FERS-Further Revised Annuity Employees
FERS-RAE	FERS-Revised Annuity Employee
FIAR	Financial Improvement and Audit Remediation
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
GFEBs	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
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
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SNC	Statement of Net Cost
SSAE-18	Standards for Attestation Engagements No. 18
SSN	Social Security Number
TFM	Treasury Financial Manual
TI	Treasury Index
Treasury	U.S. Department of Treasury
TSP	Thrift Savings Plan
U.S.C.	United States Code
US GAAP	U.S. Generally Accepted Accounting Principles
WCF	Working Capital Fund

## Notes



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## Notes

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Soldiers from the 1313th Engineer Company, Indiana National Guard.  
(DoD photo illustration by Eileen Hernandez)



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