UNITED STATES DEPARTMENT OF DEFENSE

AGENCY FINANCIAL REPORT

FISCAL YEAR 2018

Service members participate in a National POW/MIA Recognition Day ceremony at the Pentagon, Sept. 21, 2018

DoD photo by Army Sgt. Amber I. Smith

Department of Defense at a Glance

www.defense.gov

BRIEF HISTORY

- The Army, Navy, and Marine Corps were established in 1775, in concurrence with the American Revolution.
- The War Department was established in 1789, and was the precursor to what is now the Department of Defense.
- The Coast Guard (part of the Department of Homeland Security during peace time) was established in 1790.
- The Department of the Navy was established in 1798.
- The National Security Act of 1947 renamed the Department of War as the Department of the Army, created the Department of the Air Force, and unified command of the Military Departments under the "National Military Establishment" headed by a Secretary of Defense.
- The Department of Defense Reorganization Act of 1958 established the Combatant Commands.

MISSION

To provide the military forces needed to deter war and protect the security of our country.

HEADQUARTERS

The Department of Defense is headquartered at the Pentagon, located in Arlington, Virginia. The Pentagon is one of the world's largest office buildings – it has 17.5 miles of hallways, three times the floor space of the Empire State Building, and houses about 26,000 employees. For Pentagon Tour information, click ***here***.

EMPLOYEES

The Department of Defense is the country's largest employer, with more than 2.1 million Military Service members and over 770 thousand civilian employees.

For information on DoD Humanitarian Efforts, click ***here***.

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About the Department of Defense Agency Financial Report

The United States Department of Defense (DoD) Agency Financial Report (AFR) for Fiscal Year (FY) 2018 provides an overview of the Department's financial information as well as preliminary summary-level performance results. The AFR demonstrates to the Congress, the President, and the public the Department's commitment to its mission and to accountability and stewardship over the resources entrusted to it. This report satisfies the reporting requirements contained in the following legislation:

- Federal Managers' Financial Integrity Act (FMFIA) of 1982 – requires ongoing evaluations and reports of the adequacy of internal accounting and administrative controls;
- Chief Financial Officers (CFO) Act of 1990 – established the position of Chief Financial Officer and requires audited financial statements for each major executive agency;
- Government Management Reform Act (GMRA) of 1994 – delegates authority to the Director of the Office of Management and Budget to prescribe the form and content of the financial statements and to identify the components of executive agencies that will be required to have audited financial statements;
- Federal Financial Management Improvement Act (FFMIA) of 1996 – requires financial statement audits to assess the compliance of an agency's financial management systems with Federal requirements, Federal accounting standards, and the United States Government General Ledger;
- Reports Consolidation Act of 2000 – permits agencies to consolidate any statutorily required reports into a single annual report and requires certain information be contained in the consolidated report;
- Accountability of Tax Dollars Act (ATDA) of 2002 – expands the requirement for audited financial statements to additional executive agencies;
- Improper Payments Information Act (IPIA) of 2002, as amended by Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 – requires agencies to report on their efforts to identify, prevent, reduce, and recover improper payments;
- Fraud Reduction and Data Analytics Act of 2015 – requires agencies to report on progress in implementing financial and administrative controls related to fraud, identifying risks and vulnerabilities to fraud, and establishing steps to curb fraud;
- Grants Oversight and New Efficiency (GONE) Act of 2016 – requires agencies to report on federal grant and cooperative agreement awards which have not yet been closed out and for which the period of performance, including extensions, elapsed for more than two years, the challenges leading to delays in closeout, and progress made in closing out the awards.

Pursuant to Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, the Department produces two separate annual reports in lieu of a combined Performance and Accountability Report (PAR):

- An AFR, published in November 2018, which focuses primarily on financial results and a high-level discussion of performance results, and
- An Annual Performance Report (APR), published in February 2019, which details DoD strategic goals and performance measures and results.

The estimated cost of this report or study for the Department of Defense is approximately $324,000 in Fiscal Years 2018 – 2019. This includes $149,000 in expenses and $175,000 in DoD labor.

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Face of Defense:

Each section cover of this report features a picture from the "Face of Defense" news series available on Defense.gov.

Each "Face of Defense" news feature highlights a personal story behind the people who serve our nation.

For their full story, click the icon.

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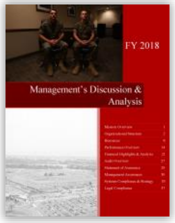
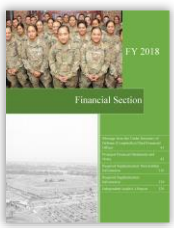
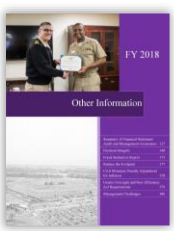


MANAGEMENT'S DISCUSSION & ANALYSIS

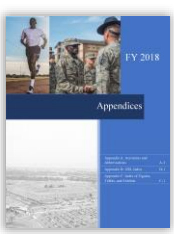
The Management's Discussion and Analysis (MD&A) section provides a high-level overview of the Department's programmatic and financial performance. This section includes a summary of the Department's mission and structure, the current status of financial management systems, compliance with laws and regulations, and management assurances regarding internal controls.



FINANCIAL SECTION



OTHER INFORMATION



APPENDICES

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MESSAGE FROM THE SECRETARY OF DEFENSE

November 15, 2018

On behalf of our nation's sentinels serving at home and around the world, I am honored to present the Department of Defense Agency Financial Report for FY 2018. This report provides the President, Congress, and the American people with information on the taxpayer resources entrusted to the Department in FY 2018, as well as the means to assess our management of those resources, our accomplishments, challenges, and vision for the future.

Our mission at the Department of Defense is to provide the combat-credible military forces needed to deter war and to ensure our national security. Should deterrence fail, the Joint Force is prepared to win. Reinforcing America's traditional tools of diplomacy, the Department provides military options so the President and our diplomats always negotiate from positions of strength.

To guide our efforts, we released our new National Defense Strategy in January 2018, which implements the pillars of the President's National Security Strategy – Protect the American People, the Homeland, and the American Way of Life; Promote American Prosperity; Preserve Peace through Strength; and Advance American Influence. In support of these pillars, the National Defense Strategy pursues three distinct lines of effort – rebuilding military readiness as we build a more lethal Joint Force, strengthening alliances as we attract new partners, and reforming the Department's business practices for greater performance and affordability. The Management's Discussion and Analysis section of this report provides additional information on the alignment of our efforts this year with the National Defense Strategy.

The Department underwent its first full-scope financial statement audit in FY 2018. As expected, the audit resulted in a Disclaimer of Opinion and multiple material weaknesses. The findings and recommendations of the auditors provide us with invaluable information that will help us target and prioritize corrective actions. The Management's Discussion and Analysis section of this report provides my Statement of Assurance, which outlines the Department's assessment of material weaknesses and compliance with relevant laws and regulations. The Financial Section of this report provides the independent auditor's report, which details the results of the audit.

While we acknowledge the progress accomplished this year, we recognize that opportunities for continued improvement exist, and we embrace the challenges we must overcome. We worked closely with the Office of Inspector General to gain its perspective on our most serious management and performance challenges based on it its oversight work, research, and judgment. The Other Information section of this report provides the Office of Inspector General summary statement on the top ten challenges facing the Department. Our civilian employees and Military Service members are committed to working diligently to address and mitigate the concerns outlined. Bottom line: We are devoted to fixing every problem revealed by the first ever department-wide audit, building trust in our compact with the American people.

We in the Department of Defense are grateful to the Congress for its support and investment in us, which has allowed us to continue our vital work in protecting the American people and our interests.

James N. Mattis

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FY 2018

Management's Discussion & Analysis

Face of Defense: Marines React, Save Lives During Las Vegas Tragedy

For the full article, click icon

Mission Overview

The enduring mission of the Department of Defense (DoD or the Department) is to provide the military forces needed to deter war and to protect the security of our country. The Department is committed to ensuring the United States (U.S.) military remains the best prepared and most lethal warfighting force in the world, and that the President and American diplomats negotiate from a position of strength. Should deterrence fail, the U.S. military is prepared to fight and win.

Today, the U.S. faces an increasingly dynamic and unpredictable security environment characterized by a decline in the long-standing free and open international order that was established following World War II. Long-term strategic competition with China and Russia has re-emerged as a central challenge to U.S. prosperity and security as these nations seek to apply their authoritarian model abroad. Nearly two decades of conflict have left the U.S. with narrowing military advantages that, if left unchecked, will undermine the ability to deter aggression and coercion. Rapid advances in commercial technologies such as big data analytics, artificial intelligence, robotics, and additive manufacturing (e.g., 3D printing) present both important opportunities as well as threats and will shape the character of future wars. Additionally, non-state actors and rogue regimes remain a concern, enabled by increasingly sophisticated capabilities.

Marines set up perimeter security around a V-22 Osprey aircraft after conducting fast-roping during vertical insertion during Exercise Forest Light at Camp Sendai, Sendai, Japan, Feb. 19, 2018.

Marine Corps photo by Lance Cpl. Damion Hatch Jr.

In response to this complex global security environment, the Department developed a new National Defense Strategy ([NDS]) in January 2018. The NDS builds on the December 2017 *National Security Strategy*, and provides a thorough examination of the U.S. military's capabilities, capacity, posture, and readiness as well as articulates an effective strategy to address global security challenges and to provide for the common defense. The NDS now serves as the key strategic document driving the Department's priorities, investments, and programmatic decisions along three distinct lines of effort:

- Rebuilding military readiness and building a more lethal Joint Force,
- Strengthening alliances and attracting new partners, and
- Reforming the Department's business practices for greater performance and affordability.

With the congressional support provided by the *Bipartisan Budget Act of 2018*, the National Defense Authorization Act *(NDAA) for Fiscal Year (FY) 2018*, and the *DoD Appropriations Act of 2018*, the Department will receive the funds needed to implement the NDS and begin rebuilding the U.S. military's competitive advantage. Through the use of creative approaches, sustained investments, and disciplined execution in the field, the Department will foster a dominant Joint Force that can compete, deter, and win in this increasingly complex security environment.

Organizational Structure

The Department maintains and, when directed, uses armed forces to support and defend the Constitution; protect the security of the United States, its possessions, and areas vital to its interests; and deter war. In this era of inter-state strategic competition (e.g., from China and Russia), the DoD mission requires a lethal, resilient, and rapidly innovating Joint Force; strong relationships with allies and partners; and continued efforts to reform the Department's business practices for performance and affordability.

The Department is one of the nation's largest employers, with approximately 1.3 million personnel in the Active Component, nearly 800,000 personnel serving in the National Guard and Reserve forces, and approximately 770,000 civilians. DoD Military Service members and civilians operate globally and in all domains, including air, land, sea, space, and cyber space. In carrying out the Department's mission to protect national security, Military Service members operate approximately 15,700 aircraft and over 280 Battle Force ships.

A U.S. Air Force B-52 Stratofortress, F-15C Eagles and Moroccan air force F-16s fly in a formation in skies over Morocco, April 20, 2018, during African Lion, a U.S.-Moroccan military exercise.

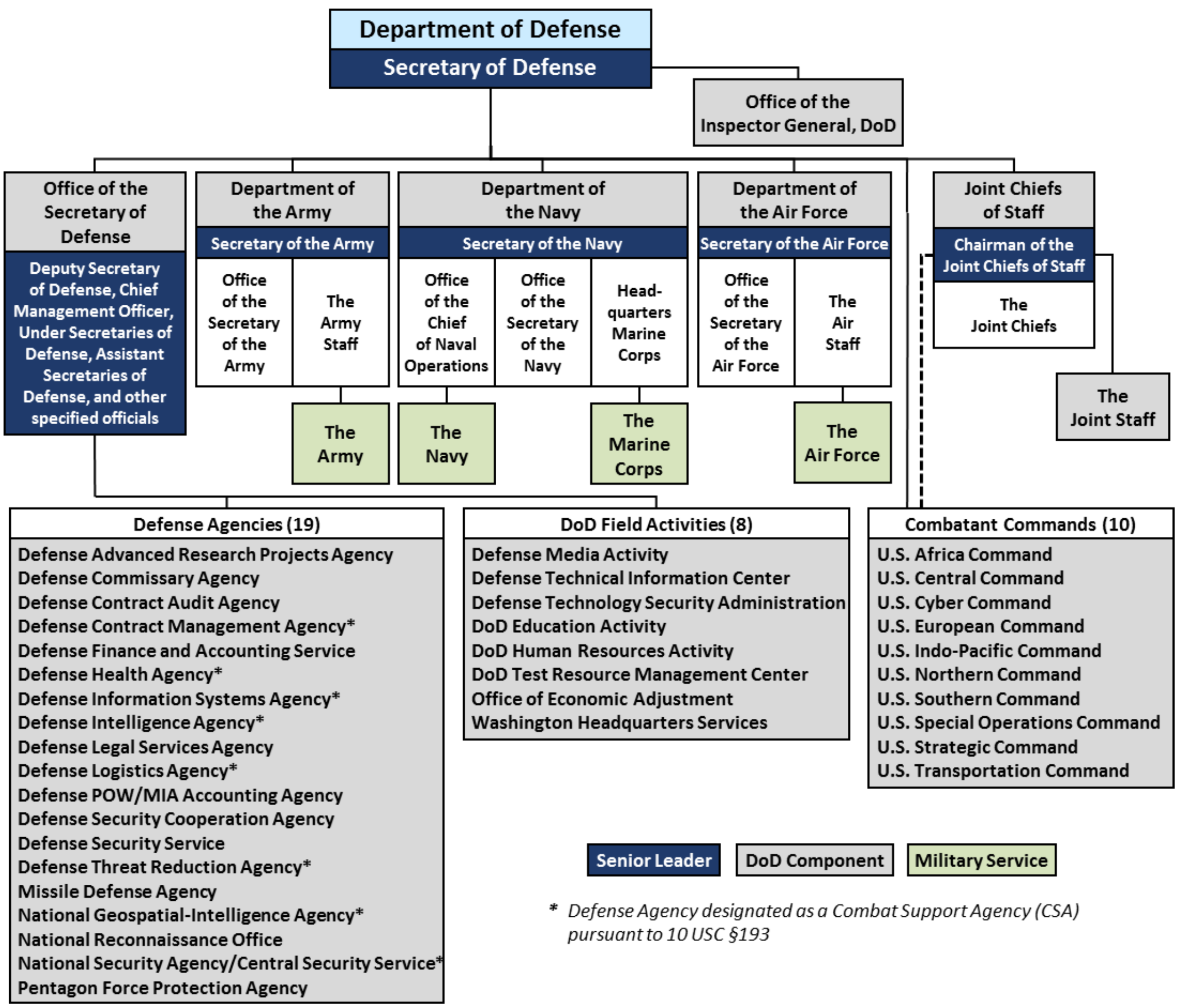
Air Force photo by Senior Airman Malcolm Mayfield

The Department manages a worldwide real property portfolio that spans all 50 states, U.S. territories, and many foreign countries. The Department's real property infrastructure includes more than 585,000 facilities (buildings and structures) located on more than 4,700 sites worldwide. These sites represent nearly 26.9 million acres that individually vary in size from training ranges with over 3.5 million acres, such as the *White Sands Missile Range*, to single weather towers or navigational aids isolated on sites of less than one one-hundredth (0.01) of an acre. Only about 33 percent of the land managed by the Department is held in fee interest (i.e., owned by the U.S. Government) with the remainder controlled through other legal means, such as leases, licenses, permits, public land orders, treaties, and agreements. Beyond the mission-specific areas of installations, such as runways, training areas, and industrial complexes, DoD installations also contain many types of facilities and operations found in municipalities or on university campuses, such as hospital and medical facilities, public safety facilities, community support complexes, housing and dormitories, dining facilities, religious facilities, utility systems, and roadways.

The Secretary of Defense is the principal assistant and advisor to the President in all matters relating to the Department, and exercises authority, direction, and control over the Department, in accordance with title 10, United States Code, section 113(b) (10 U.S.C. §113(b)). The Department is composed of the Office of the Secretary of Defense; Joint Chiefs of Staff; Joint Staff; DoD Office of the Inspector General; Military Departments; Defense Agencies; DoD Field Activities; Combatant Commands; and other offices, agencies, activities, organizations, and commands established or designated by law, the President, or the Secretary of Defense (see Figure 1).

The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands. The Chairman of the Joint Chiefs of Staff functions within the chain of command by transmitting the orders of the President and the Secretary of Defense to the Commanders of the Combatant Commands.

Figure 1. Department of Defense Organizational Structure

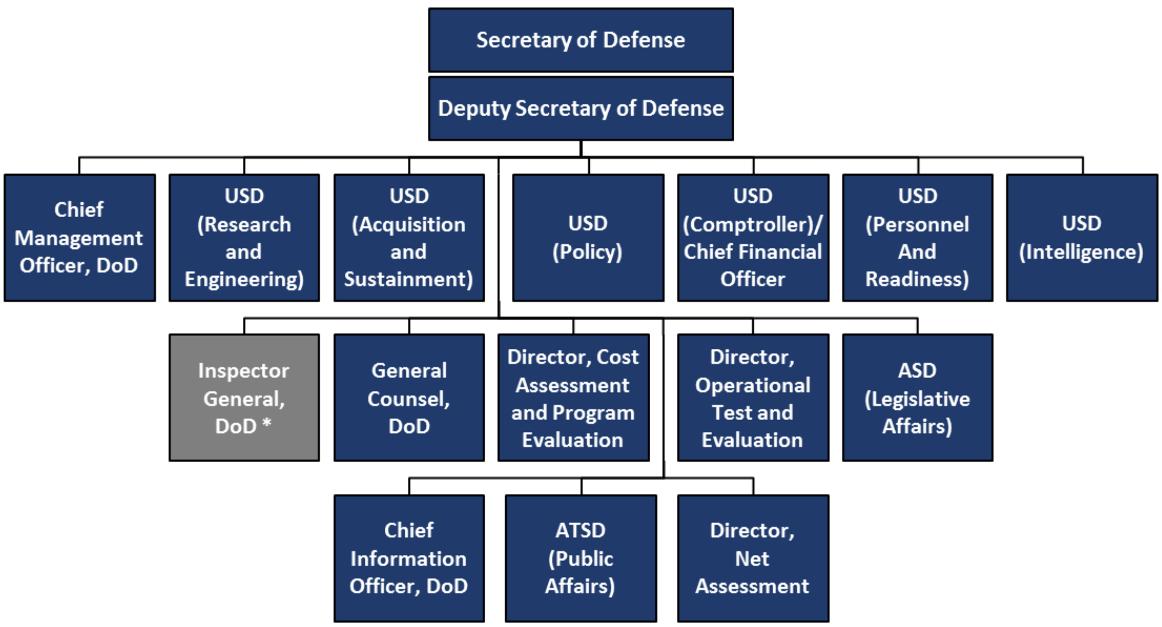


Office of the Secretary of Defense

The function of the Office of the Secretary of Defense (OSD) is to assist the Secretary of Defense in carrying out his duties and responsibilities as prescribed by law. The OSD is composed of the Deputy Secretary of Defense, who also serves as the Chief Operating Officer of the DoD; the Chief Management Officer (CMO) of the DoD; the Under Secretaries of Defense (USDs); the General Counsel (GC) of the DoD; the Assistant Secretaries of Defense (ASDs); the Inspector General of the DoD; and other staff offices within OSD established by law or by the Secretary of Defense.

The OSD Principal Staff Assistants are responsible for the oversight and formulation of defense strategy, policy, and resource allocation, as well as for overseeing and managing the Defense Agencies and DoD Field Activities (Figure 2) under their purview.

Figure 2. Office of the Secretary of Defense Principal Staff Assistants



* *Although the Inspector General, DoD is statutorily part of OSD and is under the general supervision of the Secretary of Defense, the **Office** of the Inspector General functions as an independent and objective unit of the DoD*

The Joint Chiefs of Staff and the Joint Staff

The Joint Chiefs of Staff (JCS), supported by the Joint Staff under the direction of the Chairman, constitute the immediate military staff of the Secretary of Defense. The JCS consist of the Chairman (CJCS), the Vice Chairman (VCJCS), the Chief of Staff of the Army (CSA), the Chief of Naval Operations (CNO), the Chief of Staff of the Air Force (CSAF), the Commandant of the Marine Corps (CMC), and the Chief of the National Guard Bureau (CNGB). The JCS function as the military advisors to the President, the National Security Council, the Homeland Security Council, and the Secretary of Defense.

Office of the Inspector General

The DoD Office of the Inspector General (*DoD OIG*) is an independent unit within the Department that conducts and supervises audits and investigations relating to the Department's programs and operations. The DoD Inspector General serves as the principal advisor to the Secretary of Defense on all audit and criminal investigative matters relating to the prevention and detection of fraud, waste, and abuse in the programs and operations of the Department.

Military Departments

The Military Departments consist of the Departments of the *Army*, the *Navy* (of which the *Marine Corps* is a component), and the *Air Force*. Upon the declaration of war, if Congress so directs in the declaration or when the President directs, the *Coast Guard* becomes a special component of the Navy; otherwise, it is part of the *Department of Homeland Security*. The Army, Navy, Marine Corps, Air Force, and Coast Guard are referred to as the Military Services. The three Military Departments organize, train, and equip the four Military Services (or five when including the Coast Guard). These trained and ready forces are assigned or allocated to a Combatant Command responsible for maintaining readiness to conduct military operations.

The Military Departments include both Active and Reserve Components. The Active Component is composed of units under the authority of the Secretary of Defense, manned by active duty Military Service members. The Reserve Component includes the *National Guard* and the Reserve Forces of each Military Service (Figure 3). The National Guard, which has a unique dual mission with both federal and state responsibilities, can be called into action during local, statewide, or other emergencies (such as storms, drought, civil disturbances) and in some cases to support federal purposes for training or other duty (non-federalized service) when directed by the governor of each State or territory.

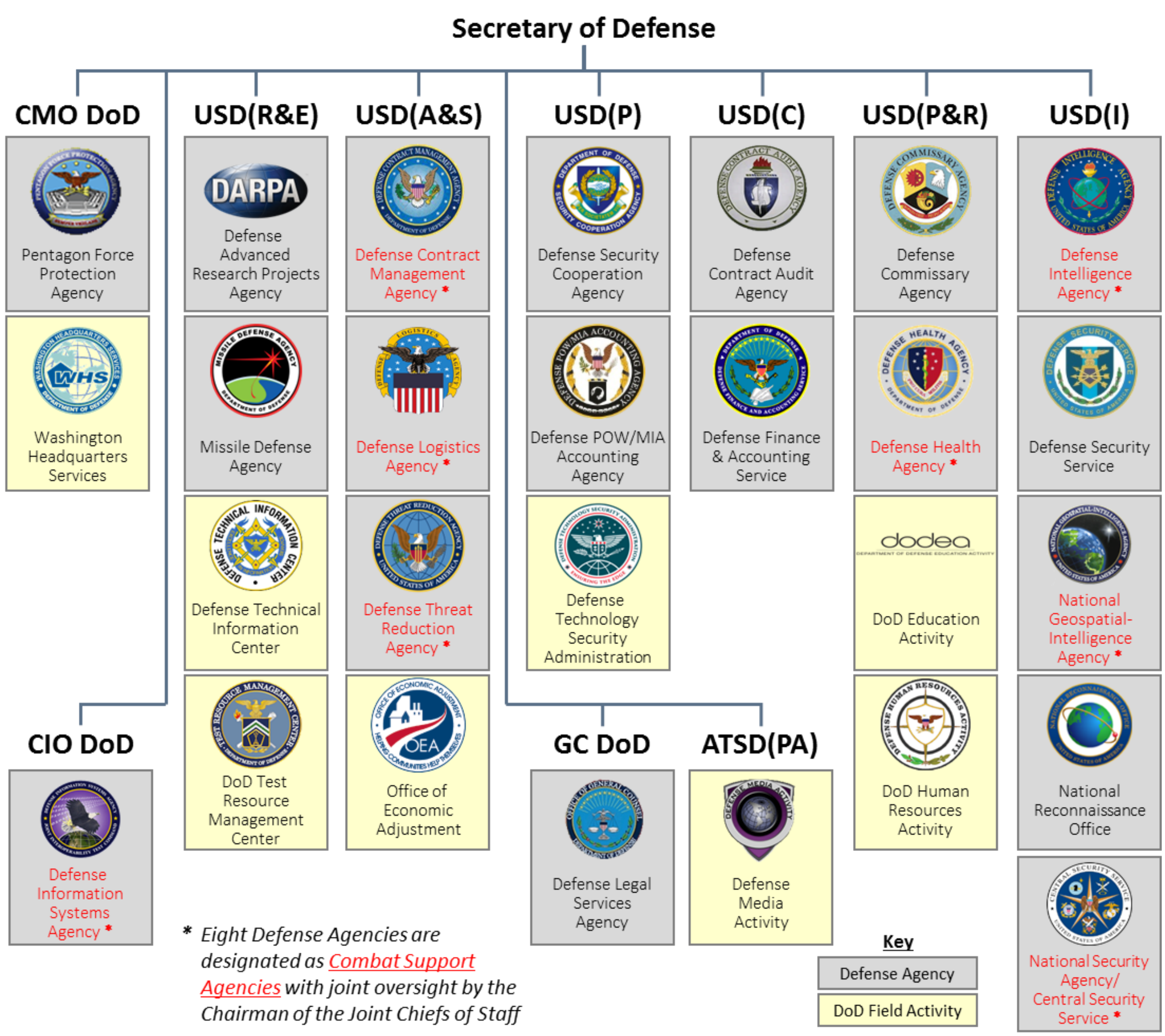
When ordered to active duty for national emergencies or other events, units of the National Guard or Reserve Forces of the Military Services are placed under operational control of the appropriate Combatant Commander or provide support to a Military Service. The National Guard and Reserve Forces are recognized as indispensable and integral parts of the Nation's defense and fully part of the applicable Military Department.

Figure 3. Reserve Components – Reserve and National Guard

Defense Agencies and DoD Field Activities

Defense Agencies and DoD Field Activities (Figure 4) are established as DoD Components by law, the President, or the Secretary of Defense to provide, on a Department-wide basis, a supply or service activity common to more than one Military Department when it is more effective, economical, or efficient to do so. Although both Defense Agencies and DoD Field Activities fulfill similar functions, the former tend to be larger, normally provide a broader scope of supplies and services, and can be designated as Combat Support Agencies to support the Combatant Commands directly. Each of the 19 Defense Agencies and 8 DoD Field Activities operate under the authority, direction, and control of the Secretary of Defense through an OSD Principal Staff Assistant.

Figure 4. Defense Agencies and DoD Field Activities



Combatant Commands

The Commanders of the Combatant Commands (Figure 5) are responsible for accomplishing the military missions assigned to them. Combatant Commanders exercise command authority over assigned and allocated forces, as directed by the Secretary of Defense. The operational chain of command runs from the President to the Secretary of Defense to the Commanders of the Combatant Commands. The CJCS functions within the chain of command by transmitting the orders of the President or the Secretary of Defense to the Commanders of the Combatant Commands.

The U.S. Cyber Command (*USCYBERCOM*), U.S. Special Operations Command (*USSOCOM*), U.S. Strategic Command (*USSTRATCOM*), and U.S. Transportation Command (*USTRANSCOM*) are functional Combatant Commands, each with unique functions as directed by the President in the Unified Command Plan. Among Combatant Commands, the USSOCOM has additional responsibilities and authorities similar to a number of authorities exercised by the Military Departments and Defense Agencies, including programming, budgeting, acquisition, training, organizing, equipping, and providing Special Operations Forces (SOF), and developing SOF's strategy, doctrine, tactics, and procedures. The USSOCOM is reliant upon the Military Services for ensuring combat readiness of the forces assigned to it.

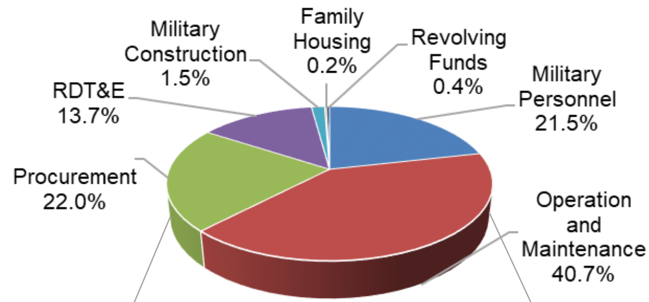
In addition to supplying assigned and allocated forces and capabilities to the Combatant Commands, the Military Departments provide administrative and logistics support by managing the operational costs and execution of these commands.

Figure 5. Combatant Commands

Resources

The DoD FY 2018 budget was the first full budget from the new administration and provided increases above the cap formally imposed by the *Budget Control Act of 2011*. The increases in the FY 2018 budget continued the progress began by the *FY 2017 Request for Additional Appropriations* in addressing warfighting readiness shortfalls and restoring program imbalances caused by the budget cuts of previous fiscal years. In FY 2018, the Department had discretionary budget authority of $670.6 billion; Figure 6 displays FY 2018 DoD budget authority by appropriation category. The Department's three lines of effort outlined in the NDS (rebuilding military readiness and a more lethal Joint Force, strengthening alliances, and reforming business practices) were further supported and sustained through the programs and resources provided for in the FY 2018 budget.

Figure 6. FY 2018 DoD Budget Authority



Budget by Appropriation	*$ in Billions*
Operation and Maintenance	$273.2
Procurement	147.4
Military Personnel	144.0
RDT&E	91.7
Military Construction	10.4
Revolving Funds	2.5
Family Housing	1.4
Total	**$670.6**

Appropriation Categories

Operation and Maintenance – The FY 2018 budget featured major programmatic increases, including increased readiness funding for the Military Departments' efforts to increase the frequency and quality of individual and collective training, and improve home station and depot maintenance of weapons systems and platforms. Additional benefits were realized from the increases in this category:

- Army increased flying hours and undergraduate flight training for pilot certification;
- Navy focused heavily on hiring and training its workforce in support of ship depot maintenance and improving flight-line aircraft readiness;
- Air Force invested in building their maintenance capability for the F-22 and F-35 aircraft as well as other platforms, and also made prudent investments in their training infrastructure, allowing for more institutional pilot training;
- Defense-wide activities increased their ability to validate, award, and audit contract actions, and also sustained family assistance programs in the most critical locations.

Procurement – The FY 2018 budget provided for the acquisition of equipment including unmanned aerial systems, air and missile defense systems across the operational force, additional aircraft to replace combat-worn strike fighters, ammunition, spare parts for existing equipment to maintain combat readiness, and individual personal protective gear to support the warfighter. Additionally, the budget provided the Navy with necessary funding for the procurement of two Arleigh Burke-class guided missile destroyers and three littoral combat ships. The increased funding in FY 2017 and FY 2018 has allowed for increased rates of procurement for new and replacement weapons systems, resulting in accelerated transition timelines from legacy platforms and increased lethality and efficiency across the Military Services.

Military Personnel – The FY 2018 budget provided for increases of over 20,000 in end strength levels across all of the Military Services. The increased end strength is designed to restore a larger, more capable, and more lethal force to defeat emerging regional and global peer adversaries while addressing critical shortfalls in pilot and maintenance personnel and targeting special skills like those required for special operations, intelligence operations, electronic information, and cyber warfare. Appropriations in this category also supported the implementation of the new *Blended Retirement System*, which makes substantial changes to the military retirement system by adding a defined contribution *Thrift Savings Plan* component – allowing the roughly 80 percent of Military Service members who serve for less than 20 years to accrue a retirement benefit that transitions with them.

Research, Development, Test, and Evaluation (RDT&E) – The FY 2018 budget provided funding for basic research and development efforts to ensure the U.S. maintains its technological edge, including the development of tools required by the USCYBERCOM Cyber Mission Force to accomplish its mission (see the *DoD Cyber Strategy* for more information). Additional funds were also provided for enhanced missile defense and the space enterprise along with other increases across the research and development arena.

Military Construction – The FY 2018 budget included funding for the improvement of existing infrastructure as well as for the construction of new facilities for operational and training needs, barracks, and other buildings to support the DoD mission around the world. Appropriations in this category also included funding for European reassurance and deterrence initiatives (e.g., *Operation Atlantic Resolve*). In addition, Congress appropriated over $700 million to repair or replace DoD facilities in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands that were damaged or destroyed by hurricanes Harvey, Irma, and Maria.

Revolving Funds – This category of the FY 2018 budget included direct appropriations to the Defense Commissary Agency that supported its commissary operations, including the cost of operating the commissaries, headquarters operations, and field operating activities.

Family Housing – The FY 2018 budget provided funding for the construction of new housing, improvements to existing housing units, operation and maintenance of government-owned housing, and the leasing of housing facilities. Significant family housing construction efforts in FY 2018 include the Army's projects at Camp Humphreys, South Korea and South Camp Vilseck, Germany, as well as the Navy's project in Guam.

Puerto Rico Army Reservists, Coast Guard Investigative Service agents, Coast Guard Tactical Law Enforcement team members, Puerto Rico Treasury Department agents and a Puerto Rico Ports Authority agent deliver food and water to those affected by Hurricane Maria in the mountains around Utuado, Puerto Rico, Oct. 12, 2017.

Air Force photo by Master Sgt. Joshua L. DeMotts

Rebuilding Military Readiness and Building a More Lethal Joint Force

Prioritizing Preparedness for War

In line with the NDS, the FY 2018 budget provided funding to support fielding sufficient, capable forces that are prepared to defeat enemies and achieve sustainable outcomes that protect the American people as well as the Nation's vital interests. The Department identified goals and metrics to gauge progress toward increasing warfighting readiness, which focuses on rebuilding individual Military Service readiness while also developing collective and joint capabilities.

Each Military Service has unique requirements for meeting its readiness goals, which are focused on similar objectives – training, equipment, sustainment, and installations. Readiness improvements enabled by the FY 2018 budget include:

- Army increased use of Combat Training Centers and home station training to help develop crucial anti-access and area-denial capabilities for full-spectrum warfare;
- Navy increased funding to its Ship Maintenance program, enabling the reduction of the backlog of previously deferred maintenance while executing the requirement for current scheduled maintenance;
- Air Force optimization of the Flying Hours Program and investment in rebuilding home station high-end training, which resulted in a reduced deployment-to-dwell ratio; and
- Marine Corps funded Integrated Combined Arms Exercises for all elements of the Marine Air-Ground Task Forces to recover full-spectrum readiness and maintain its role as the Nation's crisis response force.

The FY 2018 budget also included funding for the Combatant Command Exercise and Engagement and Training Transformation program to support the development of Military Service and Combatant Command joint capabilities and training to meet wartime requirements. These events improve the readiness of the force to conduct joint operations, highlight U.S. capabilities, deter potential adversaries, and build partner capacity. The funding provided supports over 100 major exercises annually that prepare U.S. forces to execute operational plans, train the Combatant Command staffs, provide presence and regional expertise to U.S. allies and partners, and build relationships and trust.

Modernizing Key Capabilities

The FY 2018 budget addressed resource gaps in the capabilities, readiness, and capacity needed to project power globally in contested environments, while emphasizing preparedness for future high-end security challenges. The Department must be able to address near-term threats while maintaining competitive military advantages in the future, particularly through anti-access and area denial capabilities, systems, and corresponding strategies. The increased funding in the FY 2018 budget was invested in advanced capabilities to reassert a technological edge over potential future adversaries, while shifting emphasis toward a more surge-capable posture for warfighting.

The Department's FY 2018 RDT&E Program is focused on efforts that advance the technical superiority of the U.S. military's ability to counter new and emerging threats. These areas include early-stage research and development; prototyping for technology incubation and transition; repurposing commercial and non-traditional technologies; advanced manufacturing techniques; technology demonstrations; and technology experimentation. The Department's FY 2018 budget for the Science and Technology program of $13.2 billion, a 5.6 percent increase over FY 2017, included a *Basic Research* program of $2.2 billion and the Defense Advanced Research Projects Agency (*DARPA*) budget of

$3.1 billion to develop technologies for revolutionary, high-payoff military capabilities. The Department's increased efforts in prototyping under the RDT&E Advanced Component Development and Prototype program and the System Development and Demonstration program will help drive down technical risk; gain warfighter feedback to better inform requirements; and ensure that concepts going forward into acquisition programs provide the needed capability and are timely, robust, and affordable. In addition, the Department is addressing the erosion of technological superiority by identifying and investing in innovative technologies and processes to sustain and advance America's military dominance.

The FY 2018 budget additionally enabled the Department to enhance the ability of its forces to operate in a cyber-contested environment through the fielding of 133 Cyber Mission Force teams. The Department has three primary missions in cyberspace: defend DoD networks, systems, and information; defend the U.S. and its interests against cyber-attacks of significant consequence; and provide Combatant Commands with integrated cyber capabilities to support military operations and contingency plans.

Strengthening Alliances

The Department's FY 2018 budget included $65.9 billion of Overseas Contingency Operations (OCO) funds (not including $5.8 billion in Emergency Supplemental funds) primarily to conduct Operation Freedom's Sentinel in Afghanistan, Operation Inherent Resolve in Iraq and Syria, increasing efforts to support European allies and deter aggression, and global counterterrorism operations. The budget provided for several activities including maintaining a U.S. presence to train, advise, and assist Afghan security forces as well as support counterterrorism efforts in Afghanistan; sustain personnel forward-deployed to the Middle East to conduct operations to defeat the Islamic State of Iraq and Syria (ISIS); building the capacity of the Iraqi security forces and Syrian opposition forces to counter ISIS in support of the U.S. comprehensive regional strategy; and enhancing U.S. assurance and deterrence activities in Eastern Europe to support North Atlantic Treaty Organization (*NATO*) allies and partners and deter aggressive actions.

UNDISCLOSED LOCATION, Iraq (Nov. 27, 2017) – U.S. Marines deployed in support of Combined Joint Task Force- Operation Inherent Resolve pose with Iraqi service members in Iraq. CJTF - OIR is the global Coalition to defeat ISIS in Iraq and Syria. Marines deployed in support of CJTF-OIR advice and assist Iraqi Security Forces as they liberate the country from ISIS.

U.S. Marine Corps photo by Capt. Christian Lopez

Reforming the Department's Business Practices

As outlined in the NDS, the Department is committed to reforming its business practices and maintaining its responsibility to gain full value from every taxpayer dollar entrusted to it. Reform effort focus areas include acquisition reform, infrastructure and support activity reform, the Department's audit remediation initiatives, and cost accounting.

Acquisition reform in FY 2018 was mainly focused on the disestablishment of the Under Secretary of Defense for Acquisition, Technology, and Logistics; and the establishment of the Under Secretary of Defense for Research and Engineering and the Under Secretary of Defense for Acquisition and Sustainment, as enacted by the *NDAA for FY 2017*. Additionally, FY 2018 reforms included the use of cross-functional teams to improve effectiveness and maximize efficiencies across the Department with a focus on systems ownership cost and lifecycle management.

The FY 2018 budget included infrastructure and support activity reform efforts with a focus on business practices in the Fourth Estate (i.e., OSD, Defense Agencies, and DoD Field Activities) that were intended to provide immediate results as well as to improve the way the Department does business in the future. These included implementation of a policy requiring that the Office of the CMO approve any Fourth Estate business information technology (IT) investment of $1 million over the projected amount reflected in the Future Years Defense Program.

The Department's audit remediation initiatives result from its efforts to achieve compliance with the *Chief Financial Officers Act of 1990* and to support annual full-scope financial statement audits, the first of which took place in FY 2018. The focus of the audit remediation efforts is on improving the quality and timeliness of financial information through sustaining reliable and well-controlled business processes. The ongoing audits will provide valuable feedback that enhances the Department's efforts to improve systems, processes, and internal controls across the organization. The Department is also developing processes and procedures to collect financial data to provide increased insight into the cost of operations and relationship to the mission. To support this effort the Department established the Cost Decision framework, which leverages commercial best practices adapted to DoD operations and will serve as the authoritative source for enterprise-level cost information.

Balancing FY 2018 Resources

The Military – Active, Reserve, and National Guard – and Civilian personnel are the foundation of the Department and constitute its premier asset. As such, they must have the full support of the Nation and the Department to ensure that they successfully accomplish the arduous mission of defending the U.S. and its interests. The Department's commitment to a generous compensation package for those individuals willing to serve their country voluntarily is supported by the FY 2018 budget.

Combined, military and civilian personnel costs comprise roughly one third of the Department's budget. The Department is vigilant in its efforts to ensure that these costs are appropriately balanced against the Department's strategic goals. Specifically, the Department cannot allow its personnel costs to crowd out investments in readiness and modernization that are essential to providing the training and equipment needed to accomplish the vast array of missions undertaken around the globe. Balancing resources is essential as the Department reshapes the forces needed to remain effective in today's complex security environment, while providing a robust pay and benefits package which must be sustained in order to execute the NDS.

To meet the needs of its diverse workforce and mission set, the Department's FY 2018 efforts included a focus on developing cost savings through improved management of military compensation and managing the military compensation increases in basic pay, implementing the *TRICARE* Modernization Plan, strengthening military families, and supporting DoD civilians. The Department also manages the Military Health System (*MHS*), a complex system that incorporates health care delivery, medical education, public health, private sector partnerships, and cutting edge medical research and development. The MHS provides health care for 9.4 million eligible beneficiaries including all Military Service members, retirees and their families, dependent survivors, and certain eligible Reserve Component members and their families.

Sailors operate on a patient aboard the hospital ship USNS Comfort in the Caribbean Sea near San Juan, Puerto Rico, Oct. 18, 2017, while supporting Hurricane Maria relief efforts.

Navy photo by Petty Officer 2nd Class Stephane Belcher

Against the backdrop of a competitive military compensation and health benefit package, the Department has done a significant amount of work to explore how it can balance the rate of growth in military pay, benefit costs, and individual compensation incentives in a way that is both responsible and fair. Caring for the Department's people remains a top priority for the Department.

The military life cycle is complex, dynamic, and key to military readiness. The Department must attract nearly 250,000 qualified new recruits to replenish the military workforce each year. However, nearly two decades of conflict have taken a toll on the military forces. Multiple deployments with less respite between them, extensive use of the Guard and Reserves, and force reductions have all contributed to a more complex and demanding environment. Declining budgets made it harder to reset the Joint Force while sustaining the readiness needed for requirements such as deterring ISIS. The increased resources received in FY 2017 and FY 2018 have begun to reverse those trends and have measurably increased readiness and lethality.

Also vital to readiness and lethality is the DoD civilian workforce, who help sustain the viability and capabilities of the Joint Force by providing a wide range of services including logistics and supply chain management, financial management, human resource management, cyber defense and IT management, health care management, and community services. Properly leveraging the right mix of Military Service members (in both the Active and Reserve Components), civilian personnel, and contract support is fundamental to ensuring efficient and effective execution of the DoD mission. The Department continues to assess and adjust this personnel mix, as necessary, and reinvests cost savings into force readiness and modernization efforts.

Performance Overview

As stated in the NDS, the Nation must focus on fielding a larger, more capable, and more lethal Joint Force to protect the American people and U.S. vital interests. To support this, the Department is dedicated to reforming its business operations for greater effectiveness and efficiency, thus freeing up funds for higher priority warfighting requirements. The FY 2018 – FY 2022 National Defense Business Operations Plan (*NDBOP*) addresses each of the lines of effort established in the NDS from a business operations and support perspective, and is aligned and structured to contribute directly to NDS priorities. The NDBOP fulfills requirements of the Government Performance and Results Act of 1993 (*GPRA*), the GPRA Modernization Act of 2010 (*GPRAMA*), and the Office of Management and Budget (*OMB*) *Circular No. A-11*. The NDS and the NDBOP focus on tracking performance goals and measures that support achievement of the Department's major lines of effort to:

- Rebuild military readiness and build a more lethal Joint Force;
- Strengthen alliances and attract new partners; and,
- Reform the Department's business practices for greater performance and affordability.

This section provides an overview of performance results through Quarter 3, FY 2018, based on the *FY 2019 Annual Performance Plan* (which covers the FY 2018 budget execution year). Complete FY 2018 performance results will be published in the *Annual Performance Report* section of the Department's FY 2020 President's Budget Request in February 2019 which will be available on the Office of the Chief Management Officer's website at *https://cmo.defense.gov*.

A soldier hoists a battle axe in the air to mark the finish line for paratroopers as they finish a 2.2-mile run and prepare their weapons for simulated battle during training in Italy, April 4, 2018.

Army Photo by Lt. Col. John Hall

Rebuilding Military Readiness and Building a More Lethal Joint Force

Improving the Ability to Measure, Assess, and Understand Readiness

On May 30, 2018, the Under Secretary of Defense for Personnel and Readiness (USD(P&R)) submitted a 45-Day Readiness Review to the Deputy Secretary of Defense in accordance with the requirements of the Defense Planning Guidance. At the June 2018 meeting of the Readiness Management Group, the existing Readiness Recovery Framework (R2F) metrics were revalidated and aligned to the findings of the 45-Day Readiness Review. The Readiness Management Group will monitor, assess, and manage readiness recovery progress moving forward. The Readiness Management Group is also responsible for continued validation, refinement, and updates to the R2F as well as reporting on progress to the Deputy Secretary of Defense, Secretary of Defense, and Congress.

The metrics identified in the R2F measure the Military Services' progress towards rebuilding warfighting readiness by tracking key programs such as personnel accessions and retention, training, equipment availability, and maintenance shortfalls. Each metric is tailored to a specific challenge and readiness inhibitor and is designed to be a leading indicator of larger, systemic readiness recovery.

Improving Cybersecurity

Improving Cybersecurity – This effort consists of three focus areas: ensuring strong authentication, hardening devices, and reducing the attack surface within the cybersecurity domain. Performance measures related to these focus areas are measured across all DoD Components on a regular basis and are reported to OMB quarterly in accordance with OMB *Memorandum M-18-02* and the Federal Information Security Modernization Act of 2014 (*FISMA*). At the end of Quarter 3, FY 2018, 100 percent of DoD quarterly performance measures were on track to meet the annual goals by the close of FY 2018.

Implementing Joint Regional Security Stack Capabilities – The goal of this effort is to provide network security capabilities (such as firewall functions, intrusion detection and prevention, and management) as an enterprise service deployed in regional architectures to replace legacy DoD Component-owned and -operated network security solutions. Joint Regional Security Stacks (*JRSS*) improve the Department's ability to protect against, detect, and respond to cyber threats and attacks; improve the effectiveness and efficiency of Department of Defense Information Network (DoDIN) operations; and enable the cybersecurity concept of the Joint Information Environment (*JIE*). At the end of Quarter 3, FY 2018, 100 percent of DoD quarterly performance measures for JRSS on the Non-Classified Internet Protocol Router Network (NIPRNet) are on track to meet the FY 2018 annual goals

Expanding and Refining Defense Industrial Base Cybersecurity Activities – The goal of this effort is to improve the protection of DoD unclassified information residing on or transmitting over Defense Industrial Base (*DIB*) information networks or systems. Successes for this effort in FY 2018 included the expansion of DIB Cybersecurity Program outreach to eligible companies and improvements to the DoD Cyber Crime Center's (*DC3*) capabilities to respond to increased DIB participation and reporting. At the end of Quarter 3, FY 2018, 100 percent of DoD quarterly performance measures were on track to meet the annual goals by the close of FY 2018.

Implementing Initiatives to Recruit and Retain the Best Total Force to Bolster Capabilities and Readiness

The Department's ability to replace the loss of skills and experience with new talent depends on the capability to efficiently (Time to Hire) and effectively (Quality of Hire) recruit, hire, and retain high-performing employees. The Department's goal is not merely to hire individuals as quickly as possible, but to recruit and hire a diverse group of top-quality candidates with the right skills for the Department's mission needs today and in the future. To date, the current federal hiring process can result in the loss of prime talent due to prolonged hiring times, thus leading to less qualified talent pools. In addition, the longer it takes to fill vacancies, the longer managers must operate with inadequate resources, which could strain existing resources or result in failure to accomplish the mission. The newly established Hiring Improvement Initiatives (HII) Working Group (WG) is overseeing execution of DoD Component-level Hiring Action Plans which are designed to decrease Time to Hire and measure/track Quality of Hire. In addition to regular data-driven performance reviews, the HII WG sponsored a Department-wide Hiring Improvement workshop to enable DoD Components to share their lessons learned and best practices as well identify areas for enterprise-wide collaboration.

In support of this objective, the Department also implemented organizational initiatives to promote diversity and inclusion. On February 8, 2018, the Department issued a comprehensive harassment prevention and response policy (*DoD Instruction 1020.03*), which strengthens the Department's commitment and accountability by establishing a Department-wide oversight framework. The policy bolsters prevention and response efforts, enhances oversight, and provides additional protections and requirements to better protect our Military Service members. The policy addresses all forms of harassment including hazing, bullying, sexual harassment, and harassment conducted via electronic communications. The policy sends a clear message that the Department will not tolerate any kind of harassment by any Military Service member. The policy also reassures current and prospective Military Service members that they will be treated with dignity and respect while serving their country. The Department will continue working with the Components to review and identify gaps in the current published policy.

Strengthening Alliances

Reforming the Security Cooperation Enterprise

The Department made significant progress in implementing the reforms to Security Cooperation (SC) as enacted by the *NDAA for FY 2017*. These include adjusting planning and execution timelines to meet enhanced congressional notification requirements; creating a more transparent and consolidated budget request; and implementing a new assessment, monitoring, and evaluation (AM&E) framework to more rigorously evaluate the effectiveness of DoD efforts to achieve strategic ends through the use of SC tools.

In FY 2018, the Department advanced the planning of DoD SC activities two full fiscal years forward, publishing both FY 2018 and FY 2019 planning orders; this facilitated the development of more comprehensive programs within eight congressional notification packages in FY 2018. As a result, the Department implemented over 174 capacity-building programs globally, totaling over $1.4 billion in acquisitions, training, and services for our allies and partners. These efforts have put the Department on pace to be fully aligned with the budget and global force management processes by the beginning of the FY 2021 budget planning process, which will result in greater transparency and more strategic investment of SC tools based on realistic force availability. The Department also submitted to Congress its first consolidated budget display for FY 2019, which displays the cumulative total of DoD SC investments in a manner that can be easily sorted by program, region, or functional mission area.

Starting in FY 2019, the Department will commence strategic evaluations of DoD SC consistent with law and DoD policy regarding AM&E. These evaluations will provide valuable feedback to SC planners and additional insights to DoD leadership, Congress, and the American taxpayer. Additionally, the Department continues to consult with outside experts and to train and educate the SC workforce on AM&E.

As the responsible organization for the administration and execution of DoD SC, the Defense Security Cooperation Agency (*DSCA*) worked to advance the professionalization of the SC workforce, most notably by issuing the first-ever DoD SC Workforce Development Program guidance for the DoD SC workforce (approximately 20,000 civilian and military positions). This included an inventory of DoD positions with SC responsibilities, developing a framework for the mandatory SC workforce certification program, identifying SC-specific competencies to help focus training and other developmental efforts, and establishing standards for the identification of key positions within the SC workforce.

DSCA also continues to improve its management of the Foreign Military Sales (*FMS*) program in cooperation with the Office of the Under Secretary of Defense for Acquisition & Sustainment. With statutory responsibility for export control and FMS, DSCA has developed several new performance measures, including FMS milestones and performance targets, which are coordinated with the various implementing agencies and geographic Combatant Commands.

Defense Secretary James N. Mattis and British Defense Secretary Gavin Williamson speak to Marines during a Marine Corps parade at the Lincoln Memorial in Washington, D.C., Aug. 7, 2018.

DoD photo by Tech. Sgt. Vernon Young Jr.

Reforming the Department's Business Practices

The Secretary of Defense, the Executive Office of the President (including the OMB), and Congress continue to drive reform within the Department. While the Secretary of Defense has charged the Chief Management Officer to lead an enterprise-level business operations reform effort, DoD Components also are charged to identify and pursue opportunities to improve the performance and productivity of their business operations.

To this end, the Secretary of Defense directed the establishment of the Reform Management Group, which consists of reform teams identifying and pursuing reforms across a number of lines of business: health care management, IT and IT business systems; financial management; logistics and supply chain; contract management; human resources management; real property; community services; and test and evaluation. Cross functional coordination of reform activities is routine; for example, the contract management reform team works closely with other teams on category management, and the IT and IT business systems team coordinates consolidation of technology solutions associated with business process improvements across reform teams.

Results related to the third NDS line of effort of reforming the Department's business practices for greater performance and affordability include:

Health Care Management – The goals of this effort are to develop and maintain a medically ready force, resize the DoD-owned system to focus on warfighting needs, and provide quality health care for all beneficiaries through the most cost-effective means. Major accomplishments to date include implementation of a management framework to transfer authority, direction, and control of military treatment facility healthcare delivery and business operations to the *Defense Health Agency* and improvements to the TRICARE-2017 Managed Care Support Contracts administration fee structure.

IT and IT Business Systems – The goals of this effort are optimizing enterprise IT to improve business operations, eliminate duplication, reduce the Department's spend, and exploit information to deliver strategic value to the warfighter. Major initiatives include implementing changes to the *Defense Travel System*, data center modernization, Military Health System IT, and enterprise software licensing.

Financial Management – Financial management (FM) reform is focused primarily on initiatives that will reduce operational costs within the DoD FM line of business by simplifying and standardizing business processes and systems, while improving auditability and security. Major initiatives include standardizing financial data, system consolidation, reducing expiring and cancelling funds, and assessing the future role of the Defense Finance and Accounting Services (*DFAS*) within DoD financial management. The Department's financial statement audit, Enterprise Costs Framework, and data analytics efforts are also foundational to achieving the target financial management end-state.

Additionally, the Office of the Under Secretary of Defense (Comptroller) sponsors a number of strategic initiatives which focus on strengthening the Department's financial management workforce. In FY 2018 these initiatives included the development and publication of a DoD FM strategic workforce plan, an FM competency skills gap assessment, an automated individual development plan tool for the FM workforce, a new Department-wide developmental assignment program, and the continued maturation of the *DoD FM Certification Program*. These initiatives were all designed to build and maintain the technical and leadership competence of individual FM members in support of the Department's strategic objective to reform business processes.

Logistics and Supply Chain – The goal of this effort is to identify and achieve business process improvements that enhance Joint Force readiness and lethality. Major initiatives include establishing metrics that enable better resource decision making and increased materiel availability, producing cost savings through increased financial and operational efficiencies, and improving governance structures.

Contract Management – The goals of this effort are to implement private-sector best practices to improve how the Department purchases common goods and services. Major initiatives include reviewing and updating requirements to optimize pricing and reducing unneeded, redundant, or low priority contracting requirements.

Human Resources Management – The goal of this effort is to increase the productivity of human resources (HR) functions through the establishment of enterprise-level systems and solutions. Major initiatives include streamlining, standardizing, and modernizing the Department's numerous hiring processes and compensation systems; implementing a Department-wide civilian performance management system; and executing a comprehensive Civilian Human Capital Operating Plan.

Real Property – The goals of this reform effort are to reduce the cost of lifecycle real property management through improved use of DoD-owned and leased facilities, improved productivity of real property operations through better use of data management, and holistic enterprise-wide facility asset management. Major initiatives of this effort include category management of facilities and construction; best practices in project prioritization and scoping; reducing/optimizing the use of excess property on existing installations; and reducing/optimizing the use of leased space, focusing on those high-cost leases in close proximity to existing DoD facilities or to lower cost leased space.

Community Services – Community Services include key quality of life functions such as exchange, commissary, lodging, morale, welfare, recreation programs, and DoD schools. The goals of this reform effort include improving the quality and productivity of Community Services business operations, increasing the use of enterprise services, reducing the appropriated fund cost and liabilities of retail operations, and optimizing resale logistics and supply. A task force has been established to evaluate practical opportunities to implement these efforts as a means to achieving the goal of strengthening and preserving Community Services benefits provided to Military Service members and their families.

Air Force Capt. Wale Lawal of the Air Force Research Laboratory teaches students about properties of metals during the USA Science & Engineering Festival in Washington, D.C., April 6, 2018.

DoD photo by EJ Hersom

Test and Evaluation – The goals of this effort are to increase test productivity and move to enterprise management of test infrastructure to improve and expand test capabilities. Major initiatives include integrating and optimizing developmental and operational test activities to reduce test timelines, improving the design of experiments, and improving the effectiveness of test processes.

Regulatory Burden – The goal of this effort is to reduce regulatory burden and the associated taxpayer cost in accordance with Executive Order *(EO) 13777* and OMB *Memorandum M-17-23*. To accomplish this, the Department established the Regulatory Reform Task Force to conduct a review of all DoD regulations; reduce unnecessary, outdated, and/or ineffective regulations by 25 percent; ensure that all remaining regulations align with the NDS priorities; and identify opportunities to improve the business process of issuing regulations.

Optimizing Organizational Structures

The Department's management structures and processes could inhibit or prevent the pursuit of lethality. This requires consolidating, eliminating, restructuring, and/or streamlining wherever possible to ensure that U.S. military forces can compete, deter, and win.

Until February 2018, the Deputy Secretary of Defense served as Chief Operating Officer (COO) and Chief Management Officer (CMO) of the Department of Defense. The NDAA for FY 2017 elevated the Deputy Chief Management Officer to the Chief Management Officer and the *NDAA for FY 2018* further defined the role of the CMO to focus on a broad set of enhanced responsibilities, including enterprise business operations, shared business services, OSD and DoD organization and management, defense reform, and compliance. The CMO supports the Deputy Secretary of Defense in the role of COO to ensure that DoD leaders are unified and aligned appropriately across all assigned responsibilities and functions, through strong management practices, integrated processes, and best value business investments.

The Office of the Under Secretary of Defense for Acquisition, Technology and Logistics was also reorganized into two separate organizations in accordance with the NDAA for FY 2017. This reorganization refocused the OSD's principal role from program oversight to that of directing major Department investments to ensure integrated, technically superior capability that consistently outpaces the threat. Further, Congress provided the Department with the impetus to significantly streamline the acquisition organization and assign greater responsibility and accountability to the Military Departments for program execution and performance.

In order to achieve the cost saving goal established by the *NDAA for FY 2016*, the Deputy Secretary of Defense directed a 25 percent reduction from the FY 2016 baseline across all appropriations for DoD Major Headquarters Activities in the Military Departments, OSD, the Joint Staff, Defense Agencies, DoD Field Activities, and Combatant Commands. In FY 2017 – FY 2018, the Department achieved savings of approximately $2 billion.

Looking Forward

The Department is a performance-based organization, and as such is committed to managing towards specific, measurable goals using performance data to continually improve operations and combat the erosion of the competitive edge of U.S. military power. In striving to accomplish these goals, the Department faces numerous challenges – ranging from strategic competition and aggression from other nations and the threat of terrorism to the concern of securing the funding necessary to accomplish the mission. However, the Department has outlined and analyzed these challenges and more in the NDS, as well as defined the path forward for overcoming them. As outlined in the NDS, the Department will continue its focus on modernizing and increasing the agility, lethality, and readiness of the Joint Force; strengthening and supporting our alliances while attracting new mutually beneficial partnerships; and installing a culture, centered on the importance of results and accountability, that supports the reformation and improvement of business processes. Through the pursuit of these efforts, the Department will ensure the Joint Force is ready to compete, deter, and (if necessary) win against any adversary; that the U.S can work with its allies and partners to advance its interests, maintain favorable balances of power, and support economic growth; and that DoD management can harness available opportunities and ensure effective stewardship of taxpayer resources.

Financial Highlights and Analysis

The principal financial statements are prepared to report the financial position and results of operations of the Department, pursuant to the requirements of *31 U.S.C. §3515(b)*. The statements are prepared from the accounting records of the Department in accordance with the formats prescribed by OMB *Circular No. A-136* and, to the extent possible, with U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). The statements, in addition to supporting financial reports, are used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government.

The consolidated financial statements and accompanying explanatory notes are located in the Financial Section of this report. The principal financial statements include:

- Statement of Budgetary Resources
- Balance Sheet
- Statement of Net Cost
- Statement of Changes in Net Position

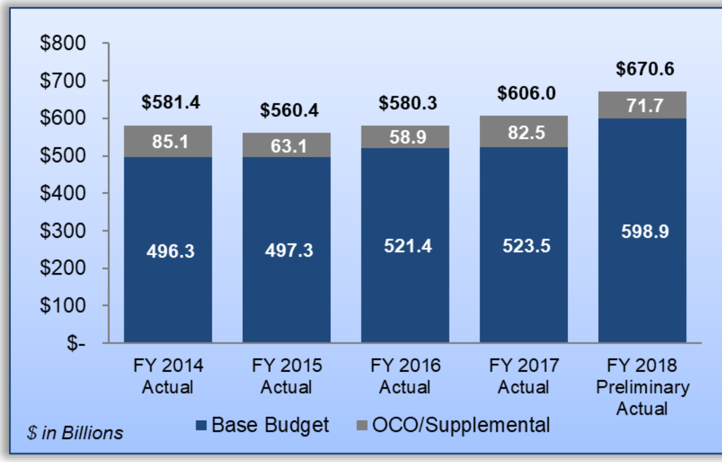
Marines provide simulated security during a dive mission in Key West, Fla., Jan. 24, 2018. The Marines, assigned to Charlie Company, 2nd Reconnaissance Battalion, were preparing for an upcoming deployment.

Marines Corps photo by Lance Cpl. Brennon A. Taylor

Statement of Budgetary Resources

The Statement of Budgetary Resources (SBR) presents the Department's total budgetary resources, their status at the end of the fiscal year, and the relationship between the budgetary resources and the outlays made against them. In accordance with federal statutes and related regulations, obligations may be incurred and payments made only to the extent that budgetary resources are available to cover such items. As depicted in Figure 7, the Department's FY 2018 total budget authority is $670.6 billion.

Figure 7. Trend in DoD Budget Authority



Note: The "Actual" amounts shown for FY 2014 – FY 2017 align with the National Defense Budget Estimates for FY 2019 and differ from the amounts presented in prior years.

In FY 2018, the Department reported $1.3 trillion in total budgetary resources (as shown in Figure 8). The total amount of "Appropriations (Discretionary and Mandatory)" in the amount of $863.6 billion reported on the SBR consists of appropriations enacted for the Department, contributions for DoD military retirement and health benefits made by the Department of the Treasury (*Treasury*) from the Treasury's general fund, and appropriations to finance civil works projects managed by the U.S. Army Corps of Engineers (*USACE*). Current year Trust Fund Receipts, including those received into the Military Retirement Fund (MRF) and the Medicare Eligible Retiree Health Care Fund (MERHCF), are also included in the SBR line item amount. Trust Fund Resources Temporarily not Available represent budget authority that the Department will execute in future years to pay the current unfunded liabilities carried in these large funds.

Figure 8. Composition of DoD Total Budgetary Resources

Description	FY 2018 ($ in Billions)
DoD Budget Authority *	$670.6
Treasury contribution for Military Retirement and Health Benefits	96.3
Civil Works Projects executed by USACE	22.8
Trust Fund Receipts	164.2
Trust Fund Resources Temporarily not Available	(90.3)
Appropriations (Discretionary and Mandatory) Reported on SBR	**$863.6**
Unobligated Balances from Prior Year Budget Authority	181.0
Spending Authority from Offsetting Collections	119.4
Contract Authority	88.4
Total Budgetary Resource	**$1,252.4**

* *FY 2018 DoD Budget Authority from Figure 6 and Figure 7*

Additional budgetary resources include $181.0 billion of unobligated balances stemming from prior year budget authority, $119.4 billion in spending authority from offsetting collections, and $88.4 billion of contract authority.

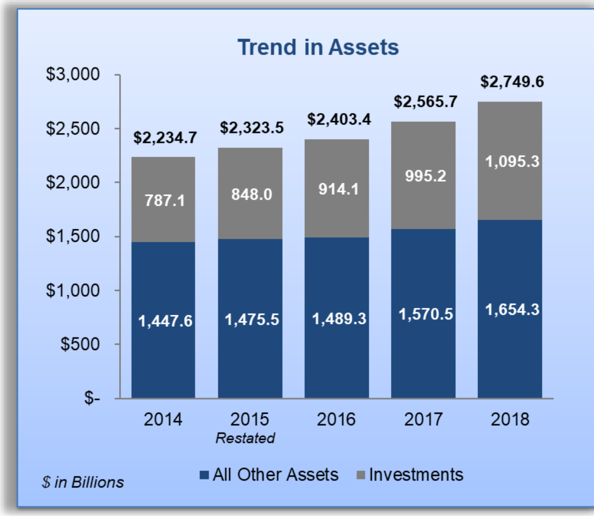
Of the $1.3 trillion in total budgetary resources, $1.1 trillion was obligated and $944.0 billion of obligations were disbursed. The remaining unobligated budgetary resources balance relates primarily to appropriations available to cover multi-year investment projects. These projects require additional time for delivery of goods and services. Expired appropriations remain available for valid upward adjustments to prior year obligations but are not available for new obligations.

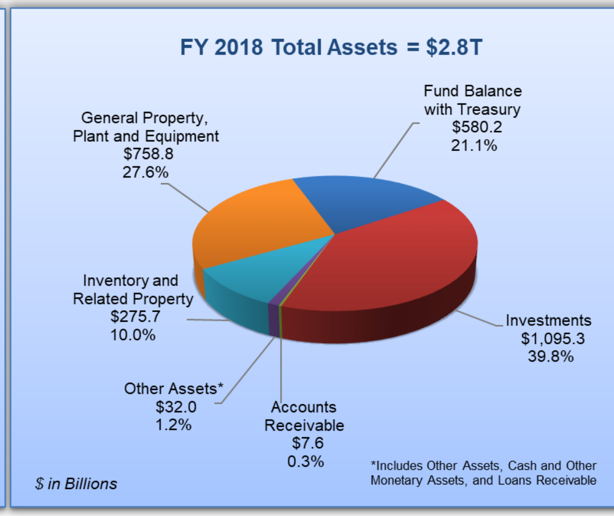
Balance Sheet

The Balance Sheet, which reflects the Department's financial position as of September 30, 2018 and September 30, 2017, reports probable future economic benefits obtained or controlled by the Department (Assets), claims against those assets (Liabilities), and the difference between them (Net Position).

The $2.8 trillion in assets shown in Figure 9 represent amounts the Department owns and manages. Investments; General Property, Plant, and Equipment; and Fund Balance with Treasury represent 89% of the Department's assets. General Property, Plant, and Equipment is largely comprised of military equipment and buildings, structures, and facilities used to support the Department's mission requirements.

Figure 9. Summary of Total Assets





Total assets increased $183.9 billion (7%) from FY 2017, largely due to increases in Investments in Treasury Securities of $100.1 billion and Fund Balance with Treasury of $78.6 billion. The investments increase was primarily due to normal growth in the MRF. As displayed in Figure 9, the Department has realized growth in investments over the last several years. The growth results from investment of contributions from the Treasury and the Uniformed Services (i.e., the Military Services, National Oceanic and Atmospheric Administration, and the Public Health Service) to cover military retirement and other federal employment benefits. Under the Department's current strategy, invested balances will continue to grow to cover unfunded portions of future benefits. Funds not needed to cover current benefits were invested in Treasury securities. The increase in Fund Balance with Treasury resulted from additional appropriations provided through the *Bipartisan Budget Act of 2018* and the *Consolidated Appropriations Act of 2018* for procurement, research and development, operations and maintenance, and Hurricane Maria disaster relief.

As seen in Figure 10, the Department's total liabilities increased $66.1 billion during FY 2018, largely due to adjustments in the estimated actuarial liability associated with military retirement benefits. This change is primarily attributable to expected interest costs, normal costs, and changes in actuarial assumptions, net of benefit outlays. The Department's $2.6 trillion of liabilities reported in FY 2018 are backed by the full faith and credit of the U.S. Government.

Figure 10. Summary of Total Liabilities

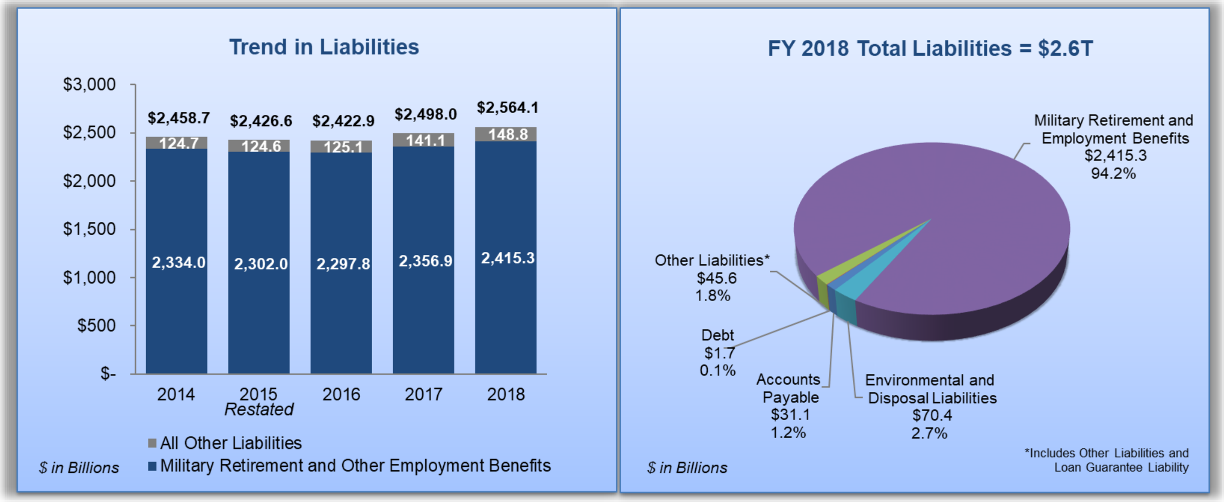
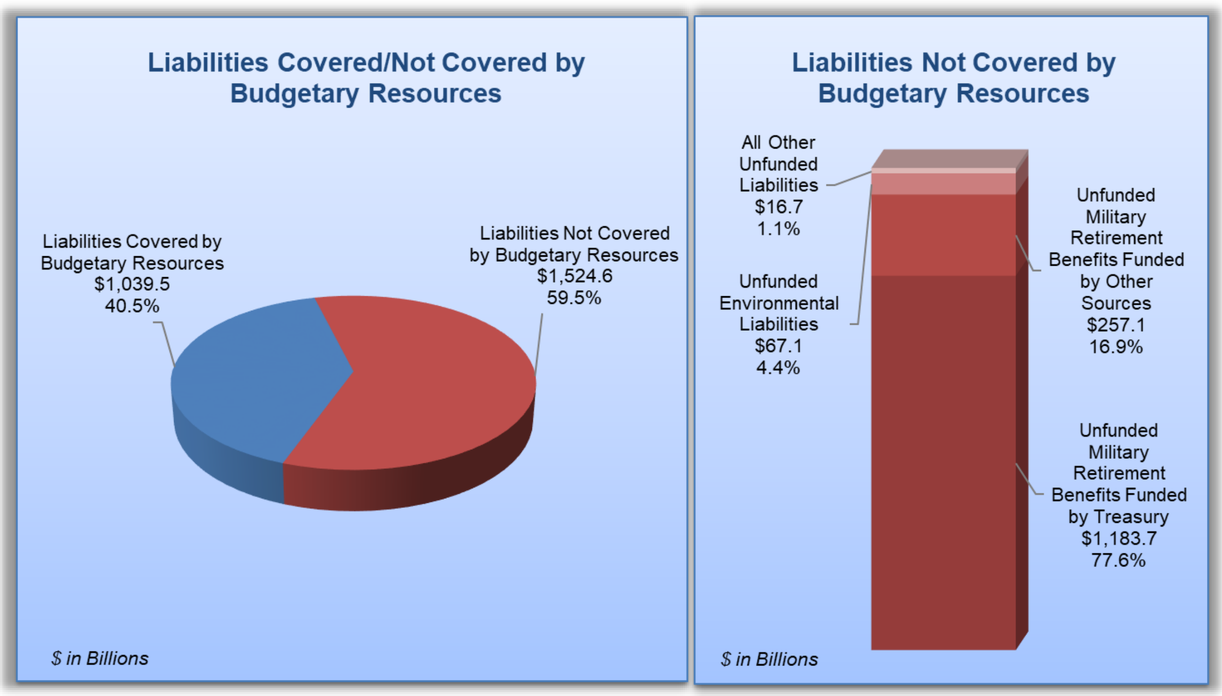


Figure 11 shows the amount of liabilities covered by budgetary resources and the amount that is not covered by budgetary resources. It also shows the composition of liabilities not covered by budgetary resources, which primarily consists of unfunded military retirement benefits funded by Treasury.

Figure 11. Liabilities Covered/Not Covered by Budgetary Resources

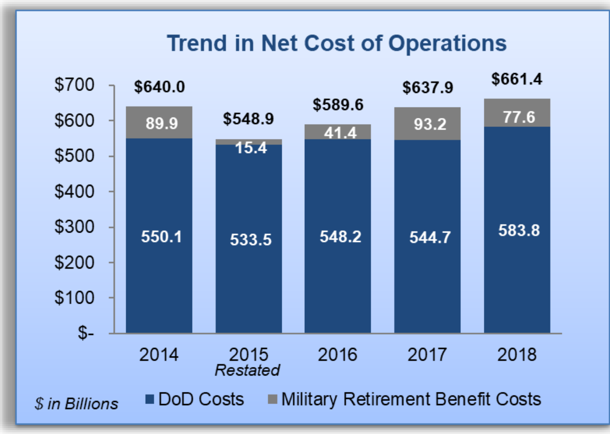


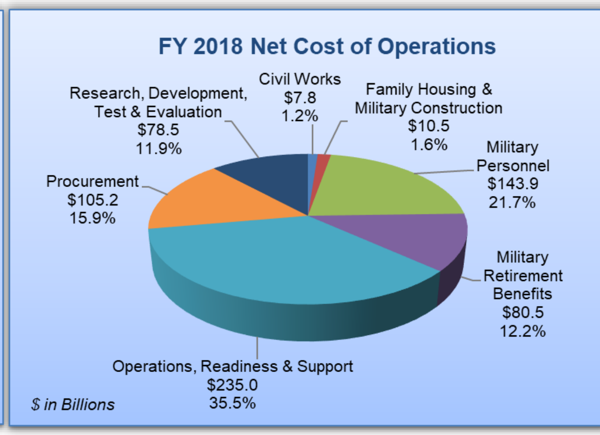
Statement of Net Cost

The Statement of Net Cost presents the net cost of all the Department's programs, including military retirement benefits. The statement reports total expenses incurred less revenues earned from external sources to finance those expenses. Generally, the resulting balance of Net Cost is equivalent to the outlays reported on the SBR, plus (minus) the change in accrued liabilities, less the amount of assets purchased and capitalized on the Balance Sheet during the fiscal year. The differences between reported outlays of the budgetary resources and reported net cost generally arise from when expenses are recognized.

The Department's costs incurred relate primarily to Operations, Readiness, and Support activities; Military Personnel costs; and costs related to the Department's Procurement programs. These costs were offset with investment earnings and contributions to support retirement and health benefit requirements, as well as earnings from reimbursed activities. This activity resulted in a Net Cost of Operations of $661.4 billion during the fiscal year.

Figure 12. Summary of Net Cost of Operations





Statement of Changes in Net Position

The Statement of Changes in Net Position (SCNP) presents the total cumulative results of operations since inception and unexpended appropriations at the end of the fiscal year. The SCNP displays the components of Net Position separately to enable the financial statement user to better understand the nature of changes to Net Position as a whole. The statement focuses on how the Net Cost of Operations as presented on the Statement of Net Cost is financed and displays the other sources financing the Department's operations. The Department's ending net position increased $117.8 billion during FY 2018. The increase primarily reflects the increase in assets due to additional funding as reflected in Fund Balance with Treasury and the normal growth in investments in the MRF, offset by an increase in liabilities primarily attributable to military retirement benefits. The growth is attributable to investment of contributions from the Treasury and the Uniformed Services, net of benefits paid. Under the Department's current strategy, invested balances are expected to continue growing to cover unfunded portions of future benefits.

In addition, the Department adjusted the beginning Cumulative Results of Operations downward by $2.5 billion through prior period adjustments. These adjustments were attributable to changes in accounting principles primarily related to establishing opening balances for land and buildings, which were also reduced for the same amount, as the Department continued to implement FASAB Statement of Federal Financial Accounting Standards *(SFFAS) 48* and *SFFAS 50*.

Financial Performance Summary

The Department's financial performance is summarized in Figure 13. This table represents the Department's condensed financial position, results of operations, and budgetary resources, and includes comparisons of financial balances from the current year to the prior year. Though the Department has received a Disclaimer of Opinion on its financial statements, audit remediation efforts will continue to improve the Department's financial information.

Figure 13. Financial Performance Summary

Dollars in Billions	FY 2018	FY 2017	Increase/(Decrease) $	Increase/(Decrease) %
COSTS				
Total Financing Sources	$ 709.7	$ 680.0	$ 29.7	4.4%
Less: Net Cost	(661.4)	(637.9)	(23.5)	3.7%
Net Change of Cumulative Results of Operations	**$ 48.3**	**$ 42.1**	**$ 6.2**	**14.7%**
NET POSITION				
Assets:				
Fund Balance with Treasury	$ 580.2	$ 501.6	$ 78.6	15.7%
Investments	1,095.3	995.2	100.1	10.1%
Accounts Receivable	7.6	7.3	0.3	4.1%
Other Assets *	32.0	33.1	(1.1)	-3.3%
Inventory and Related Property, Net	275.7	266.8	8.9	3.3%
General Property, Plant and Equipment, Net	758.8	761.7	(2.9)	-0.4%
Total Assets	**$ 2,749.6**	**$ 2,565.7**	**$ 183.9**	**7.2%**
Liabilities:				
Accounts Payable	$ 31.1	$ 28.0	$ 3.1	11.1%
Other Liabilities **	47.3	44.8	2.5	5.6%
Military Retirement and Other Federal Employment Benefits	2,415.3	2,356.9	58.4	2.5%
Environmental and Disposal Liabilities	70.4	68.3	2.1	3.1%
Total Liabilities	**$ 2,564.1**	**$ 2,498.0**	**$ 66.1**	**2.6%**
Net Position (Assets minus Liabilities)	**$ 185.5**	**$ 67.7**	**$ 117.8**	**174.0%**

** Other Assets includes Other Assets, Cash and Other Monetary Assets, and Loans Receivable*

*** Other Liabilities includes Debt, Other Liabilities, and Loan Guarantee Liability*

Audit Overview

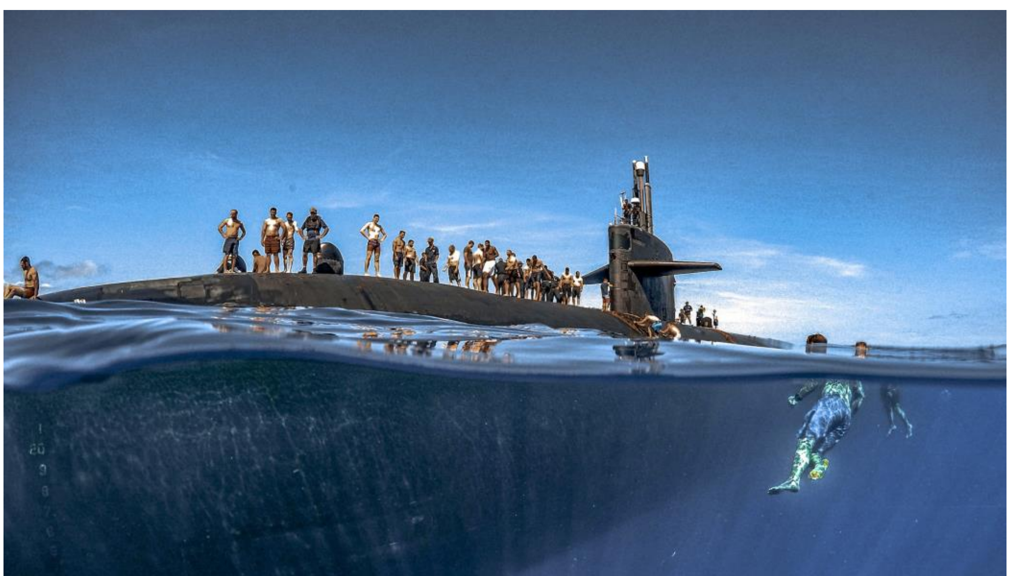
History

31 U.S.C. §3515, as amended by the *Chief Financial Officers Act of 1990*, requires covered executive agencies to prepare audited financial statements which must be conducted in accordance with applicable generally accepted government auditing standards. To reinforce this requirement, the *NDAA for FY 2014* mandated that the Secretary of Defense ensure that an annual full-scope audit be performed over the DoD financial statements beginning in FY 2018. The Department has achieved this goal by undergoing its initial full-scope financial statement audit and remains committed to the pursuit of continued, full auditability of its operations.

This commitment is enforced in the Department's NDS – the financial statement audit directly supports this third line of effort to reform business practices and is an important component to improving the Department's operations. As stated in the NDS, the Department will continue its plan to achieve full auditability of all its operations, improving its financial processes, systems, and tools to understand, manage, and improve cost. The Department will not wait for an unmodified audit opinion to derive benefits from the audit, but expects to leverage the audit's notices of findings and recommendations (NFRs) to drive enterprise-wide improvements to standardize business processes and improve the quality of the Department's data.

Size

With approximately $2.8 trillion in total assets (accounting for over 70 percent of the U.S. Government's assets), the FY 2018 DoD consolidated audit is arguably one of the largest and most complex financial statement audit ever undertaken. The audit is comprised of over 20 standalone audits (representing 97 percent of the Department's total assets) being conducted by independent public accounting firms and an overarching consolidated audit performed by the DoD OIG. Combined, this effort will engage the use of approximately 1,200 auditors.



Sailors assigned to Los Angeles-class fast-attack submarine USS Olympia participate in a swim call at sea in the Pacific Ocean, July 31, 2018.

Navy photo by Senior Chief Petty Officer Vien Nguyen

Value

The Department is accountable to the American people. Taxpayers deserve a high level of confidence that the Department's financial statements present a true and accurate picture of its financial condition and operations. Transparency, accountability, and business process reform are some of the benefits that will result from undergoing annual, full-scope financial statement audits:

- Transparency: audit remediation efforts in response to NFRs will improve the quality of the Department's financial statements and underlying data available to the public, bolstering confidence that the financial statements present a reliable picture of assets, liabilities, and spending.
- Accountability: the audit will highlight areas for improvement of accountability over assets and resources, allowing for a streamlined identification and prioritization process for remediation.
- Business Process Reform: the combination of better data resulting from audit remediation, retirement of legacy systems, business process reengineering, and the use of modern data analytics directly supports the Department's efforts to bring business reform to its operations.

Measuring Progress

To increase the effectiveness of audit remediation efforts, the Department established the NFR Database, which is a tool to capture, prioritize, assign responsibility for, and develop corrective action plans (CAPs) to address audit findings. This tool is used to consolidate and track the status of auditor-issued NFRs and CAPs resulting from both the standalone and consolidated audits. The NFR Database is expected to help the Department gain efficiencies by sharing best practices and successes as well as raising accounting challenges to the Department-wide level for the identification of solutions to be leveraged across the Department. As audit NFRs are issued, the Department will take into consideration the extent of the impact of the audit findings to operations. NFRs will then be prioritized to ensure resolution of findings in the most cost-effective manner possible. The Department will then measure and report progress toward closing reported NFRs and achieving an unmodified audit opinion.

In FY 2018, the Department's audit remediation efforts have already paid dividends. For example:

- The Army created a computer application to store and analyze its transactional data for audit. This new application increased the Army's transparency and visibility into its cost drivers and strengthened its leadership's ability to commit resources to programs with the highest mission impact and strategic value.
- The Navy's Commander, U.S. Pacific Fleet enhanced internal controls over its obligation management process. This initiative resulted in freeing up purchasing power to fund $4.4 million in ship repair costs for the *USS Paul Hamilton (DDG 60)*.
- The Air Force improved its physical inventory procedures at *Hill Air Force Base* in Utah. The redesigned process for validating the condition of assets in property systems resulted in the accurate capture of approximately $53 million in assets that would have otherwise been misstated.

These efforts demonstrate how the Department is leveraging the audit as a foundational element in support of the NDS line of effort to reform business practices for greater performance and affordability.

STATEMENT OF ASSURANCE

The Department's leaders are responsible for establishing and maintaining effective internal controls to meet the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and the Federal Financial Management Improvement Act of 1996 (FFMIA). In FY 2018, as the Department underwent its first full-scope financial statement audit, a risk-based approach was implemented to prioritize remediation and implement corrective actions impacting material financial statement line items. As the Department's audit posture matures, it will continue to improve its controls to support reliable financial reporting, effective and efficient programmatic operations, and compliance with applicable laws and regulations as well as increase the compliance of financial management systems with Federal financial management systems requirements.

The Department assessed the effectiveness of its internal controls over financial reporting in accordance with FMFIA §2 and Office of Management and Budget (OMB) Circular No. A-123. Based on this assessment, the Department found that controls in place on September 30, 2018 to support reliable financial reporting were not effective to provide reasonable assurance. The Department's deficiencies in the design or operation of internal controls over financial reporting include ineffective processes and controls over the posting of transactions to the general ledger and reconciling with the Department of the Treasury; ineffective processes and controls over compiling financial statements, reconciling data, and supporting entries (including journal vouchers); and ineffective processes and controls over accounting for, valuing, and supporting Property, Plant, and Equipment. FMFIA §2 material weaknesses and corrective actions are further described in the Other Information section.

The Department assessed the effectiveness of internal controls over operations and compliance with applicable laws and regulations in accordance with the FMFIA §2 and the OMB Circular No. A-123. Based on this assessment, the Department provides a modified statement of reasonable assurance of the effectiveness of internal controls in place on September 30, 2018 to support effective and efficient programmatic operations and compliance with applicable laws and regulations. The Department continues to address material weaknesses with specific concerns in the areas of acquisition, contract administration, resource management, and cyber security, as well as other areas. FMFIA §2 material weaknesses and corrective actions are further described in the Other Information section.

The Department realizes that properly planned and integrated systems, with strong internal controls, are critical to providing useful, timely, and complete financial information and achieving an unmodified audit opinion. FMFIA §4 and FFMIA §803(a) require agencies to implement and maintain financial management systems that comply with Federal financial management system requirements, applicable Federal accounting standards, and the United States Standard General Ledger at the transaction-level. The Department assessed the compliance of its financial management systems in accordance with FMFIA §4, FFMIA §803(a), and OMB Circular No. A-123, Appendix D. While the Department continues to achieve progress implementing corrective actions to address various systems limitations, the assessment found that the Department's financial management systems do not fully conform to the requirements of FMFIA §4 and FFMIA §803(a) as of September 30, 2018. FMFIA §4 and FFMIA §803(a) material weaknesses and corrective actions are further described in the Other Information section.

The Department remains committed to significant and measureable improvements in its ability to provide reliable, timely, and useful financial and managerial information to support management decisions. The findings from the full-scope financial statement audit will provide the Department with valuable insight that is critical to achieving its goals and demonstrating its commitment to financial accountability and transparency.

James N. Mattis
Secretary of Defense

Management Assurances

Enterprise Risk Management and Internal Controls

The Department is committed to ensuring an effective system of internal controls in business processes to provide reasonable assurance that its mission is met and to support the objectives of the DoD Components. An effective system of internal controls is central to supporting the NDS line of effort to reform business practices for greater performance and affordability. By appropriately assessing internal controls, the Department can identify opportunities to improve business operations and processes and support effective financial stewardship.

The Federal Managers' Financial Integrity Act of 1982 (*FMFIA*) requires federal agencies to evaluate and report on the effectiveness of the organization's internal controls in supporting effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The Office of the Under Secretary of Defense (Comptroller), Office of the Deputy Chief Financial Officer (*ODCFO*) and the Office of the CMO lead the Department's effort in fulfilling Enterprise Risk Management (ERM) and Internal Control Program (ICP) responsibilities. The DoD ERM/ICP holds both operational and financial managers accountable for ensuring that they are effectively managing risks and internal controls in their areas of responsibility. In accordance with OMB *Circular No. A-123*, and the Government Accountability Office (*GAO*) Standards for Internal Control in the Federal Government ("*Green Book*"), the Department continuously strives to integrate proactive risk management and effective internal control into existing business activities.

In accordance with *DoD Instruction 5010.40*, each DoD Component assesses key functional, operational, and financial areas that are essential to the completion of its mission and objectives. DoD Components rely upon appointed assessable unit managers for each key area to identify and report internal control opportunities for improvement as well as deficiencies for review and remediation. DoD Components that produce standalone financial statements are also required to assert to the effectiveness of internal controls over reporting, operations, and financial management system requirements. The goal of the ERM/ICP is to support the Department's mission by implementing appropriate controls to identify, prioritize, and mitigate risks before they can negatively impact the mission. Another objective of the ERM/ICP is to leverage the financial statement audit as a tool to identify high risk areas and integrate audit and internal control remediation efforts.

In FY 2018, the Department made significant strides in maturing the ERM/ICP with the goal of integrating risk management and internal controls testing. The Department mandates each DoD Component conduct a risk assessment to ensure significant risks are identified and addressed. This risk based approach assists DoD Components with prioritizing audit remediation corrective actions, internal control testing, and risk mitigation. In addition, the ODCFO identifies Department-wide focus areas for testing based on the Department-wide materiality level and possible impact on financial statement line items. This process leverages OMB Circular No. A-123 and the Green Book to ensure that the Department has the appropriate oversight to prioritize and mitigate systemic, operational, and financial risks.

The Department advocates a "tone-at-the-top" approach, with emphasis on the importance of the internal control program, which permeates the entire DoD culture. The Department established a governance model comprising a variety of stakeholders to serve as the mechanism to identify and prioritize enterprise-wide risks and drive cross-functional solutions to Department-wide financial management challenges. Core to the governance model are the Financial Improvement Audit Remediation (FIAR) Governance Board (FGB) and the Defense Business Council (*DBC*), each of which serves as a Senior

Management Council, chartered to assess and monitor deficiencies in internal control. The FGB and the DBC include the Under Secretary of Defense (Comptroller)/Chief Financial Officer and the CMO; Senior Executives that cover acquisition, human capital, and information technology; and Senior Executives representing material (major) DoD Components. Additionally, Functional Councils were established to coordinate and facilitate the remediation of priority issues impacting the Department's ability to obtain an unmodified audit opinion. This governance framework supports decision-making and ensures that Department-wide deficiencies are reported in a timely manner and associated CAPs are monitored throughout the DoD Components.

A southern black racer snake slithers across the rifle barrel held by junior Army National Guard sniper Pfc. William Snyder as he practices woodland stalking in a camouflaged ghillie suit at Eglin Air Force Base, April 7, 2018.

Army photo by Staff Sgt. William Frye

FY 2018 Improvements in Internal Controls

Strong internal controls are essential to achieving and sustaining a cost-effective, efficient, and effective organization. Despite many challenges, the Department is steadily improving internal controls, which resulted in cost savings and increases in efficiency and effectiveness. Some significant accomplishments to the internal control environment and resulting savings are highlighted below.

Advances in the Effectiveness of Internal Controls

Department of the Army

As a result of corrective actions, the Army's independent auditor closed a material weakness surrounding FM Improvements. These FM internal control improvements required a collaborative effort between the Army and its service provider, DFAS, to close multiple deficiencies that were reported over a course of two years related to the oversight of financial operations.

In addition, the Army's auditor downgraded a material weakness surrounding Service Provider Oversight. The auditor cited Army for not monitoring the various service providers who perform key activities on its behalf. By implementing a process to identify and evidence the review of the annual System and Organization Controls *(SOC) 1* reports, the auditor downgraded the material weakness to a significant deficiency.

Department of the Navy

The Navy developed a policy providing updated requirements and internal controls for classifying, documenting, and approving journal vouchers (JVs) that pose the greatest risk to producing reliable and accurate financial statements and reports. In FY 2018, many budget submitting offices took action to implement this JV policy to reduce, eliminate, and automate these manual entries.

The Navy also produced a complete transaction universe from nine disparate accounting systems, which has allowed the Navy to collect financial data that was not previously available to support data analysis and compilation of financial reports across the Navy's various commands. This transaction universe has aided the auditor's ability to evaluate Navy's transactional data and assess its internal controls.

Department of the Air Force

As of March 31, 2018, the *Air Force Audit Agency* resolved 74 (44%) of 167 open recommendations and addressed $8.8 billion in identified potential savings. Additionally, the Auditor General of the Air Force collaborated with Headquarters Air Force and Major Command leadership to obtain CAPs to resolve the remaining 93 recommendations, including $49 million in additional potential savings.

In response to an audit finding over incomplete and inadequate documentation of enterprise-level internal controls testing in accordance with OMB Circular No. A-123 standards, the Air Force made significant progress building the infrastructure to support a viable ERM/ICP program. The Air Force provided training as part of establishing the groundwork necessary to adequately document, test, and report on business processes. This accomplishment will assist with resolving material weaknesses surrounding the Financial Reporting and Oversight and Monitoring processes.

Defense Finance and Accounting Service (DFAS)

In FY 2018, DFAS implemented procedures for recording, reporting, and reconciling amounts between entitlement and accounting systems. This has resulted in the correction of $57 million in prior-period beginning balance adjustments and $76 million in JVs, as well as the elimination of $58 million in an overstatement of Accounts Payable.

Defense Contract Management Agency (*DCMA*)

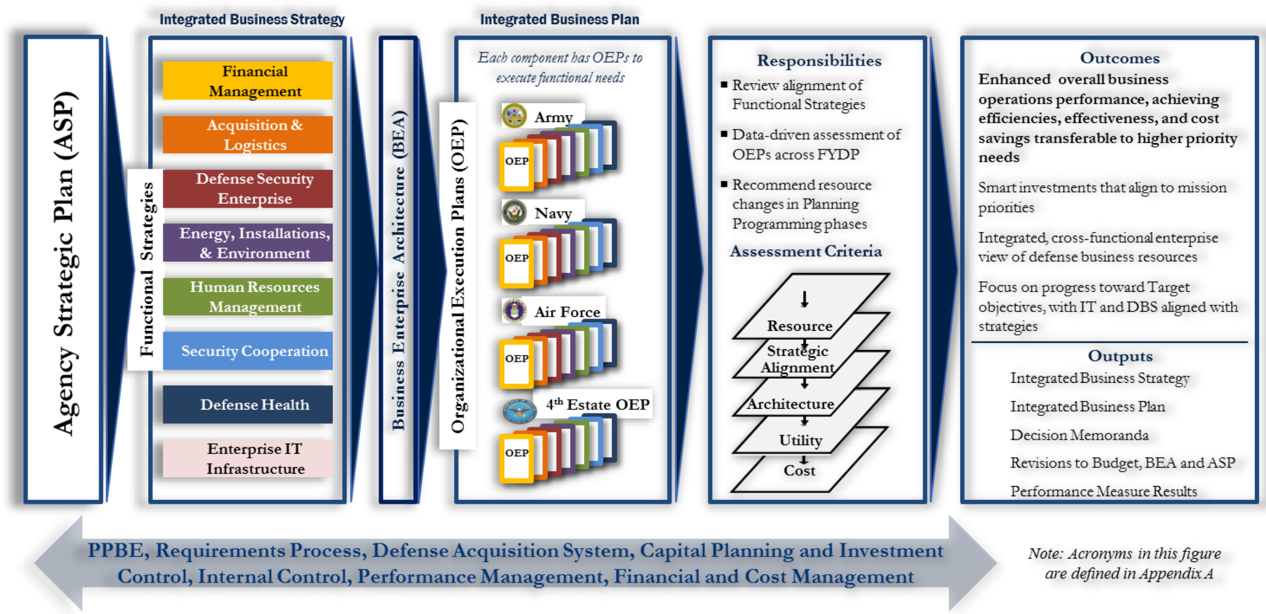
DCMA won the 2017 *David Packard Excellence in Acquisition Award* for their efforts in piloting new Quick Closeout (QCO) techniques that utilize standardized risk factors in the contract closeout process. DCMA deployed multiple initiatives throughout FY 2018 to encourage the use of the new QCO process with subcontractors and across the Department, resulting in projected savings of $613.9 million.

Systems Compliance and Strategy

The Department is engaged in a complex and challenging transformation to reform its FM environment for enhanced mission effectiveness and auditability. This necessarily includes improving business systems to be in compliance with the Federal Financial Management Improvement Act of 1996 (*FFMIA*) and OMB Circular No. A-123, *Appendix D*. Modernization and improved interoperability of DoD business systems is critical to efficiently respond to warfighter needs and sustain public confidence in the Department's stewardship of taxpayer funds.

After *10 U.S.C. §2222* was amended by the *NDAA for FY 2012* to modify requirements for review of defense business system investments, the Department significantly changed the requirement structure and processes for investment reviews and the certification of defense business systems, which now must occur before funds are obligated (appropriated or non-appropriated). The Department's investment review process ensures that decisions on investments in business systems align with the Department-wide integrated business strategy (Figure 14). These decisions also include retirement plans for legacy and non-target financial systems and ensure that systems eliminate redundant activity and maximize operating efficiency through streamlining business processes and the availability of timely, accurate, and useful business information, enabling data driven decision-making. (A legacy system has a retirement plan and date; a target system does not.)

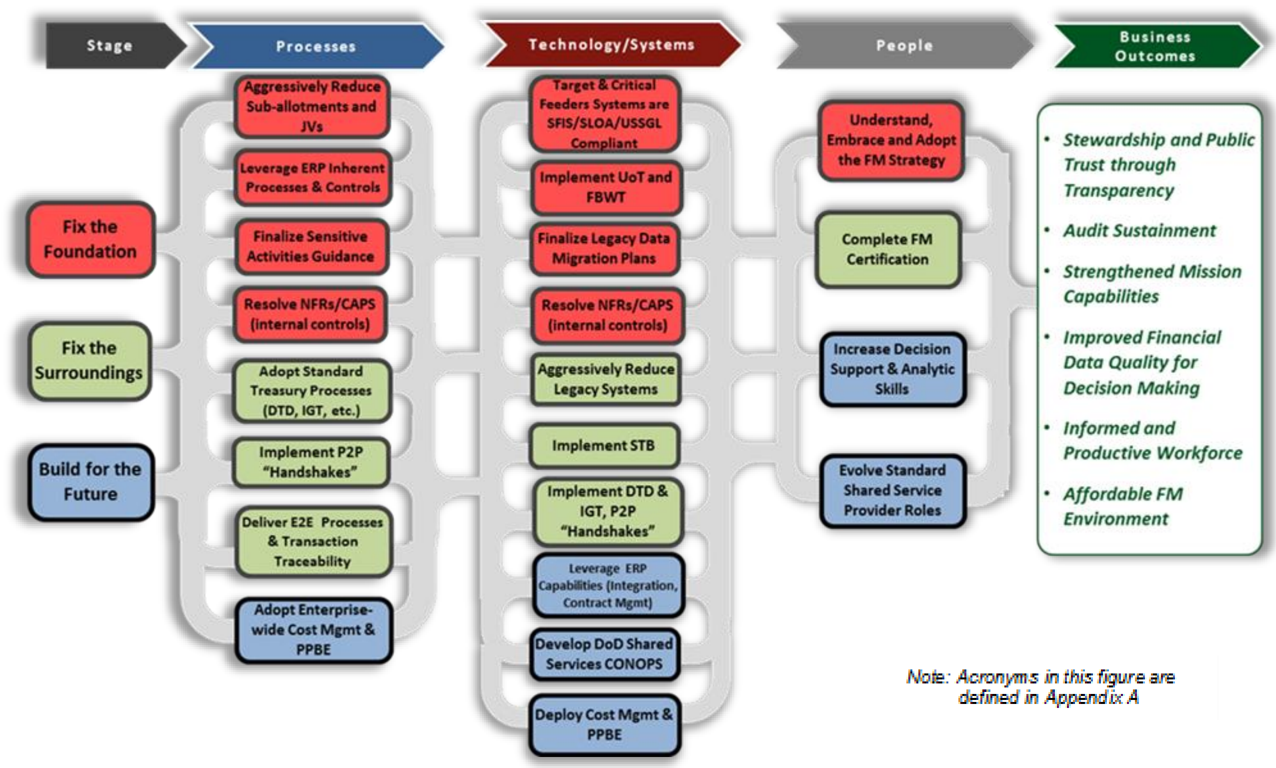
Figure 14. DoD Integrated Business Framework



The Department's FM Functional Strategy provides the Department's vision, initiatives, goals, target environment, and expected outcomes over five years. Rooted in fiscal accountability and financial improvement, the FM Functional Strategy for FY 2018 – FY 2022 will lead to strategic outcomes that are essential for the optimal utilization of the resources provided to the Department to carry out its mission.

The key components of the FM Functional Strategy include establishing data and data exchange standards, standard business processes, and system controls and enhancements that support improved processes, and leveraging technology across the Department's end to-end processes. The primary objective of the FM Functional Strategy is to achieve a fully integrated environment linked by standard processes and standard data with the fewest number of systems and interfaces. Ultimately, this strategy will lead to stronger internal controls, impacting financial reporting and auditability; improvements in end-to-end funds traceability; and linkage between budget and expenditures. Current enterprise-level initiatives include the implementation of the Standard Financial Information Structure (SFIS), the Department's standard line of accounting, which will improve funds traceability and financial reporting. The Department also participates in Federal Government-wide process improvement initiatives, such as the President's transparency and open government initiatives as well as Treasury's government-wide accounting and Direct-to-Treasury disbursing initiatives. The Department also promotes the use of business analytics and maximizing existing Enterprise Resource Planning (ERP) systems.

Figure 15. DoD FM Systems Improvement Initiatives



Enterprise Resource Planning Systems

The ERP systems are integral to implementing the strategic FM business process improvements, achieving the planned target environment and reductions in the number of legacy systems, and better enabling a sustainable audit environment. The ERPs provide a broad range of functionality to support DoD business operations in financial management, supply chain management, logistics, and human resource management. Some ERPs are fully fielded while others are in a state of development and deployment.

Army ERPs

General Fund Enterprise Business System (GFEBS) is the General Fund accounting, asset management, and financial system used to standardize, streamline, and share critical data across the active Army, Army National Guard, and Army Reserve. GFEBS is a web based ERP solution that uses commercial off-the-shelf (COTS) business enterprise software to compile and share accurate, up-to-date financial and accounting data.

The Logistics Modernization Program (LMP) is one of the world's largest, fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management systems. The LMP mission is to sustain, monitor, measure, and improve the modernized, national-level logistics support solution. By modernizing both the systems and the processes associated with managing the Army's supply chain at the national and installation levels, LMP will permit planning, forecasting, and rapid order fulfillment to supply lines. It will also improve distribution, reduce theater footprint, and ensure a warfighter who is equipped and ready to respond to present and future threats.

Global Combat Support System – Army (GCSS-A) is an acquisition system that provides enterprise-wide visibility into various logistic areas and is a key enabler for the Army in achieving auditability. GCSS-A provides the tactical warfighter with supply, maintenance, property accountability, integrated materiel management center, management functionality, and support for tactical financial processes.

Integrated Personnel Pay System – Army (IPPS-A) is a hybrid solution using ERP software to deliver an integrated personnel and pay capability. IPPS-A will provide the Army with an integrated, multi-component personnel and pay system that streamlines Army Human Resources processes, enhances the efficiency and accuracy of Army personnel and pay procedures, and supports soldiers and their families. IPPS-A will improve internal controls to prevent erroneous military payments and loss of funds.

Soldiers fire the main weapon of an M1A2 Abrams tank during a gunnery qualification event at the Rodriguez live fire complex in South Korea, Nov. 28, 2017. The soldiers are assigned to the 1st Battalion, 8th Cavalry Regiment.

Army photo by Sgt. Patrick Eakin

Navy ERPs

Navy Enterprise Resource Planning (Navy ERP) is an integrated business system that provides streamlined financial, acquisition, and supply chain management to the Navy's systems commands.

Global Combat Support System – Marine Corps (GCSS-MC) is the core web-enabled, centrally managed ERP for the Marine Corps. The GCSS-MC is focused on the acquisition and implementation of the initial set of logistics capabilities to deliver improved supply and maintenance management services. As the technology centerpiece of the Marine Corps' overall logistics modernization effort, GCSS-MC will provide advanced expeditionary logistics capabilities to ensure future combat efficiency.

Air Force ERPs

Defense Enterprise Accounting and Management System (DEAMS) is an automated accounting and financial management execution system for the Air Force and U.S. Transportation Command. DEAMS is the core accounting and financial management solution for the Transportation Working Capital Fund and General Fund. It serves as the financial foundation for all enterprise business system modernization across the Air Force. DEAMS provides accurate and timely financial information using standardized business processes and complies with applicable federal laws, regulations, and policies.

Air Force Integrated Personnel and Pay System (AF-IPPS) is a comprehensive, self-service, web-based solution currently in development that integrates personnel and pay processes into one system and maintains an official member record throughout the airman's career. Designed to be an FFMIA-compliant system, AF-IPPS functionality will enhance general and application controls.

A member of the Air Force's Wings of Blue Parachute Demonstration Team jumps out of an aircraft during the opening ceremony of Aviation Nation 2017 Nellis Air and Space Expo at Nellis Air Force Base, Nev., Nov. 10, 2017.

Air Force photo by Senior Airman Kevin Tanenbaum

Other Defense Organization ERPs

Defense Agencies Initiative (DAI) is a system dedicated to address financial management improvements through standard end-to-end business processes delivered by COTS software. Currently DAI provides Budget to Report, Proposal to Reward, Cost Management, Order to Cash, Procure to Pay, Acquire to Retire, and Hire to Retire capabilities for Fourth Estate organizations.

Enterprise Business System (EBS) uses a COTS product to manage the Defense Logistics Agency's (DLA) supply chain management business. EBS also includes Electronic Procurement, Real Property, Inventory Materiel Management and Stock Positioning, and Energy Convergence modules, providing DLA leadership with the tools to respond to new challenges and trends.

Legal Compliance

Antideficiency Act (ADA)

The Antideficiency Act is codified in *31 U.S.C. §§1341(a)(1)*, *1342*, and *1517(a)*. The ADA provides that federal agencies may not obligate or expend funds in excess of the amount available in an appropriation or fund or in advance of appropriations; accept voluntary services on behalf of the Government or employ personal services in excess of that authorized by law, except as it may be necessary in emergencies involving the safety of human life or the protection of property; or obligate, authorize, or expend funds that exceed an apportionment or amount permitted by a regulation prescribed for the administrative control of an appropriation. An ADA violation is a serious matter as it represents a violation of a federal statute. A federal employee who violates the ADA may be subject to administrative sanctions (such as suspension from duty without pay or removal from office) and/or penal sanctions (such as fines or imprisonment).

To improve compliance with and enhance knowledge of ADA requirements, the Department leveraged the DoD FM Certification Program, sponsored by the Office of the Under Secretary of Defense (Comptroller), which requires the FM workforce to complete competencies and other specific courses (including fiscal law training requirements) which relate to the ADA and various other FM topics. Additionally, in keeping with the reporting requirements for violations of the Act under *31 U.S.C §1351*, the Department maintains a close cooperation with the Military Departments and Defense Agencies as they investigate suspected ADA violations. Confirmed ADA violations are reported to the President through the Director of the OMB, Congress, and the Comptroller General of the United States.

During FY 2018, four ADA violations were reported totaling $13.7 million. The cause of the cases were:

- The Department violated the purpose rule by inappropriately paying salaries and benefits;
- The Department violated the purpose rule by inappropriately using funds to train foreign military students and to subsidize cafeteria costs;
- The Department violated the purpose rule by inappropriately using funds to carry out a military construction project; and
- The Department failed to obtain certification and approval before obligating funds for the development of a Defense business system in violation of *10 U.S.C. §2222*.

The Department has implemented several measures to prevent a recurrence of these type of violations such as issuing new policies and guidance and improving procedures and internal controls. Further information about each of the Department's reported ADA violations and the remedial actions taken are included in GAO's annual compilation of *Antideficiency Act Reports*.

Digital Accountability and Transparency (DATA) Act

The Digital Accountability and Transparency Act of 2014 (*DATA Act*) amended the Federal Funding Accountability and Transparency Act of 2006 (*FFATA*) to require the public reporting of additional financial data to supplement the current contract and financial assistance award data on *USASpending.gov*. The goal of the law is to improve the ability of the public to track and understand how the government is spending their tax dollars. The DATA Act requires Agencies to report/certify their financial and award data to the Treasury on a quarterly basis, for public consumption on USASpending.gov. This information includes how much funding the Department receives; where the funding comes from (e.g., appropriations, transfers, and carry-forward balances from prior fiscal years); how the department plans to spend the funding; and how the Department actually spent the funding, to include the disclosure of the entities or organization receiving federal funding via contract and grant awards.

In April 2017, the Department and USACE (whose DATA Act information is audited separately) began submitting the summary level appropriation and obligation information in response to the DATA Act. The Department currently has a statutory waiver, granted by OMB, allowing the Department additional time to compile financial award information that ties together summary obligation data to contract and financial assistance information based on parent award identification. The Department is committed to pursuing every effort to comply with the DATA Act reporting requirements.

Federal Civil Penalties Inflation Adjustment Act

On November 2, 2015, the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (*the 2015 Act*) was signed into law, which further amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (*Inflation Adjustment Act*, *28 U.S.C. §2461, note*), to improve the effectiveness of civil monetary penalties and to maintain their deterrent effect. The 2015 Act requires federal agencies to report the most recently published inflationary adjustments to civil monetary penalties in order to ensure that civil penalties under their cognizance are periodically adjusted.

The Department is in compliance with the 2015 Act. Each year, by January 15, the Department publishes inflationary adjustments to civil penalties as a final rule in the *Federal Register*. The implementation of the 2015 Act deters violations of law, encourages corrective action(s) of existing violations, and prevents waste, fraud, and abuse within the Department.

Additional information regarding the types of civil penalties and their amounts is located in the Other Information section of this report.

Fraud Reduction and Data Analytics Act

The Fraud Reduction and Data Analytics Act of 2015 (*FRDAA*) was enacted on June 30, 2016 to help improve the ability of federal agencies to prevent, detect, and respond to fraud. Under the FRDAA, federal agencies are required to (1) conduct an evaluation of fraud risks and use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; (2) collect and analyze data on detected fraud to monitor fraud trends and use the data and information to continuously improve fraud controls; and (3) use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response. In FY 2017, the Department conducted a coordinated fraud risk survey throughout the DoD Components (including the Military Departments) to assess the extent of control activities currently in place related to the prevention, detection, and response to fraud. The result of this survey provided the Department with an overview of each DoD Component's knowledge of FRDAA, as well as their approach to identifying and mitigating fraud risks.

In FY 2018, the Department furthered its FRDAA compliance efforts by developing a Department-wide Fraud Risk Management framework to assist DoD Components with adopting the guidance and leading practices prescribed by the GAO, taking steps to align ERM/ICP policies and procedures with the updated OMB *Circular No. A-123*, and revising DoD internal control guidance documents to assist DoD Components with strengthening their internal controls. As these and other efforts progress, the Department will continue to assess the compliance and maturity of fraud risk management programs across the Department, including the evaluation of internal controls related to fraud risks; the use of data analytics in identifying, preventing, and responding to fraud (including improper payments); and the number of fraud risks identified and mitigated. Detailed information regarding the Department's FY 2018 FRDAA compliance efforts is located in the Other Information section of this report.

Grants Oversight and New Efficiency (GONE) Act

The *GONE Act* was enacted in January 2016 to prompt improvements in the timely closeout of federal grant awards and to improve accountability and oversight in grants management. The GONE Act requires the head of each federal agency to submit to Congress, in coordination with the Secretary of the *Department of Health and Human Services* a report on the grants and cooperative agreement awards that were not closed for which the period of performance has elapsed for more than two years. The *FY 2017 DoD Agency Financial Report* included awards meeting this criteria with a period of performance end date of September 30, 2015 or earlier. A status update to the previously reported awards is included in the Other Information section of this report.

To assure compliance with OMB priorities, DoD Components increased staff dedicated to closing awards, including hiring additional experienced senior staff to review documentation and oversee the process; prioritized work schedules to assure timely closeout of the awards; and coordinated with grantees and DoD offices to resolve issues and obtain accurate reports.

Improper Payments Elimination and Recovery Act (IPERA)

DoD Financial Management Regulation Volume 4, Chapter 14, defines improper payments as any payment that should not have been made or that was made in an incorrect amount (i.e., overpayment or underpayment) to an eligible recipient. The definition also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received, or when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation.

In accordance with the Improper Payments Information Act of 2002 (*IPIA*), as amended by the Improper Payments Elimination and Recovery Act of 2010 (*IPERA*) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (*IPERIA*), and OMB Circular No. A-123, *Appendix C*, DoD Components are required to report the status and recovery of improper payments to the President and Congress in the following program categories:

- Civilian Pay
- Commercial Pay
- Military Health Benefits
- Military Pay
- Military Retirement
- Travel Pay

The Department is committed to improving payment accuracy in all of its programs. Each DoD disbursing activity is committed to identifying the root causes of improper payments, establishing appropriate sampling methodologies, developing and implementing corrective action plans, and monitoring to ensure prevention of improper payments and compliance with IPERA. In FY 2018, DoD management increased the level of oversight on improper payments which resulted in the Department (1) reporting improper payment estimates below the IPERA statutory threshold of ten percent for each of its eight programs, (2) reducing the number of programs reporting over $100 million in improper payments from five to three, and (3) meeting its target rate of six percent for travel improper payments for the first time in six years.

Several accomplishments during FY 2018 include chartering the DoD Improper Payments Senior Accountable Officials Steering Committee, which will proactively provide oversight to the DoD Payment Integrity Program, implement best practices, monitor performance, and drive action for compliance with IPERA; presenting three Department-wide webinars to communicate the major errors identified in the two highest error reporting programs and inform key stakeholders of specific actions to prevent and reduce improper payments; and implementing a standard corrective action plan within the DoD Payment Integrity Program to address noncompliance and advance the Department's goal to fully comply with IPERA.

The Department has a robust improper payments estimation and reporting process that has been in place for many years, and has been iteratively improved by numerous corrective actions to prevent and reduce improper payments. Preventing and recovering improper payments are among the top financial management priorities of the Department. Detailed information regarding improper payments is located in the Other Information section of this report.

Prompt Payment Act

The Prompt Payment Act (*PPA*) requires federal agencies to pay vendors on a timely basis, to pay interest penalties when payments are made late, and to take early-payment discounts only when beneficial to the government. DFAS complies with the PPA when applicable by statute and regulation and within the terms of the contract. DFAS is responsible for consolidating interest and discount data for the Department, however each DoD Component is responsible for capturing, validating, and explaining the results of their data.

DFAS makes timely payments and has an established metric which tracks interest penalties for late payments to contractors and vendors. Avoidance of interest penalties indicates effective internal controls and efficient processes, and allows funds to be utilized for other mission requirements. The goal for this metric is to average $90 or less in interest dollars paid per million PPA dollars disbursed on a monthly basis across all applicable contracts. The Department has successfully achieved this by meeting or exceeding the average goal every month, with only one exception, since reporting of this metric began in December 2016.

A separate metric tracks the amount of discounts offered within the terms of a contract but not exercised. Although discounts may be offered within a contract they will not be taken if not cost effective, meaning the discount rate offered does not exceed the Treasury *Current Value of Funds Rate*. The quarterly goal for this metric is to average 12 percent or less of Cost Effective Discount Dollars Lost across all applicable contracts. The Department has met or exceeded the average goal five of the last eight quarters.

FY 2018

Financial Section

Face of Defense: Extended Family Trains Together at Fort Lee

For the full article, click icon

Message from the Under Secretary of Defense (Comptroller)/ Chief Financial Officer

November 15, 2018

It is my privilege to join the Secretary of Defense in presenting the Department of Defense financial statements for Fiscal Year (FY) 2018, which are an integral part of our Agency Financial Report (AFR). The objective of the financial statements and accompanying information contained in the Financial Section of the AFR is to provide a comprehensive view of the financial activities undertaken in support of the Department's mission to deter war and protect national security.

In FY 2018, the Department underwent its first full-scope financial statement audit. As anticipated, our independent auditor, the Department of Defense Office of Inspector General, issued a Disclaimer of Opinion as the result of the audit. Though we were unable to achieve a clean (unmodified) opinion, the audit provides us with a powerful additional method to identify accounting and financial reporting issues as well as their root causes, target and develop corrective actions, prioritize business process reforms, and verify the proper remediation of audit findings.

To assist in driving change, we have established a Department-wide database tool for use in capturing, prioritizing, and assigning responsibility for auditor findings and the related corrective action plans. The wide visibility and use of this tool across the Department will reduce duplication of efforts, facilitate the sharing of lessons learned and best practices, and help maintain accountability. The tool will also help us to track the number of auditor findings closed, which will be the benchmark used to measure our progress towards achieving a clean audit opinion.

I want to thank the civilian employees and Military Service members of our financial and functional communities for their hard work and dedication in addressing audit findings, seeking opportunities for greater efficiency, and improving our business processes. The progress we achieved to date and will achieve going forward would not be possible without their efforts. We look forward to working through future audits as we improve the quality and reliability of our financial information, as well as the efficiency and effectiveness of our operations.

David L. Norquist

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PRINCIPAL FINANCIAL STATEMENTS AND NOTES

The principal financial statements are prepared to report the financial position and results of operations of the Department of Defense (DoD or the Department), pursuant to the requirements of title 31, United States Code, section 3515(b) (*31 U.S.C. § 3515(b)*). The statements are prepared from the accounting records of the Department in accordance with the formats prescribed by Office of Management and Budget (*OMB*) *Circular No. A-136* and, to the extent possible, with U.S. Generally Accepted Accounting Principles for federal entities as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). The statements, in addition to supporting financial reports, are used to monitor and control budgetary resources. The statements should be read with the realization that they are for a component of the U.S. Government.

The principal financial statements of the Department include the four financial statements described in Table 1.

Table 1. Principal Financial Statements

Statement	Information Provided
Balance Sheet	Reflects the Department's financial position as of the statement date (September 30, 2018). The assets reflect the amount of future economic benefits owned or managed by the Department. The liabilities reflect amounts owed by the Department. The net position is the difference between the assets and liabilities.
Statement of Net Cost	Shows, by major program, the components of the net cost of the Department's operations for the period. Net cost is equal to the gross cost incurred by the Department less any exchange revenue earned from its activities.
Statement of Changes in Net Position	Presents the sum of the unexpended appropriations provided to the Department that remain unused at the end of the fiscal year and the cumulative results of the Department's operations since inception. The statement focuses on how the Department's net cost of operations is financed. The resulting financial position represents the difference between assets and liabilities as shown on the consolidated balance sheet.
Statement of Budgetary Resources	Provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the Department's budgetary general ledger in accordance with budgetary accounting rules. The Statement of Budgetary Resources is the only principal financial statement prepared on a combined, rather than consolidated, basis. As such, all intra-entity transactions are included in the balances reported on the statement.

Department of Defense Agencywide
Consolidated Balance Sheet
As of September 30, 2018 and 2017
($ in millions)

	2018 (Unaudited)	2017 (Unaudited)
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 580,213.8	$ 501,620.4
Investments (Note 4)	1,091,764.4	991,733.9
Accounts Receivable (Note 5)	1,951.6	2,055.0
Other Assets (Note 6)	961.5	927.2
Total Intragovernmental Assets	1,674,891.3	1,496,336.5
Cash and Other Monetary Assets (Note 7)	968.0	1,119.7
Accounts Receivable, Net (Note 5)	5,694.1	5,244.1
Inventory and Related Property, Net (Note 9)	275,678.4	266,760.5
Loans Receivable (Note 8)	1,697.4	1,644.2
General Property, Plant and Equipment, Net (Note 10)	758,829.1	761,707.8
Investments (Note 4)	3,511.6	3,511.6
Other Assets (Note 6)	28,374.4	29,390.0
Total Assets	$ 2,749,644.3	$ 2,565,714.4
Stewardship Property, Plant and Equipment (Note 10)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 1,914.1	$ 1,573.8
Debt (Note 13)	1,685.7	1,630.8
Other Liabilities (Note 15 & 16)	7,403.7	7,017.8
Total Intragovernmental Liabilities	11,003.5	10,222.4
Accounts Payable (Note 12)	29,222.8	26,426.8
Loan Guarantee Liability (Note 8)	58.4	65.2
Military Retirement and Other Federal Employment Benefits (Note 17)	2,415,346.8	2,356,869.6
Environmental and Disposal Liabilities (Note 14)	70,411.4	68,318.1
Other Liabilities (Note 15 and Note 16)	38,074.9	36,071.9
Total Liabilities	2,564,117.8	2,497,974.0
Commitments and Contingencies (Note 16)		
Net Position (Consolidated Totals)		
Unexpended Appropriations - Dedicated Collections (Note 23)	-	-
Unexpended Appropriations - Other Funds	529,746.6	457,849.4
Cumulative Results of Operations - Dedicated Collections (Note 23)	16,778.4	16,149.7
Cumulative Results of Operations - Other Funds	(360,998.5)	(406,258.7)
Total Net Position	185,526.5	67,740.4
Total Liabilities and Net Position	$ 2,749,644.3	$ 2,565,714.4

The accompanying notes are an integral part of these statements.

Department of Defense Agencywide
Consolidated Statement of Net Cost
For the Years Ended September 30, 2018 and 2017
($ in millions)

	2018 (Unaudited)	2017 (Unaudited)
Gross Program Costs:		
Military Retirement Benefits	$ 104,973.1	$ 96,630.1
Civil Works	12,603.8	9,168.2
Military Personnel	145,255.3	139,512.6
Operations, Readiness & Support	259,653.5	302,022.8
Procurement	112,506.4	85,881.3
Research, Development, Test & Evaluation	88,386.3	84,380.8
Family Housing & Military Construction	11,714.5	10,521.9
Total Gross Program Costs	735,092.9	728,117.7
Less: Earned Revenue	(90,456.3)	(114,295.5)
Net Program Costs Before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	644,636.6	613,822.2
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	16,735.0	24,069.0
Net Cost of Operations	$ 661,371.6	$ 637,891.2

The accompanying notes are an integral part of these statements.

Department of Defense Agencywide
Consolidated Statement of Changes in Net Position
For the Years Ended September 30, 2018 and 2017
($ in millions)

	2018 (Unaudited)	2017 (Unaudited)
Unexpended Appropriations		
Beginning Balance	$ 457,849.4	$ 450,026.1
Prior Period Adjustments:		
Changes in Accounting Principles	-	-
Corrections of Errors	-	-
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $0.0 in FY 2018 and $0.0 in FY 2017) - (Note 23)	457,849.4	450,026.1
Budgetary Financing Sources:		
Appropriations Received	794,788.0	710,705.3
Appropriations Transferred In/Out	221.8	487.7
Other Adjustments	(20,876.0)	(22,779.7)
Appropriations Used	(702,236.6)	(680,590.0)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections of $0.0 in FY 2018 and $0.0 in FY 2017) - (Note 23)	71,897.2	7,823.3
Total Unexpended Appropriations (Includes Funds from Dedicated Collections of $0.0 in FY 2018 and $0.0 in FY 2017) - (Note 23)	529,746.6	457,849.4
Cumulative Results of Operations		
Beginning Balance	(390,109.0)	(469,572.9)
Prior Period Adjustments:		
Changes in Accounting Principles	(2,461.7)	37,345.0
Corrections of Errors	-	-
Beginning Balance, as adjusted (Includes Funds from Dedicated Collections of $16,149.7 in FY 2018 and $15,493.7 in FY 2017) - (Note 23)	(392,570.7)	(432,227.9)
Budgetary Financing Sources:		
Other Adjustments	(734.2)	612.5
Appropriations Used	702,236.6	680,590.0
Nonexchange Revenue	2,223.5	1,460.8
Donations and Forfeitures of Cash and Cash Equivalents	480.3	179.1
Transfers In/Out Without Reimbursement	1,325.0	1,286.4
Other	(3,490.4)	(2,543.8)
Other Financing Sources (Nonexchange):		
Donations and Forfeitures of Property	19.8	2.4
Transfers In/Out Without Reimbursement	23.8	139.7
Imputed Financing	5,309.1	3,673.9
Other	2,328.7	(5,390.9)
Total Financing Sources (Includes Funds from Dedicated Collections of $2,010.0 in FY 2018 and $1,251.4 in FY 2017) - (Note 23)	709,722.2	680,010.1
Net Cost of Operations (Includes Funds from Dedicated Collections of $1,381.3 in FY 2018 and $595.4 in FY 2017) - (Note 23)	661,371.6	637,891.2
Net Change	48,350.6	42,118.9
Cumulative Results of Operations (Includes Funds from Dedicated Collections of $16,778.4 in FY 2018 and $16,149.7 in FY 2017) - (Note 23)	(344,220.1)	(390,109.0)
Net Position	$ 185,526.5	$ 67,740.4

The accompanying notes are an integral part of these statements.

Department of Defense Agencywide
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2018 and 2017
($ in millions)

	2018 (Unaudited) Budgetary	2018 (Unaudited) Non-Budgetary Credit Reform Financing Account	2017 (Unaudited) Budgetary	2017 (Unaudited) Non-Budgetary Credit Reform Financing Account
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 181,008.2	$ 85.1	$ 180,984.0	$ 79.7
Appropriations (Discretionary and Mandatory)	863,583.0	-	776,981.7	-
Borrowing Authority (Discretionary and Mandatory)	-	55.4	-	58.1
Contract Authority (Discretionary and Mandatory)	88,428.1	-	76,540.2	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	119,413.9	61.6	105,705.9	76.6
Total Budgetary Resources	$ 1,252,433.2	$ 202.1	$ 1,140,211.8	$ 214.4
Memorandum (Non-Add) Entries				
Net Adjustments to Unobligated Balances Brought Forward, Oct 1	$ 22,300.3	$ -	$ 25,361.8	$ -
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	$ 1,054,209.3	$ 133.1	$ 981,481.5	$ 129.4
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	165,702.9	-	116,449.6	-
Exempt from Apportionment, Unexpired Accounts	2,875.6	-	6,759.2	-
Unapportioned, Unexpired Accounts	1,933.2	69.0	1,910.5	85.0
Unexpired Unobligated Balance, End of Year	170,511.7	69.0	125,119.3	85.0
Expired Unobligated Balance, End of Year	27,712.2	-	33,611.0	-
Unobligated Balance, End of Year (Total)	198,223.9	69.0	158,730.3	85.0
Total Budgetary Resources	$ 1,252,433.2	$ 202.1	$ 1,140,211.8	$ 214.4
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	$ 763,216.0	$ 71.2	$ 731,918.9	$ (5.0)
Distributed Offsetting Receipts (-)	(101,973.1)	-	(97,963.0)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 661,242.9	$ 71.2	$ 633,955.9	$ (5.0)

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements (Unaudited)

Note 1. Significant Accounting Policies

A. Mission of the Reporting Entity

The Department was established by the *National Security Act of 1947*. The enduring mission of the Department is to provide the military forces needed to deter war and protect the security of our country. Since the creation of America's first army in 1775, the Department and its predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the United States (U.S.) by deterring and defeating aggression and coercion in critical regions.

The Department includes the Office of the Secretary of Defense (*OSD*), Joint Chiefs of Staff (*JCS*), DoD Office of the Inspector General (*DoD OIG*), Military Departments, Defense Agencies, DoD Field Activities, and Combatant Commands, which are considered, and may be referred to as, DoD Components. The Military Departments consist of the Departments of the *Army*, the *Navy* (of which the *Marine Corps* is a component), and the *Air Force*.

B. Basis of Presentation

The financial statements have been prepared to report the financial position and results of DoD operations, as required by the *Chief Financial Officers Act of 1990*, as amended and expanded by the *Government Management Reform Act of 1994* and other applicable legislation. The financial statements have been prepared from statements from the accounting records of the Department in accordance with the formats prescribed by OMB *Circular No. A-136* and, to the extent possible, with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (*FASAB*). The financial statements account for all resources for which the Department is responsible, unless otherwise noted. 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.

The Department is unable to fully comply with all elements of U.S. GAAP and OMB Circular No. A-136 due to the limitations of financial and non-financial processes and systems that support the financial statements. The Department derives reported values and information for major asset and liability categories largely from non-financial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with U.S. GAAP. The Department continues to implement process and system improvements addressing these limitations.

In accordance with FASAB Statement of Federal Financial Accounting Standards *(SFFAS) 47*, the Department is disclosing its relationships with Department-sponsored Federally Funded Research and Development Centers and DoD Nonappropriated Fund Instrumentalities. This disclosure is available at Note 26, *Disclosure Entities and Related Parties*.

C. Use of Estimates

The Department's management makes assumptions and reasonable estimates in the preparation of financial statements based on current conditions which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as environmental liabilities, year-end accruals of accounts payable, and actuarial liabilities related to workers' compensation.

D. Appropriations and Funds

Appropriated Fund Types

The Department receives appropriations and funds as general, working capital (revolving), trust, and special funds. The Department uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General funds are used for financial transactions funded by congressional appropriations, including personnel, operations and maintenance, research and development, procurement, and military construction.

Working capital funds (WCF) 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 flowing 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.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated Funds from Dedicated Collections. Funds from Dedicated Collections are financed by specifically identified revenues; are required by statute to be used for designated activities, benefits, or purposes; and remain available over time. In accordance with *SFFAS 27*, as amended by *SFFAS 43*, the Department separately accounts for and reports on the receipt, use, and retention of revenues and other financing sources for Funds from Dedicated Collections in Note 23, *Funds from Dedicated Collections*.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not DoD funds and, as such, are not available for the Department's operations. The Department is acting as an agent or custodian for funds awaiting distribution.

Nonappropriated Funds

The Department's nonappropriated fund instrumentalities (NAFIs) are fiscal entities supported in whole or in part by nonappropriated funds (NAFs). Generally, NAFs are generated from sales and user fees. The Department's NAFIs are established by DoD policy, controlled by the Department, and governed by sections of *title 10, U.S.C.*. NAFIs, primarily consisting of the Military Services' exchanges and morale, welfare, and recreation (*MWR*) entities, are intended to enhance the quality of life for members of the Uniformed Services, retired members, and dependents of such members, and to support military readiness, recruitment, and retention.

The Under Secretary of Defense for Personnel and Readiness (*USD(P&R)*) exercises overall policy direction for and oversight of DoD NAF activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (*USD(C)/CFO*) and the Defense Finance and Accounting Service (*DFAS*), in coordination with the USD(P&R), are responsible for NAF accounting policy. DoD policy requires the DoD Components to appoint advisory groups for NAFIs. The advisory groups ensure the NAFIs are responsive to authorized patrons and to the purposes for which the NAFIs were created. Additionally, the NAFIs are subject to DoD policy requirements for financial reporting to USD(P&R) and financial audits conducted by independent public accounting firms. However, NAFI financial activity is not included in the DoD consolidated financial statements.

Allocation Transfers

The Department is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity.

The Department receives allocation transfers from the following agencies: Departments of Agriculture, Interior, Energy, and Transportation; the Appalachian Regional Commission; and the Federal Highway Administration.

Additionally, the Department also receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Department's financial statements. These funds include South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways, and Harbor Maintenance.

As a parent, the Department reports in these financial statements funds allocated to the Departments of Transportation and Agriculture.

E. Basis of Accounting

The Department's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the DoD Components and their sub-entities. The underlying data is largely derived from budgetary transactions (e.g., obligations, disbursements, and collections), from non-financial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities.

The Department presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is the summation of the DoD Components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the DoD Components. 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. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

The Department's continued effort towards full compliance with U.S. GAAP for the accrual method of accounting is encumbered by various systems limitations and the sensitive nature of Departmental activities.

F. Revenues and Other Financing Sources

The Department receives congressional appropriations as financing sources for general funds, and on occasion, will also receive congressional appropriations for WCFs. These funds either expire annually, on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Department recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is the Department's standard policy for services provided as required by OMB *Circular No. A-25*. In some instances, revenue is recognized when invoices are issued.

Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

The Department does not include non-monetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost. The U.S. has cost sharing agreements with countries, through mutual or reciprocal defense agreements, where U.S. troops are stationed or where the U.S. Fleet is in a port.

In accordance with *SFFAS 7*, the Department recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

G. Recognition of Expenses

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

In the case of Operating Materials and Supplies (OM&S), operating expenses are generally recognized when the items are purchased. The Department has issued guidance under which DoD Components may expense OM&S using the purchase method of accounting rather than the consumption method if certain operational and other criteria, as applicable, are met, as set forth under U.S. GAAP. Under the consumption method, OM&S would be expensed when consumed.

H. Accounting for Intragovernmental and Intergovernmental Activities

Treasury Financial Manual, Volume I, Part 2, *Chapter 4700*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Generally, seller entities within the Department provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. The Department is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable the Department to correctly report, reconcile, and eliminate intragovernmental balances.

Imputed financing represents the cost paid on behalf of the Department by another federal entity. In accordance with *SFFAS 55* (which rescinded *SFFAS 4*, *SFFAS 30*, and Interpretation of Federal Financial Accounting Standards *(Interpretation) 6*), the Department recognizes imputed costs only for business-type activities and other costs specifically required by OMB, including (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees, to include unemployment and workers compensation under the Federal Employees' Compensation Act (*FECA*); and (3) losses in litigation proceedings.

The Department's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and related costs to federal agencies. The Department's financial statements do not report public debt, interest, or sources of public financing, whether from issuance of debt or tax revenues.

Generally, financing for the construction of the Department facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury (*Treasury*) does not allocate such costs to the Department.

I. Transactions with Foreign Governments and International Organizations

The Department is implementing the administration's foreign policy objectives under the provisions of the *Arms Export Control Act of 1976* by selling U.S. Government-approved defense articles and services to foreign partners and international organizations. The cost of administering these sales must occur at no cost to the Federal Government. Payment in U.S. dollars is required in advance for each sale.

J. Funds with the Department of the Treasury

The Department's monetary resources of collections and disbursements are maintained in Treasury accounts. The disbursing offices of DFAS, the Military Departments, the U.S. Army Corps of Engineers (*USACE*), and the Department of State's financial service centers process the majority of the Department's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS and the USACE Finance Center report to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable Fund Balance with Treasury account.

K. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Department, including coins, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both foreign currency exchanged for U.S. dollars and foreign currency received as payment for goods or services. Foreign currency is valued using the Treasury prevailing rate of exchange.

The majority of cash and all foreign currency is classified as "non-entity" and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Department conducts a significant portion of its operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance, (2) military personnel, (3) military construction, (4) family housing operations and maintenance, and (5) family housing construction. The gains and losses are calculated as the difference between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Department does not separately identify foreign currency fluctuation transactions.

L. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as aging of accounts receivable, debtor's ability to pay, and payment history. The Department 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 to be resolved between the agencies in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, *Chapter 4700*.

The Department has fuel exchange agreements with foreign countries. These agreements allow the Department to periodically offset the accounts receivable by the amount the Department owes to the same foreign country.

M. Direct Loans and Loan Guarantees

The Department operates a direct loan and loan guarantee program authorized by the National Defense Authorization Act *(NDAA) for FY 1996*, which includes a series of authorities allowing the Department to work with the private sector to renovate military housing. The Department's goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to taxpayers.

The NDAA for FY 1996 also provides the Department with a variety of authorities to obtain private sector financing and expertise to improve military housing. The Department uses these authorities individually or in combination. They include guarantees (both loan and rental), conveyance/leasing of existing property and facilities, differential lease payments, investments (both limited partnerships and stock/bond ownership), and direct loans.

The *NDAA for FY 2005* provided permanent authorities to the Military Housing Privatization Initiative (MHPI).

N. Inventories and Related Property

The Department values approximately 99 percent of resale inventory using the moving average cost method. Additionally, the Department reports the remaining one percent of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The Department, when applicable, will continue to adopt *SFFAS 48*, which permits alternative methods in establishing opening balances.

The Department manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships; tanks; self-propelled weapons; aircraft; and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities. Operational cycles are irregular and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies.

Related property includes OM&S and stockpile materiel. OM&S, including munitions not held for sale, are valued using various methods including moving average cost, standard price, historical cost, replacement price, and direct method. The Department uses both the consumption method and the purchase method of accounting for OM&S. Centrally managed and stored items, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. Under this method, materiel and supplies are expensed when consumed. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than General Equipment. The Department determined the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category, see Note 9, *Inventory and Related Property*.

Excess, obsolete, and unserviceable (EOU) inventory and OM&S is recognized at net realizable value through the use of an allowance account. For EOU transferred to the Defense Logistics Agency (DLA) Disposition Services, the net realizable value will generally be zero. The net realizable value of EOU disposed of through a Qualified Recycling Program or by other means other than a transfer to DLA is estimated based on prior disposal proceeds for comparable EOU, buyer quotes, or other reasonable means.

Inventory available and purchased for resale includes consumable spare and repair parts, and repairable items owned and managed by the Department. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory requiring repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Department often relies on weapon systems and machinery no longer in production. As a result, the Department supports a process encouraging the repair and rebuilding of certain items. This repair cycle is essential to maintaining readiness for a lethal joint force.

Inventory Work-in-Process balances include (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

O. Investments in Treasury Securities

The Department reports investments in Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method yielding similar results. The Department's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Department invests in non-marketable, market-based Treasury securities issued to federal agencies by Treasury's Bureau of the Fiscal Service. These securities are not traded on any financial exchange but are priced consistently with publicly traded Treasury securities.

The Department's net investments are held by various trust and special funds. These funds include the Military Retirement Fund; Medicare-Eligible Retiree Health Care Fund; Support for U.S. Relocation to Guam Activities; donations (gift funds); and Treasury managed trust funds reported by USACE including the South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Fund accounts.

Other investments represent joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of MHPI, authorized by the NDAA for FY 2005.

P. General Property, Plant and Equipment

The Department generally records General Property, Plant and Equipment (PP&E) at the estimated historical cost. However, when applicable, the Department will continue to adopt SFFAS 50, which permits alternative methods in establishing opening balances. The opening balance asset valuations were established using expenditure, acquisition, and disposal information. Land and land rights recognized in the prior year for certain DoD Components are excluded from General PP&E opening balances in FY 2018.

General PP&E assets are capitalized when an asset has a useful life of two or more years and when the acquisition costs equal or exceed the relevant capitalization threshold. The costs of modifications/improvements to existing General PP&E assets are capitalized if they (1) extend the asset's useful life or increase the asset's size or capacity and (2) equal or exceed the relevant capitalization threshold. The capitalization threshold for General PP&E assets is $250 thousand for real property and General Equipment, with the following exceptions:

- The capitalization threshold for Department of the Navy General Fund and Department of the Air Force General Fund general equipment assets is $1 million;
- The capitalization threshold for *USACE Civil Works* General PP&E assets, other than buildings and structures related to hydropower projects, is $25 thousand; and
- USACE Civil Works buildings and structures related to hydropower projects are capitalized regardless of cost.

Except for those related to USACE Civil Works, these capitalization thresholds apply to General PP&E asset acquisitions and modifications/improvements placed into service after September 30, 2013; General PP&E assets acquired prior to October 1, 2013 were capitalized at prior thresholds ($100 thousand for general equipment and $20 thousand for real property). The Department depreciates all General PP&E assets, other than land, on a straight-line basis.

The Department provides government property to contractors to complete contract work, for which the contractors assume the responsibility for asset control and accountability. The Department either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E assets meet or exceed the relevant capitalization threshold, federal accounting standards require it to be reported on the Department's Balance Sheet.

Q. Advances and Prepayments

Payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The Department expenses and properly classifies assets when the related goods and services are received.

R. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease substantially transfers all the benefits and risks of ownership to the Department (a capital lease) and the value equals or exceeds the relevant capitalization threshold, the Department records the applicable asset as though purchased, with an offsetting liability, and records depreciation on the asset. The Department records the asset and liability at the lesser of the present value of the rental and other minimum lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property (e.g., real estate or equipment) from a lessor in exchange for payments of funds.

An operating lease does not substantially transfer all the benefits and risks of ownership to the Department. Payments for operating leases are expensed over the lease term. Office space leases entered into by the Department are the largest component of operating leases.

S. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments not reported elsewhere on the Department's Balance Sheet.

The Department conducts business with commercial contractors under two primary types of contracts – fixed price and cost reimbursable. The Department may provide financing payments to contractors to alleviate the potential financial burden from long-term contracts. Contract financing payments are defined in the Federal Acquisition Regulation (*FAR*), *Part 32*, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The Defense Federal Acquisition Regulation Supplement (*DFARS*) authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

T. Contingencies and Other Liabilities

The Department recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

When conditions for liability recognition on the financial statements are not met, there may still be a requirement for disclosure in the notes to the financial statements if there is at least a reasonable possibility of incurring a loss or additional losses. The Department's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship, and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

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

Other liabilities also arise as a result of anticipated disposal costs for the Department's assets. Consistent with *SFFAS 6*, recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on the Department's policy, and in accordance with *SFFAS 5*, non-environmental disposal liabilities are recognized when management decides to dispose of an asset. In addition, the Department recognizes non-environmental disposal liabilities for nuclear-powered military equipment when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

U. Accrued Leave

The Department reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed when taken. The liabilities are based on current pay rates. Under general funds, military leave and civilian annual leave liabilities are typically recorded as unfunded until the leave is taken or otherwise becomes due and payable; under working capital funds, leave is funded as earned.

V. Treaties for Use of Foreign Bases

The Department has the use of land, buildings, and other overseas facilities obtained through various international treaties and agreements negotiated by the Department of State. The Department purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Department continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any irretrievable capital assets. The settlement due to the United States or host nation is negotiated and takes into account the value of capital investments and may be offset by environmental cleanup costs, if applicable.

W. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Department of cash and other assets in which non-federal individuals or entities have an ownership interest that the Department must uphold. Fiduciary cash and other assets are not assets of the Department and are not recognized on the Balance Sheet. Fiduciary activities are reported in Note 24, *Fiduciary Activities*.

X. Military Retirement and Other Federal Employment Benefits

The Department applies *SFFAS 33* in selecting the discount rate and valuation date used in estimating actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits* and Note 18, *General Disclosures Related to the Statement of Net Cost*, for additional information.

Y. Subsequent Events

Subsequent events have been evaluated from the balance sheet date through November 15, 2018, which is the date the financial statements were available to be issued. Management is in the process of assessing the financial impact of Hurricane Michael, which occurred during the month of October 2018.

Note 2. Non-Entity Assets

Non-entity assets are not available for use in the Department's normal operations. The Department has stewardship accountability and reporting responsibility for non-entity assets.

Table 2. Non-Entity Assets

As of September 30 ($ in millions)	2018	2017
Intragovernmental Assets		
Fund Balance with Treasury	$ 2,849.2	$ 2,895.1
Accounts Receivable	0.5	55.8
Total Intragovernmental Assets	2,849.7	2,950.9
Non-Federal Assets		
Cash and Other Monetary Assets	856.3	946.2
Accounts Receivable	2,205.7	2,338.9
Total Non-Federal Assets	3,062.0	3,285.1
Total Non-Entity Assets	5,911.7	6,236.0
Total Entity Assets	2,743,732.6	2,559,478.4
Total Assets	$ 2,749,644.3	$ 2,565,714.4

Intragovernmental Assets

Fund Balance with Treasury (FBWT) consists primarily of deposit funds and receipt accounts. Deposit funds represent amounts held temporarily until paid to the appropriate party. Receipt accounts represent amounts collected on behalf of the Treasury General Fund.

Accounts Receivable are primarily amounts necessary to cover surcharge liabilities to be collected on behalf of others. In FY 2018, the Department improved its business practices for capturing Military Housing Privatization Initiative-related intragovernmental activity between business units. This improvement resulted in more accurate reporting of Intragovernmental Accounts Receivable for FY 2018; the Intragovernmental Accounts Receivable amount for FY 2017 is overstated.

Non-Federal Assets

Cash and Other Monetary Assets consist primarily of cash held by disbursing officers to carry out payment, collection, and foreign currency exchanges.

Accounts Receivable consists of amounts associated with canceled year appropriations, and interest, fines, and penalties due on debt. Generally, the Department cannot use the proceeds and must remit them to the Treasury unless permitted by law.

Note 3. Fund Balance with Treasury

The Treasury records cash receipts and disbursements on the Department's behalf; funds are available only for the purposes for which they were appropriated. The Department's Fund Balances with Treasury consist of appropriation accounts, revolving funds, trust accounts, special funds and other fund types.

Table 3. Status of Fund Balance with Treasury

As of September 30 ($ in millions)		2018		2017
Unobligated Balance				
Available	$	168,578.4	$	123,203.5
Unavailable		1,009,258.6		924,233.1
Obligated Balance Not Yet Disbursed		500,397.7		438,931.2
Non-Budgetary FBWT		3,325.9		2,956.1
Non-FBWT Budgetary Accounts		(1,101,346.8)		(987,703.5)
Total FBWT	$	580,213.8	$	501,620.4

The Status of FBWT, as presented in Table 3, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of Unobligated Balance and Obligated Balance Not Yet Disbursed) and those resources provided by other means. The Total FBWT reported on the Balance Sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance consists primarily of funds invested in Treasury securities and are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by public laws establishing the funds.

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

Non-Budgetary FBWT includes accounts without budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and Non-Entity FBWT.

Non-FBWT Budgetary Accounts reduce the Status of FBWT and consist of investments in Treasury securities, unfilled customer orders without advance, contract and borrowing authority, and receivables.

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies and fiduciary activities. The Department received allocation transfers from other federal agencies for execution on their behalf in the amount of $399.2 million in FY 2018 and $288.8 million in FY 2017. In addition, the Department held cash and cash equivalents for fiduciary activities in the amount of $77.9 million in FY 2018 and $77.8 million in FY 2017; these amounts are not reported in FBWT in accordance with *SFFAS 31*.

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

Note 4. Investments and Related Interest

Table 4. Investments and Related Interest

As of September 30 ($ in millions)	2018				
	Cost	Amortization Method	Amortized (Premium) / Discount	**Investments, Net**	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$ 842,584.2	Eff. Int.	$ (34,499.7)	$ 808,084.5	$ 831,172.6
Medicare Eligible Retiree					
Health Care Fund	278,981.1	Eff. Int.	(15,090.3)	263,890.8	284,354.3
U.S. Army Corps of Engineers	9,364.2	Eff. Int.	(37.5)	9,326.7	9,294.2
Other Funds	2,663.4	Eff. Int.	(78.2)	2,585.2	2,564.7
Total Non-Marketable, Market-Based	1,133,592.9		(49,705.7)	1,083,887.2	1,127,385.8
Accrued Interest	7,877.2	Eff. Int.	N/A	7,877.2	7,877.2
Total Intragovernmental Securities	1,141,470.1		(49,705.7)	1,091,764.4	1,135,263.0
Other Investments	$ 3,511.6		$ -	$ 3,511.6	N/A

Legend for Amortization Methods: Eff. Int. = Effective Interest Method

As of September 30 ($ in millions)	2017				
	Cost	Amortization Method	Amortized (Premium) / Discount	**Investments, Net**	Market Value Disclosure
Intragovernmental Securities					
Non-Marketable, Market-Based					
Military Retirement Fund	$ 755,224.4	Eff. Int.	$ (31,092.9)	$ 724,131.5	$ 779,882.2
Medicare Eligible Retiree					
Health Care Fund	262,142.0	Eff. Int.	(13,604.4)	248,537.6	280,882.8
U.S. Army Corps of Engineers	9,257.2	Eff. Int.	(67.3)	9,189.9	9,184.1
Other Funds	2,619.5	Eff. Int.	(114.8)	2,504.7	2,530.4
Total Non-Marketable, Market-Based	1,029,243.1		(44,879.4)	984,363.7	1,072,479.5
Accrued Interest	7,370.2	Eff. Int.	N/A	7,370.2	7,370.3
Total Intragovernmental Securities	1,036,613.3		(44,879.4)	991,733.9	1,079,849.8
Other Investments	$ 3,511.6		$ -	$ 3,511.6	N/A

Legend for Amortization Methods: Eff. Int. = Effective Interest Method

The Department invests primarily in non-marketable, market-based Treasury securities. The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value.

The Treasury securities are issued to authorized funds and are an asset to the Department and a liability to the Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with these funds. Cash generated (e.g., from bond dividends, proceeds from bond sales, and proceeds from sureties reaching maturity) is deposited in the Treasury and used for general Government purposes. Since the Department and the Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The Treasury securities provide the Department with authority to access funds to make future benefit payments or other expenditures. When the Department requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all of its other expenditures.

The U.S. Army Corps of Engineers balance in Intragovernmental Securities consists primarily of $9.1 billion and $9.0 billion in Harbor Maintenance and Related Funds for FY 2018 and FY 2017, respectively.

In FY 2018, Other Funds consists primarily of $1.3 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.1 billion in investments of the DoD Education Benefits Trust Fund. In FY 2017, Other Funds consists primarily of $1.2 billion in investments of the Support for U.S. Relocation to Guam Activities Trust Fund and $1.1 billion in investments of the DoD Education Benefits Trust Fund.

Other Investments consists of Military Housing Privatization Initiative limited partnerships. The Department invests in non-governmental entities involved in the acquisition or construction of family housing and supporting facilities at Army, Air Force, Navy, and Marine Corps installations. The Department provides cash, land, or facilities as equity, but has no management role. A limited partnership arrangement operates purely as a private business and does not require Market Value Disclosure.

Note 5. Accounts Receivable, Net

Table 5. Accounts Receivable

As of September 30 ($ in millions)	2018		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 1,951.6	N/A	$ 1,951.6
Non-Federal Receivables (From the Public)	6,474.0	(779.9)	5,694.1
Total Accounts Receivable	$ 8,425.6	$ (779.9)	$ 7,645.7

As of September 30 ($ in millions)	2017		
	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 2,055.0	N/A	$ 2,055.0
Non-Federal Receivables (From the Public)	6,061.9	(817.8)	5,244.1
Total Accounts Receivable	$ 8,116.9	$ (817.8)	$ 7,299.1

Accounts receivable represent the Department's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2, *Chapter 4700*. The Department only recognizes an allowance for uncollectible amounts from the public. Allowances for uncollectible accounts are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances.

The gross amount due for Non-Federal Receivables (From the Public) for FY 2018 includes criminal restitution orders of $1.1 billion. Restitution receivables and associated payments are pursued by the courts handling those cases. The Department establishes the receivables based on the court documents received and posts payments received through the courts. Since the allowance for estimated uncollectible amounts is calculated for non-federal receivables at a summary level, the exact amount of allowance related to the criminal restitution orders cannot be determined. At two years delinquent, criminal restitution receivables are considered 100 percent uncollectible; however, the Department is only authorized to write off or close accounts with approval from the Department of Justice.

Note 6. Other Assets

Table 6. Other Assets

As of September 30 ($ in millions)	2018	2017
Intragovernmental Other Assets		
Advances and Prepayments	$ 838.1	$ 798.6
Other Assets	123.4	128.6
Total Intragovernmental Other Assets	961.5	927.2
Non-Federal Other Assets		
Outstanding Contract Financing Payments	26,016.6	25,397.3
Advances and Prepayments	2,316.3	3,980.0
Other Assets (With the Public)	41.5	12.7
Total Non-Federal Other Assets	28,374.4	29,390.0
Total Other Assets	$ 29,335.9	$ 30,317.2

Intragovernmental Other Assets

Advances and Prepayments are amounts advanced or prepaid to other federal agencies.

Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil (net book value of $123.3 million in FY 2018 and FY 2017), held by the Department of Energy. In accordance with the *Department of Defense Appropriations Act of 1993*, these assets are maintained as a *Strategic Petroleum Reserve* for national defense purposes.

Non-Federal Other Assets

In FY 2018, Outstanding Contract Financing Payments includes $21.7 billion in contract financing payments and an additional $4.3 billion in payments of estimated future amounts due to contractors upon delivery and government acceptance. In comparison, FY 2017 Outstanding Contract Financing Payments included $20.0 billion in contract financing payments and an additional $5.4 billion in payments of estimated future amounts due to contractors upon delivery and government acceptance. The Contract Financing Payment asset is related to the Contingent Liabilities reported in Note 15, *Other Liabilities*.

Advances and Prepayments are contract financing payments related to contract terms and conditions that convey rights to the Department, protecting the contract work from state or local taxation; liens or attachment by contractors' creditors; transfer of property; or disposition in bankruptcy. These rights do not transfer ownership of contractors' work to the Department. The Department does not have the right to take the work, except as provided for in contract clauses related to termination or acceptance. The Department is not obligated to make payment to contractors until delivery and acceptance.

In FY 2018, Other Assets (With the Public) consisted primarily of General PP&E permanently removed but awaiting disposal. In FY 2017, Other Assets (With the Public) consisted of General PP&E permanently awaiting disposal; liquidated damages used to compensate the Department for untimely delivery or for nonperformance of contracts; and asset donations received through voluntary non-reciprocal transfer, such as gifts of capital assets.

Note 7. Cash and Other Monetary Assets

Table 7. Cash and Other Monetary Assets

As of September 30 ($ in millions)	2018	2017
Cash	$ 444.2	$ 462.7
Foreign Currency	523.8	657.0
Total Cash and Other Monetary Assets	$ 968.0	$ 1,119.7

The majority of Cash and Foreign Currency represent non-entity assets and are restricted and unavailable to fund the Department's mission. In FY 2018 and FY 2017, cash includes unrestricted entity assets of $108.9 million and $172.3 million, respectively, comprised of undeposited collections and other cash.

Note 8. Direct Loans and Loan Guarantees

Military Housing Privatization Initiative

The Department operates loan guarantee programs for MHPI. The MHPI includes both direct loan and loan guarantee programs. The programs are authorized by the *NDAA for FY 2005*, which includes a series of authorities allowing the Department to work with the private sector to renovate and build military family housing. The MHPI accelerates the construction of new housing built to market standards and obtains private sector capital to leverage government funds. The Department provides protection to private sector partners against specific risks, such as base closure or member deployment.

The *Federal Credit Reform Act of 1990* governs all new and amended direct loan obligations and loan guarantee commitments made after FY 1991.

Loans Receivable

Direct loans are reported at the net present value (NPV) of the following projected cash flows:

- Loan disbursements;
- Repayments of principal; and
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries.

Table 8A. Direct Loans Obligated After FY 1991

As of September 30 ($ in millions)	2018	2017
Military Housing Privatization Initiative		
Loans Receivable Gross	$ 1,759.6	$ 1,704.6
Allowance for Subsidy Cost (Present Value)	(62.2)	(60.4)
Value of Assets Related to Direct Loans, Net	$ 1,697.4	$ 1,644.2
Total Loans Receivable	$ 1,697.4	$ 1,644.2

Total Loans Receivable does not represent proceeds the Department would expect to receive from selling the loans. Interest is calculated using the interest earned method.

Table 8B. Total Amount of Direct Loans Disbursed

As of September 30 ($ in millions)	2018	2017
Military Housing Privatization Initiative	$ 75.8	$ 56.3

Table 8C. Subsidy Expense for New Direct Loans Disbursed

As of September 30 ($ in millions)	2018				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ 8.8	$ 9.0	$ -	$ -	$ 17.8

As of September 30 ($ in millions)	2017				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ 1.0	$ 11.8	$ -	$ -	$ 12.8

Table 8D. Direct Loan Modifications and Reestimates

As of September 30 ($ in millions)	2018			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (5.0)	$ (7.4)	$ (12.4)

As of September 30 ($ in millions)	2017			
	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ 6.1	$ (20.3)	$ (14.2)

Table 8E. Total Direct Loan Subsidy Expense

As of September 30 ($ in millions)	2018	2017
Military Housing Privatization Initiative	$ 5.4	$ (1.4)

Table 8F. Budget Subsidy Rates for Direct Loans for the Current Year

As of September 30 ($ in millions)	2018				
	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2018 and FY 2017; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

The rates in Table 8F cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. Subsidy expense for new loans disbursed in the current year results from disbursements of loans from current year (when applicable) and prior year loan agreements. Subsidy expense reported in the current year also includes reestimates.

Table 8G. Schedule for Reconciling Subsidy Cost Allowance Balances

For the years ended September 30 ($ in millions)	2018	2017
Beginning Balance of the Subsidy Cost Allowance	$ 60.4	$ 63.5
Add: Subsidy Expense for Direct Loans Disbursed		
During the Reporting Years by Component:		
Interest Rate Differential Costs	8.8	1.0
Default Costs (Net of Recoveries)	9.0	11.8
Total of the Above Subsidy Expense Components	17.8	12.8
Adjustments:		
Subsidy Allowance Amortization	(3.6)	(1.7)
Ending Balance of the Subsidy Cost Allowance		
Before Reestimates	74.6	74.6
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	(5.0)	6.1
Technical/Default Reestimates	(7.4)	(20.3)
Total of the Above Reestimates Components	(12.4)	(14.2)
Ending Balance of the Subsidy Cost Allowance	$ 62.2	$ 60.4

Loan Guarantee Liability

Loan guarantee liabilities are reported at the NPV. The cost of the loan guarantee is the NPV of the estimated projected cash flows of payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments offset by payments to the Department including origination and other fees, penalties, and recoveries.

There were no defaulted loan guarantees in FY 2018 or FY 2017.

Table 8H. Guaranteed Loans Outstanding

As of September 30 ($ in millions)	2018		2017	
	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed	Outstanding Principal, Face Value	Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	$ 1,008.8	$ 1,008.8	$ 1,074.2	$ 1,074.2

Table 8I. New Guaranteed Loans Disbursed

As of September 30 ($ in millions)	2018 Outstanding Principal, Face Value	2018 Amount of Outstanding Principal Guaranteed	2017 Outstanding Principal, Face Value	2017 Amount of Outstanding Principal Guaranteed
Military Housing Privatization Initiative	$ 52.9	$ 52.9	$ 115.3	$ 115.3

Table 8J. Liability for Loan Guarantees

As of September 30 ($ in millions)	2018	2017
Military Housing Privatization Initiative	$ 58.4	$ 65.2
Total Loan Guarantee Liability	$ 58.4	$ 65.2

Table 8K. Subsidy Expense for New Loan Guarantees

As of September 30 ($ in millions)	2018 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ -	$ 2.0	$ -	$ -	$ 2.0

As of September 30 ($ in millions)	2017 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	$ -	$ 12.0	$ -	$ -	$ 12.0

Table 8L. Guaranteed Loan Modifications and Reestimates

As of September 30 ($ in millions)	2018 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (2.1)	$ (8.5)	$ (10.6)

As of September 30 ($ in millions)	2017 Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Military Housing Privatization Initiative	$ -	$ (3.3)	$ (16.5)	$ (19.8)

Table 8M. Total Loan Guarantee Subsidy Expense

As of September 30 ($ in millions)	2018	2017
Military Housing Privatization Initiative	$ (8.6)	$ (7.8)

Table 8N. Budget Subsidy Rates for Loan Guarantees for the Current Year

As of September 30 ($ in millions)	2018				
	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
Military Housing Privatization Initiative	0%	0%	0%	0%	0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. There were no new loan agreements in FY 2018 and FY 2017; disbursements and expenses relate to agreements existing at the beginning of the respective fiscal years.

These rates cannot be applied to loan guarantees disbursed during the current reporting year to yield the subsidy expense. Subsidy expense reported in the current year also includes reestimates. The subsidy expense for new loan guarantees reported in the current year results from both current year (when applicable) and prior year agreements.

Table 8O. Schedule for Reconciling Loan Guarantee Liability Balances

For the years ended September 30 ($ in millions)	2018	2017
Beginning Balance of the Loan Guarantee Liability	$ 65.2	$ 70.9
Add: Subsidy Expense for Guaranteed Loans Disbursed During the Reporting Years by Component:		
Default Costs (Net of Recoveries)	2.0	12.0
Adjustments:		
Interest Accumulation on the Liability Balance	1.8	2.1
Ending Balance of the Loan Guarantee Liability Before Reestimates	69.0	85.0
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimates	(2.1)	(3.3)
Technical/Default Reestimates	(8.5)	(16.5)
Total of the Above Reestimate Components	(10.6)	(19.8)
Ending Balance of the Loan Guarantee Liability	$ 58.4	$ 65.2

Note 9. Inventory and Related Property

Table 9A. Inventory and Related Property

As of September 30 ($ in millions)	2018	2017
Inventory, Net	$ 103,772.5	$ 94,904.0
Operating Materials & Supplies, Net	171,087.6	171,049.9
Stockpile Materiel, Net	818.3	806.6
Total Inventory and Related Property, Net	$ 275,678.4	$ 266,760.5

Inventory

Table 9B. Inventory Categories

As of September 30 ($ in millions)	2018			
	Inventory, Gross Value	Revaluation Allowance	**Inventory, Net**	Valuation Method
Held for Sale	$ 66,309.9	$ 62.2	$ 66,372.1	LAC, MAC
Held in Reserve for Future Sale	1,156.1	-	1,156.1	LAC, MAC
Held for Repair	37,668.8	(5,068.9)	32,599.9	LAC, MAC
Raw Material	1,171.8	-	1,171.8	MAC,LAC
Work-in-Process	2,106.4	-	2,106.4	MAC
Excess, Obsolete and Unserviceable	809.2	(443.0)	366.2	NRV
Total	$ 109,222.2	$ (5,449.7)	$ 103,772.5	

Legend for Valuation Methods:
LAC = Latest Acquisition Cost, adjusted for holding gains and losses *MAC = Moving Average Cost*
NRV = Net Realizable Value

As of September 30 ($ in millions)	2017			
	Inventory, Gross Value	Revaluation Allowance	**Inventory, Net**	Valuation Method
Held for Sale	$ 61,251.2	$ (49.2)	$ 61,202.0	LAC, MAC
Held in Reserve for Future Sale	-	-	-	LAC, MAC
Held for Repair	35,051.3	(4,473.4)	30,577.9	LAC, MAC
Raw Material	1,083.4	-	1,083.4	MAC,LAC
Work-in-Process	1,560.0	-	1,560.0	MAC
Excess, Obsolete and Unserviceable	869.3	(388.6)	480.7	NRV
Total	$ 99,815.2	$ (4,911.2)	$ 94,904.0	

Legend for Valuation Methods:
LAC = Latest Acquisition Cost, adjusted for holding gains and losses *MAC = Moving Average Cost*
NRV = Net Realizable Value

General Composition of Inventory

Inventory is tangible personal property such as raw materials to be consumed in the production of goods for sale or in the provision of service for a fee, the value of inventory used in the production process, finished goods held for sale, and goods held for repair and eventual sale. Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. The Department assigns inventory items to a category based on asset type and condition.

Inventory Restrictions

The following types of inventory are subject to restrictions on use, sale, or disposition:

- Inventories maintained as war reserve materiel in accordance with *DoD Instruction 3110.06* with a recorded value of $2.5 billion in FY 2018 ($2.6 billion in FY 2017), consisting of stocks such as bulk petroleum, subsistence items, and other goods managed and positioned to reduce reaction time in response to contingencies and to sustain military forces;
- Defense Commissary Agency inventory with a recorded value of $386.4 million in FY 2018 ($365.8 million in FY 2017), consisting of grocery, meat, and produce items, limited for resale to authorized commissary patrons; and
- Dispositions pending litigation or negotiation (related to issues including inventory condition, pricing disputes, and product specifications) with a recorded value of $129.6 million in FY 2018 ($134.3 million in FY 2017).

There are no known restrictions on inventory disposition related to environmental or other liabilities.

Operating Materials & Supplies

Table 9C. OM&S Categories

As of September 30 ($ in millions)	2018 OM&S, Gross Value	Revaluation Allowance	**OM&S, Net**	Valuation Method
Held for Use	$ 121,061.8	$ -	$ 121,061.8	DM, HC, MAC, RP, SP
Held in Reserve for Future Use	13,562.7	-	13,562.7	DM, HC, MAC, RP, SP
Held for Repair	31,996.8	-	31,996.8	DM, HC, MAC, RP, SP
In Development	4,466.3	-	4,466.3	DM, HC, MAC, RP, SP
Excess, Obsolete and Unserviceable	2,933.4	(2,933.4)	-	NRV
Total	$ 174,021.0	$ (2,933.4)	$ 171,087.6	

Legend for Valuation Methods:
DM = Direct Method *HC = Historical Cost* *MAC = Moving Average Cost*
NRV = Net Realizable Value *RP = Replacement Price* *SP = Standard Price*

As of September 30 ($ in millions)	2017 OM&S, Gross Value	Revaluation Allowance	**OM&S, Net**	Valuation Method
Held for Use	$ 130,343.1	$ -	$ 130,343.1	LAC, MAC
Held in Reserve for Future Use	9,957.3	-	9,957.3	LAC, MAC
Held for Repair	30,749.5	-	30,749.5	LAC, MAC
In Development	-	-	-	LAC, MAC
Excess, Obsolete and Unserviceable	2,458.3	(2,458.3)	-	NRV
Total	$ 173,508.2	$ (2,458.3)	$ 171,049.9	

Legend for Valuation Methods:
LAC = Latest Acquisition Cost, adjusted for holding gains and losses *MAC = Moving Average Cost*
NRV = Net Realizable Value

General Composition of OM&S

OM&S include spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Department assigns OM&S items to a category based on asset type and condition.

OM&S Restrictions

Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements based on condition. However, obsolete and unserviceable OM&S may be used in emergency combat situations when no other suitable munitions are immediately available.

Other Disclosures

The FASAB issued *SFFAS 48*, permitting alternative methods in establishing opening balances, effective for periods beginning after September 30, 2016 with early implementation allowed. Some DoD Components used the deemed cost measures from this standard for FY 2016; additional DoD Components used the deemed cost measures from the standard in FY 2017 using a combination of standard price (selling price), latest acquisition cost, estimated historical cost, and actual historical cost as the basis for valuation.

The Department identified assets previously reported as OM&S Held for Repair and reclassified the assets as OM&S Held for Use during Quarter 4, FY 2017. This correction, along with other adjustments (including a prior period adjustment recorded in FY 2017 of $24.4 billion to the noted OM&S balances), resulted in a decrease to OM&S Held for Repair of $30.3 billion and an increase to OM&S Held for Use of $55.0 billion at that time.

Effective FY 2018, certain assets previously reported under General Equipment Construction-in-Progress are now reported as OM&S In Development.

Stockpile Materiel

Table 9D. Stockpile Materiel Categories

As of September 30 ($ in millions)	2018 Stockpile Materiel Gross Value	2018 Allowance for Gains (Losses)	2018 **Stockpile Materiel, Net**	Valuation Method
Held for Sale	$ 32.1	$ -	$ 32.1	AC, LCM
Held in Reserve for Future Sale	786.2	-	786.2	AC, LCM
Total	$ 818.3	$ -	$ 818.3	

Legend for Valuation Methods:
AC = Actual Cost *LCM = Lower of Cost or Market*

As of September 30 ($ in millions)	2017 Stockpile Materiel Gross Value	2017 Allowance for Gains (Losses)	2017 **Stockpile Materiel, Net**	Valuation Method
Held for Sale	$ 19.6	$ -	$ 19.6	AC, LCM
Held in Reserve for Future Sale	787.0	-	787.0	AC, LCM
Total	$ 806.6	$ -	$ 806.6	

Legend for Valuation Methods:
AC = Actual Cost *LCM = Lower of Cost or Market*

General Composition of Stockpile Materiel

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies. The estimated market price of stockpile materiel as of September 30, 2018, is $1.3 billion ($1.1 billion in FY 2017).

Stockpile Materiel Restrictions

Materiel held by the National Defense Stockpile is restricted unless released by congressional action and made available for sale on the open market. Stockpile materiel may not be disposed except for (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; or (4) authorization by law.

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, the National Defense Stockpile reclassifies the materiel from Held in Reserve to Held for Sale.

Note 10. General PP&E, Net

Table 10A. Major General PP&E Asset Classes

As of September 30 ($ in millions)	2018				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	**Net Book Value**
Land	N/A	N/A	$ 9,076.7	N/A	$ 9,076.7
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	432,389.3	(265,377.3)	167,012.0
Leasehold Improvements	S/L	Lease Term	551.2	(292.6)	258.6
Software	S/L	2 - 5 or 10	9,940.2	(5,053.2)	4,887.0
General Equipment	S/L	Various	1,134,083.5	(660,634.5)	473,449.0
Assets Under Capital Lease	S/L	Lease Term	353.7	(257.5)	96.2
Construction in Progress	N/A	N/A	103,695.4	N/A	103,695.4
Other	N/A	N/A	12,477.3	(12,123.1)	354.2
Total General PP&E			$ 1,702,567.3	$ (943,738.2)	$ 758,829.1

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

Legend for Depreciation/Amortization Methods: S/L = Straight Line Method

As of September 30 ($ in millions)	2017				
	Depreciation / Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation / Amortization)	**Net Book Value**
Land	N/A	N/A	$ 10,615.4	N/A	$ 10,615.4
Buildings, Structures, and Facilities	S/L	35, 40, or 45 *	407,135.0	(248,252.3)	158,882.7
Leasehold Improvements	S/L	Lease Term	560.2	(293.2)	267.0
Software	S/L	2 - 5 or 10	9,069.5	(4,787.3)	4,282.2
General Equipment	S/L	Various	1,103,474.6	(637,223.7)	466,250.9
Assets Under Capital Lease	S/L	Lease Term	353.7	(242.7)	111.0
Construction in Progress	N/A	N/A	109,992.1	N/A	109,992.1
Other	N/A	N/A	11,306.8	(0.3)	11,306.5
Total General PP&E			$ 1,652,507.3	$ (890,799.5)	$ 761,707.8

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

Legend for Depreciation/Amortization Methods: S/L = Straight Line Method

The Department's General PP&E consists primarily of buildings and structures, furniture and fixtures, equipment, vehicles, internal use software, and land.

Other Disclosures

The Department has use of overseas land, buildings, and other facilities obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the Department's use and disposal of real property (land and buildings) located outside the United States.

The Department uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. The FASAB issued *SFFAS 50*, permitting alternative methods in establishing opening balances for General PP&E, effective for periods beginning after September 30, 2016. Some DoD Components used the alternative valuation methods from this standard based on historical records such as expenditure data, contracts, budget information, and engineering documentation. Land and land rights recognized in the prior year for certain DoD Components are excluded from General PP&E opening balances in FY 2018, as permitted under SFFAS 50. The total acreage of land and land rights excluded in this manner was 20,926,485 as of September 30, 2018. See Note 19, *Disclosures Related to the Statement of Changes in Net Position*, for additional details about the Department's implementation of SFFAS 50.

Other General PP&E includes Real Property held in Caretaker Status. Caretaker Status is defined as the Department's property, such as Base Realignment and Closure assets, awaiting further disposition, sale, or transfer to another entity.

Heritage Assets and Stewardship Land

SFFAS 29 provides guidance on accounting and note disclosures for Heritage Assets and Stewardship Land. The Department's policy is to preserve its heritage assets, which are items of historical, cultural, educational, or artistic importance.

As the Department's mission to provide the military forces needed to deter war and protect the security of our country has been executed, the Department has become a large scale owner of historic buildings, structures, historical artifacts, art, stewardship land, and other cultural resources. Protection of these elements of the nation's heritage assets and stewardship land is an essential part of the Department's mission.

The Department, with minor exceptions, uses the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets.

Heritage assets receive such designation, and have such designation withdrawn, through the accessioning and deaccessioning procedures for collections or through evaluation in compliance with the *National Historic Preservation Act*. Designation is in accordance with the standards articulated with the collection scopes and collecting plans, or by application of the criteria of the National Register of Historic Places.

Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. The Department defines these as follows in accordance with the National Historic Preservation Act:

- Buildings and Structures listed, or eligible for listing, on the National Register of Historic Places, including multi-use heritage assets;
- Archeological Sites listed, or eligible for listing, on the National Register of Historic Places; and
- Museum Collection Items considered unique due to historical, natural, cultural, educational, artistic, technical, or architectural significance.

The Department continues to progress towards identifying heritage assets and stewardship land added through donation or devise (e.g., a clause in a will leaving real estate to the Department). Differences in heritage asset quantities between the FY 2017 ending unit counts and the FY 2018 beginning unit counts resulted from periodic reviews.

Table 10B. Heritage Assets

For the year ended September 30, 2018 (physical unit count)	Beginning Balance	Additions	(Deletions)	Ending Balance
Categories:				
Buildings and Structures	45,314	1,467	(3,515)	43,266
Archeological Sites	25,385	350	(12,583)	13,152
Museum Collection Items (Objects, Not Including Fine Art)	1,255,279	11,798	(2,774)	1,264,303
Museum Collection Items (Objects, Fine Art)	96,960	390	(123)	97,227

Stewardship land represents land and land rights owned by the Department, but not acquired for, or in connection with items of General PP&E. All land provided to the Department from the public domain at no cost, regardless of its use, is classified as Stewardship Land.

The Department uses Stewardship Land for military bases, installations, training ranges, or other military mission related functions.

Stewardship land is categorized and reported in acres based on the predominant use of the land.

Table 10C. Stewardship Land

For the year ended September 30, 2018
(acres in thousands)

Facility Code	Facility Title	Beginning Balance	Additions	(Deletions)	Ending Balance
9110	Government Owned Land	1,561	11	-	1,572
9111	State Owned Land	-	-	-	-
9120	Withdrawn Public Land	8,825	90	(652)	8,263
9140	Public Land	5	-	(4)	1
Total Stewardship Lands		10,391	101	(656)	9,836

The four categories of Stewardship land– Government Owned Land; State Owned Land; Withdrawn Public Land (not available for settlement, sale, location, or entry); and Public Land (held by local governments) – are held in public trust.

The Department's methods of acquisition and withdrawal of stewardship land are as follows:

- Acquiring additional land through donation or withdrawals from public domain,
- Identifying missing land records,
- Disposing of Base Realignment and Closure (BRAC) sites or transferring land to another DoD Component,
- Identifying cemeteries and historical facilities,
- Disposing of BRAC property or excess installations, and
- Privatizing residential community initiatives programs.

Assets Under Capital Lease

Table 10D. Assets Under Capital Lease

As of September 30 ($ in millions)	2018	2017
Land and Buildings	$ 0.7	$ 0.7
Equipment	353.0	353.0
Accumulated Amortization	(257.5)	(242.7)
Total Assets Under Capital Lease	$ 96.2	$ 111.0

The Department is reporting capital lease equipment and related amortization related to an arrangement for Indefeasible Right of Use agreements, allowing the Department access to portions of fiber optic, undersea cables. In addition, the Department has a 50 year agreement for use of property in which no future lease payments are due; however, improvements made to the property as a tenant are reported as a capital asset.

Note 11. Liabilities Not Covered by Budgetary Resources

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30 ($ in millions)	2018	2017
Intragovernmental Liabilities		
Accounts Payable	$ -	$ -
Debt	0.6	0.8
Other	1,762.8	1,875.0
Total Intragovernmental Liabilities	1,763.4	1,875.8
Non-Federal Liabilities		
Accounts Payable	1,467.7	1,150.2
Military Retirement and Other Federal Employee Benefits	1,440,808.5	1,477,502.2
Environmental and Disposal Liabilities	67,100.1	65,032.9
Other Liabilities	13,454.8	14,971.8
Total Non-Federal Liabilities	1,522,831.1	1,558,657.1
Total Liabilities Not Covered by Budgetary Resources	1,524,594.5	1,560,532.9
Total Liabilities Covered by Budgetary Resources	1,039,523.3	937,441.1
Total Liabilities Not Requiring Budgetary Resources	-	-
Total Liabilities	$ 2,564,117.8	$ 2,497,974.0

Intragovernmental Liabilities

Debt consists primarily of borrowing from the Treasury for capital improvements to the Washington Aqueduct Project expected to be completed by 2023. The related reimbursement to the Department from Arlington County, Virginia and Falls Church, Virginia, is recorded as Non-Federal Accounts Receivable.

Other Liabilities consists primarily of unfunded liabilities for Federal Employees' Compensation Act, Judgment Fund, and Unemployment Insurance.

Non-Federal Liabilities

Accounts Payable primarily represents liabilities in canceled appropriations, which if paid, will be disbursed using current year funds.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. In FY 2018, these liabilities primarily consist of $886.0 billion in pension liabilities and $547.4 billion in health benefit liabilities. In FY 2017, the Department reported $913.6 billion in pension liabilities and $556.2 billion in health benefit liabilities. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for additional details.

Environmental and Disposal Liabilities represents the Department's liability for existing and anticipated environmental clean-up and disposal. Refer to Note 14, *Environmental and Disposal Liabilities*, for additional details.

Other Liabilities consists primarily of unfunded annual leave, contingent liabilities, and expected expenditures for disposal of conventional munitions.

Total Liabilities

Budgetary resources include (1) new budget authority, (2) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, (3) spending authority from offsetting collections, and (4) recoveries of unexpired budget authority through downward adjustments of prior year obligations. Additionally, liabilities are covered by budgetary resources if they are to be funded by permanent indefinite appropriations, provided that the resources may be apportioned by OMB without further action by Congress and without contingency having to be met first.

- Liabilities Not Covered by Budgetary Resources require congressional action before budgetary resources can be provided.
- Liabilities Not Requiring Budgetary Resources have not in the past and will not in the future require the use of budgetary resources.

Note 12. Accounts Payable

Table 12. Accounts Payable

As of September 30 ($ in millions)	2018		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Accounts Payable, Net
Intragovernmental Payables	$ 1,914.1	N/A	$ 1,914.1
Non-Federal Payables (To the Public)	29,221.7	1.1	29,222.8
Total Accounts Payable	$ 31,135.8	$ 1.1	$ 31,136.9

As of September 30 ($ in millions)	2017		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Accounts Payable, Net
Intragovernmental Payables	$ 1,573.8	N/A	$ 1,573.8
Non-Federal Payables (To the Public)	26,402.8	24.0	26,426.8
Total Accounts Payable	$ 27,976.6	$ 24.0	$ 28,000.6

Accounts Payable include amounts owed to federal and non-federal entities for goods and services received by the Department.

Note 13. Debt

Table 13. Debt

($ in millions)	2017 Beginning Balance	2017 Net Borrowing	2017 Ending Balance	2018 Net Borrowing	2018 Ending Balance
Agency Debt (Intragovernmental)					
Debt to Treasury	$ 1,630.7	$ 0.1	$ 1,630.8	$ 54.9	$ 1,685.7
Total Debt	$ 1,630.7	$ 0.1	$ 1,630.8	$ 54.9	$ 1,685.7

The Department's debt consists of interest and principal payments due to the Treasury. The Department borrows funds from the Treasury for the Military Housing Privatization Initiative and the Washington Aqueduct Capital Improvements Project. See Note 8, *Direct Loan and Loan Guarantees*, for more information pertaining to MHPI.

Note 14. Environmental and Disposal Liabilities

Table 14. Environmental and Disposal Liabilities

As of September 30 ($ in millions)	2018	2017
Accrued Environmental Restoration Liabilities		
Active Installations - Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 13,621.0	$ 13,063.8
Active Installations - Military Munitions Response Program (MMRP)	3,476.6	3,354.3
Formerly Used Defense Sites - IRP and BD/DR	2,942.1	2,967.8
Formerly Used Defense Sites - MMRP	7,683.0	7,968.3
Other Accrued Environmental Liabilities - Non-BRAC		
Environmental Corrective Action	1,902.3	917.9
Environmental Closure Requirements	4,089.8	3,916.7
Environmental Response at Operational Ranges	92.4	76.1
Asbestos	3,972.2	4,510.4
Non-Military Equipment	24.4	5.5
Other	2,078.9	1,786.5
BRAC Installations		
IRP	4,381.7	3,732.9
MMRP	766.0	713.5
Environmental Corrective Action/Closure Requirements	240.7	251.6
Asbestos	10.1	9.7
Environmental Disposal for Military Equipment/Weapons Program		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	16,439.6	15,807.0
Non-Nuclear Powered Military Equipment	126.1	137.0
Other Weapon Systems	383.7	354.6
Chemical Weapons Disposal Program		
Chemical Demilitarization - Chemical Materials Agency	2,576.8	2,671.4
Chemical Demilitarization - Assembled Chemical Weapons Alternatives (ACWA)	5,604.0	6,073.1
Total Environmental and Disposal Liabilities	$ 70,411.4	$ 68,318.1

The Department has cleanup requirements for the Defense Environmental Restoration Program (*DERP*) for active installations, BRAC installations, and Formerly Used Defense Sites. The Department has additional cleanup requirements for active installations not covered by DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners, as applicable.

Other Accrued Environmental Liabilities, Non-BRAC, Other consists primarily of Formerly Utilized Sites Remedial Action Program (*FUSRAP*) remediation of radiological contamination. The FUSRAP is a shared program between the Department and the Department of Energy's U.S. Atomic Energy and Weapons Program.

Sources for Cleanup Requirements

The Department is required to clean up contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. Each of the Department's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapon systems, and environmental costs related to BRAC actions.

The Department follows the Comprehensive Environmental Response, Compensation, and Liability Act (*CERCLA*), Superfund Amendments and Reauthorization Act of 1986 (*SARA*), Resource Conservation and Recovery Act (*RCRA*) or other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.

Laws concerning cleanup requirements for nuclear-powered naval vessels govern the Department's environmental policy and regulations for these vessels. The *Atomic Energy Act of 1954*, as amended, assures the proper management of source, special nuclear, and byproduct materiel. The Department coordinates nuclear power actions with the Department of Energy. The *Nuclear Waste Policy Act of 1982*, as amended, requires owners and generators of high-level nuclear waste and spent nuclear fuel to pay their share of the cost of the program. The *Low-Level Radioactive Waste Policy Amendments Act of 1985*, as amended, provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on the *NDAA for FY 1986*, directing the Department to destroy the unitary chemical stockpile in accordance with the Chemical Weapons Convention Treaty.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

The Department uses engineering estimates and independently validated models to project environmental costs. The models include the Remedial Action Cost Engineering Requirements (*RACER*) application and the Normalization of Data System. The Department validates the models in accordance with *DoD Instruction 5000.61* and estimates liabilities based on data received during preliminary assessment and site investigation. The Department primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, the Department complies with accounting standards to charge costs to current and/or future operating periods. The Department expensed cleanup costs 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, the Department expenses cleanup costs associated with the asset life that has passed since the General PP&E was placed into service. The Department systematically recognizes the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Department expenses associated environmental costs using two methods – (1) physical capacity for operating landfills and (2) life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination for Heritage Assets and Stewardship Land and certain other General PP&E when the asset is placed into service.

The unrecognized portion of the estimated total cleanup costs associated with disposal of General PP&E as of September 30, 2018 was $4.8 billion; this amount was unknown as of September 30, 2017.

Nature and Possible Changes in Estimated Cleanup Costs

Environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology. The Department is unaware of pending changes affecting its estimated cleanup costs.

The Department revised estimates resulting from previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

Uncertainty Regarding Accounting Estimates

The accounting estimates used to calculate the reported 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 investigation of the environmental sites reveals contamination levels differing from estimate parameters.

The Department is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, a reasonable estimate is indeterminable because the extent of the buried chemical munitions and agents is unknown.

The Department has ongoing studies for FUSRAP and will update its estimate as additional information is identified.

The Department may incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department continues its efforts to reasonably estimate required restoration costs.

Asbestos-Related Cleanup Costs:

The Department maintains structures and facilities that may contain asbestos material in the construction or renovation. At this time, the Department is working towards assessing a reasonable estimate for the total cleanup costs related to asbestos.

Note 15. Other Liabilities

Table 15. Other Liabilities

As of September 30 ($ in millions)	2018 Current Liability	 Non-Current Liability	 Total
Intragovernmental			
Advances from Others	$ 1,739.8	$ -	$ 1,739.8
Deposit Funds and Suspense Account Liabilities	242.0	-	242.0
Disbursing Officer Cash	867.6	-	867.6
Judgment Fund Liabilities	573.8	-	573.8
FECA Reimbursement to the Department of Labor	485.5	604.0	1,089.5
Custodial Liabilities	183.6	2,065.3	2,248.9
Employer Contributions and Payroll Taxes Payable	536.2	-	536.2
Other Liabilities	105.9	-	105.9
Total Intragovernmental Other Liabilities	4,734.4	2,669.3	7,403.7
Non-Federal			
Accrued Funded Payroll and Benefits	10,146.3	-	10,146.3
Advances from Others	5,696.5	(2.0)	5,694.5
Deposit Funds and Suspense Accounts	2,986.8	-	2,986.8
Non-Environmental Disposal Liabilities			
Military Equipment (Non-Nuclear)	1,166.6	60.5	1,227.1
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	10,589.6	-	10,589.6
Capital Lease Liability	-	-	-
Contract Holdbacks	534.9	27.4	562.3
Employer Contribution and Payroll Taxes Payable	586.8	-	586.8
Contingent Liabilities	695.6	5,347.6	6,043.2
Other Liabilities	232.3	-	232.3
Total Non-Federal Other Liabilities	32,635.4	5,439.5	38,074.9
Total Other Liabilities	$ 37,369.8	$ 8,108.8	$ 45,478.6

As of September 30 ($ in millions)	2017 Current Liability	Non-Current Liability	Total
Intragovernmental			
Advances from Others	$ 1,418.0	$ -	$ 1,418.0
Deposit Funds and Suspense Account Liabilities	(141.4)	-	(141.4)
Disbursing Officer Cash	1,009.2	-	1,009.2
Judgment Fund Liabilities	562.1	-	562.1
FECA Reimbursement to the Department of Labor	518.2	620.6	1,138.8
Custodial Liabilities	191.1	2,119.3	2,310.4
Employer Contributions and Payroll Taxes Payable	519.7	-	519.7
Other Liabilities	201.0	-	201.0
Total Intragovernmental Other Liabilities	4,277.9	2,739.9	7,017.8
Non-Federal			
Accrued Funded Payroll and Benefits	5,961.9	-	5,961.9
Advances from Others	5,149.8	11.0	5,160.8
Deposit Funds and Suspense Accounts	3,007.5	-	3,007.5
Non-Environmental Disposal Liabilities			
Military Equipment (Non-Nuclear)	1,136.7	58.5	1,195.2
Conventional Munitions Disposal	-	6.0	6.0
Accrued Unfunded Annual Leave	10,433.7	-	10,433.7
Capital Lease Liability	-	-	-
Contract Holdbacks	540.2	6.2	546.4
Employer Contribution and Payroll Taxes Payable	629.9	-	629.9
Contingent Liabilities	619.5	8,215.1	8,834.6
Other Liabilities	295.9	-	295.9
Total Non-Federal Other Liabilities	27,775.1	8,296.8	36,071.9
Total Other Liabilities	$ 32,053.0	$ 11,036.7	$ 43,089.7

Intragovernmental Other Liabilities

Advances from Others represent liabilities for collections received to cover future expenses or acquisition of assets.

Deposit Funds and Suspense Accounts represent liabilities for receipts held in suspense temporarily for distribution to another fund or entity or held as an agent for others and paid at the direction of the owner.

Disbursing Officers Cash represents liabilities for currency on hand; cash on deposit at designated depositories; cash in the hands of deputy disbursing officers, cashiers, and agents; negotiable instruments on hand; and similar notes advanced from the Treasury under various authorities. Disbursing Officers Cash is non-entity, restricted cash.

For information on Judgement Fund Liabilities, see Note 16, *Commitments and Contingencies*.

Federal Employees' Compensation Act (*FECA*) Reimbursement to the Department of Labor represents liabilities for billed amounts payable in FY 2018 and FY 2019 and unbilled amounts, including both incurred and an estimated accrual. Refer to Note 17, *Military Retirement and Other Federal Employment Benefits*, for the estimated FECA actuarial liability.

Custodial Liabilities represents liabilities for collections reported as nonexchange revenues where the Department is acting on behalf of another federal entity.

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

Other Liabilities primarily consists of unemployment compensation liabilities.

Non-Federal Other Liabilities

In FY 2018, Advances from Others includes an abnormal balance for the non-current portion of the liability. The Department is currently researching and working to resolve this.

Military Equipment (Non-Nuclear) is a part of the Non-Environmental Disposal liability related to the final disposition of equipment, munitions, and other national defense weapon systems that are considered non-nuclear. Disposal measurements involve the use of cost estimates that consider the anticipated level of effort required to dispose of the item.

The Department currently has no capital lease liability, but it is reporting capital lease assets. The Department is part of an arrangement for Indefeasible Right of Use agreements allowing the Department access to portions of fiber optic, undersea cables. These agreements called for an upfront payment which cannot be refunded. There are no future minimum lease payments, therefore no liability is required. However, payments are due annually for operating and maintenance expenses. If the Department discontinues the agreement in accordance with the contract terms, it would no longer be responsible for future annual maintenance expenses. In addition, the Department has a 50 year agreement for use of property in which no future lease payments are due; however, improvements made to the property as a tenant are reported as a capital asset. Refer to Note 10, *General PP&E, Net*, for additional information on Assets under Capital Lease.

Contract Holdbacks are amounts earned by contractors or suppliers during the production period but not yet paid to the contractor/supplier to ensure future performance.

Contingent Liabilities in FY 2018 and FY 2017 include $4.3 billion and $5.4 billion, respectively, related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (*FAR*). In accordance with contract terms, specific rights to contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Department is under no obligation to pay contractors amounts in excess of progress payments until delivery and government acceptance. The Department has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance, due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

Other Liabilities consist primarily of estimated costs for services provided; accrued liabilities which offset inventory owned and managed on behalf of foreign governments; and undistributed international tariff receipts.

Note 16. Commitments and Contingencies

Legal Contingencies

The Department is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. The Department has accrued contingent liabilities for material legal actions which the DoD Office of General Counsel (*DoD OGC*) considers an adverse decision probable and the amount of loss is measurable. Claims below the DoD consolidated materiality threshold but above the individual DoD Components' materiality threshold have the potential to be material in the aggregate; however, at this time in the judgement of the DoD OGC, those amounts are not included as contingent liabilities. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the Treasury *Judgment Fund*. The Department records contingent liabilities in Note 15, *Other Liabilities*.

Table 16. Summary of Legal Contingent Liabilities

As of September 30 ($ in millions)	2018 Dollars	2018 Number of Legal Actions	2017 Dollars	2017 Number of Legal Actions
DoD Consolidated Materiality Threshold	$ 160.4		$ 152.3	
Total Claims Exceeding Materiality Threshold:				
Probable	$ 935.1	4	$ 1,256.5	4
Reasonably Possible	12,237.7	8	5,829.0	3
Unable to Determine Possibility of Loss *	3,193,826.0	22	1,365,416.9	30
Remote	2,058,255.0	8	99,965.6	6
Total Claims Exceeding Materiality Threshold	$ 5,265,253.8	42	$ 1,472,468.0	43
Total Claims Above DoD Component Materiality Threshold, But Below the DoD Consolidated Materiality Threshold	$ 7,144.1	108	$ 6,598.6	119

* *Cases in which legal counsel is unable to express an opinion concerning the outcome should be considered as "Reasonably Possible" for financial reporting disclosure purposes.*

Other Commitments and Contingencies

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, potentially resulting in a future outflow of budgetary resources. Contingencies considered both measurable and probable have been recognized as liabilities. Refer to Note 15, *Other Liabilities*, for additional details. In addition, the Department may have contingencies arising from treaties and other international agreements. Presently, the Department has limited capability to capture these potential liabilities.

In FY 2018, the Department has $1.5 billion in obligations related to canceled appropriations for which it has a contractual commitment for payment ($1.5 billion in FY 2017), $950.4 million for contractual arrangements related to loan guarantees ($1,009.0 million in FY 2017), and $5.2 billion related to non-cancelable operating leases which may require future financial obligations ($4.2 billion in FY 2017). See Note 8, *Direct Loan and Loan Guarantees*, and Note 25, *Other Disclosures*, for additional information.

Note 17. Military Retirement and Other Federal Employment Benefits

The Department complies with *SFFAS 33*, which requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and postemployment benefits. SFFAS 33 also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

Table 17A. Military Retirement and Other Federal Employment Benefits Liability

As of September 30	2018		
($ in millions)	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	$ 1,616,398.1	$ (730,405.6)	$ 885,992.5
Military Pre Medicare-Eligible Retiree Health Benefits	249,694.0	-	249,694.0
Military Medicare-Eligible Retiree Health Benefits	535,318.1	(237,646.7)	297,671.4
Total Pension and Health Benefits	2,401,410.2	(968,052.3)	1,433,357.9
Other Benefits			
FECA	5,858.0	-	5,858.0
Voluntary Separation Incentive Programs	270.9	(108.6)	162.3
DoD Education Benefits Fund	921.7	(921.7)	-
Other	6,886.0	(5,455.7)	1,430.3
Total Other Benefits	13,936.6	(6,486.0)	7,450.6
Total Military Retirement and Other Federal Employment Benefits	$ 2,415,346.8	$ (974,538.3)	$ 1,440,808.5

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.1 trillion

As of September 30 ($ in millions)	2017 Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Pension and Health Benefits			
Military Retirement Pensions	$ 1,567,689.2	$ (654,078.5)	$ 913,610.7
Military Pre Medicare-Eligible Retiree Health Benefits	252,512.9	-	252,512.9
Military Medicare-Eligible Retiree Health Benefits	526,986.1	(223,306.2)	303,679.9
Total Pension and Health Benefits	2,347,188.2	(877,384.7)	1,469,803.5
Other Benefits			
FECA	5,936.0	-	5,936.0
Voluntary Separation Incentive Programs	321.5	(130.4)	191.1
DoD Education Benefits Fund	998.7	(998.7)	-
Other	2,425.2	(853.6)	1,571.6
Total Other Benefits	9,681.4	(1,982.7)	7,698.7
Total Military Retirement and Other Federal Employment Benefits	$ 2,356,869.6	$ (879,367.4)	$ 1,477,502.2

Actuarial Cost Method Used for Pension and Health Benefits: Aggregate Entry-Age Normal Method
Market Value of Investments in Non-Marketable, Market Based Securities included in Assets Available to Pay Benefits: $1.1 trillion

Table 17B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employment Benefits

For the year ended September 30 ($ in millions)	2018 Military Retirement Pensions	Military Pre Medicare Eligible Retiree Health Benefits	Military Medicare Eligible Retiree Health Benefits	Voluntary Separation Incentive Programs	DoD Education Benefits Fund
Beginning Actuarial Liability	$ 1,567,689.2	$ 252,512.9	$ 526,986.1	$ 321.5	$ 998.7
Expense:					
Normal Cost	29,673.5	10,135.7	10,498.3	-	138.8
Interest on the Liability Balance	57,466.1	9,772.8	20,223.9	6.1	33.6
Plan Amendments	8,932.0	(2,678.3)	(18,195.0)	-	-
Experience Losses (Gains)	9,610.0	(8,729.9)	(8,492.0)	3.0	6.9
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	105,681.6	8,500.3	4,035.2	9.1	179.3
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	(3,805.0)	(6,598.1)	-	-
Changes in Assumptions Other Than Trend	2,069.7	3,525.9	21,547.6	1.9	(7.0)
Losses (Gains) from Actuarial Assumption Changes	2,069.7	(279.1)	14,949.5	1.9	(7.0)
Total Expenses	107,751.3	8,221.2	18,984.7	11.0	172.3
Less: Benefit Outlays	59,042.4	11,040.1	10,652.7	61.6	249.3
Total Changes in Actuarial Liability	48,708.9	(2,818.9)	8,332.0	(50.6)	(77.0)
Ending Actuarial Liability	$ 1,616,398.1	$ 249,694.0	$ 535,318.1	$ 270.9	$ 921.7

For the year ended September 30 ($ in millions)	2017				
	Military Retirement Pensions	Military Pre Medicare Eligible Retiree Health Benefits	Military Medicare Eligible Retiree Health Benefits	Voluntary Separation Incentive Programs	DoD Education Benefits Fund
Beginning Actuarial Liability	$ 1,490,292.5	$ 239,734.7	$ 557,806.2	$ 380.4	$ 1,215.9
Expense:					
Normal Cost	27,428.0	9,384.3	11,152.7	-	144.4
Interest on the Liability Balance	57,530.9	9,751.5	22,546.3	8.6	40.7
Plan Amendments	(858.2)	-	-	-	-
Experience Losses (Gains)	(1,610.8)	(6,274.1)	(14,310.7)	(1.8)	(81.3)
Other Factors	-	-	-	-	-
Expenses Before Losses (Gains) from Actuarial Assumption Changes	82,489.9	12,861.7	19,388.3	6.8	103.8
Actuarial Losses (Gains) due to:					
Changes in Trend Assumptions	-	1,109.1	(53,632.9)	-	-
Changes in Assumptions Other Than Trend	52,910.5	9,575.9	14,134.1	4.9	(32.6)
Losses (Gains) from Actuarial Assumption Changes	52,910.5	10,685.0	(39,498.8)	4.9	(32.6)
Total Expenses	135,400.4	23,546.7	(20,110.5)	11.7	71.2
Less: Benefit Outlays	58,003.7	10,768.5	10,709.6	70.6	288.4
Total Changes in Actuarial Liability	77,396.7	12,778.2	(30,820.1)	(58.9)	(217.2)
Ending Actuarial Liability	$ 1,567,689.2	$ 252,512.9	$ 526,986.1	$ 321.5	$ 998.7

Pension and Health Benefits

Military Retirement Pensions

The Military Retirement Fund is a defined benefit plan authorized by the *NDAA for FY 1984* to provide funds used to pay annuities and pensions to retired military personnel and their survivors. The DoD Board of Actuaries approves the long-term economic assumptions for inflation, salary, and interest. The actuaries calculate the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). The Blended Retirement System (*BRS*) is a new retirement benefit merging aspects of both a defined benefit annuity with a defined contribution account, through the Thrift Savings Plan (*TSP*). Military personnel with a start date on or after January 1, 2018 are automatically enrolled in BRS. Although all members serving as of December 31, 2017 are grandfathered under the existing retirement system, Active Duty, National Guard, and Reserve personnel meeting established criteria may opt into BRS during calendar year 2018. Retiring members are given the option to receive a portion of their retired pay annuity in the form of a lump sum distribution.

The actuaries used the assumptions listed in Table 17C to calculate the FY 2018 actuarial liability.

Table 17C. Actuarial Assumptions for Military Retirement Pension Liability

Projection Year	Inflation (COLA)		Salary		Interest
FY 2018	2.0%	(actual)	2.4%	(actual)	3.7%
FY 2019	2.8%	(estimated)	2.6%	(estimated)	3.5%
Long Term	1.5%		2.0%		3.5%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market Value of Investments in Market-Based and Marketable Securities: $786.9 billion
Assumed Interest Rate: 3.5%

Historically, the initial unfunded liability of the program was amortized over a 50 year period. Effective FY 2008, the initial unfunded liability is amortized over a 42 year period to ensure annual payments cover interest on the unfunded actuarial liability, with the last payment expected October 1, 2025. All subsequent gains and losses experienced by the system are amortized over a 30 year period.

Military Retirement Health Benefits (MRHB)

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. The actuaries calculate actuarial liabilities annually using assumptions and actual experience.

For the FY 2018 actuarial liability calculation, actuaries used the assumptions listed in Table 17D.

Table 17D. Actuarial Assumptions for MRHB Liability

MRHB Medical Trend	FY 2017 - FY 2018	Ultimate Rate FY 2042
Non-Medicare Inpatient (Direct Care)	4.45%	4.00%
Non-Medicare Outpatient (Direct Care)	6.00%	4.00%
Non-Medicare Prescriptions (Direct Care)	6.00%	4.00%
Non-Medicare Inpatient (Purchased Care)	1.95%	4.00%
Non-Medicare Outpatient (Purchased Care)	3.30%	4.00%
Non-Medicare Prescriptions (Purchased Care)	3.28%	4.00%
U.S. Family Health Plan (USFHP) (Purchased Care)	3.95%	4.00%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Assumed Interest Rate: 3.6%

Medicare-Eligible Retiree Health Care Fund (MERHCF) Benefits

In accordance with *NDAA for FY 2001*, MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The Department Board of Actuaries approves the long-term assumptions for medical trends and interest. The actuaries calculate the actuarial liabilities annually using actual experience (e.g., mortality and retirement rates, direct care costs, purchased care).

The actuaries used the assumptions listed in Table 17E to calculate the FY 2018 actuarial liability.

Table 17E. Actuarial Assumptions for MERHCF Liability

MERHCF Benefits - Medical Trend	FY 2017 - FY 2018	Ultimate Rate FY 2042
Medicare Inpatient (Direct Care)	2.50%	4.00%
Medicare Outpatient (Direct Care)	4.00%	4.00%
Medicare Prescriptions (Direct Care)	3.80%	4.00%
Medicare Inpatient (Purchased Care)	1.00%	4.00%
Medicare Outpatient (Purchased Care)	3.00%	4.00%
Medicare Prescriptions (Purchased Care)	3.12%	4.00%
Medicare USFHP (Purchased Care)	2.52%	4.00%

Actuarial Cost Method Used: Aggregate Entry-Age Normal Method
Market Value of Investments in Market-Based and Marketable Securities: $286.7 billion
Assumed Interest Rate: 3.6%

The FY 2018 MERHCF liability includes Medicare liabilities for all Uniformed Services. The $535.3 billion liability includes $522.5 billion for the Department, $11.4 billion for the Coast Guard, $1.3 billion for the Public Health Service, and $0.1 billion for the National Oceanic and Atmospheric Administration (NOAA). The FY 2017 $527.0 billion liability included $514.5 billion for the Department, $11.1 billion for the Coast Guard, $1.3 billion for the Public Health Service, and $0.1 billion for NOAA.

The FY 2018 contributions from each of the Uniformed Services were $8.1 billion from the Department, $204.1 million from the Coast Guard, $32.0 million from the Public Health Service, and $1.6 million from NOAA. The FY 2017 contributions from each of the Uniformed Services were $7.0 billion from the Department, $175.5 million from the Coast Guard, $27.9 million from the Public Health Service, and $1.4 million from NOAA.

Federal Employees' Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits including the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value based on interest rate assumptions on the Treasury's Yield Curve for Treasury Nominal Coupon Issues (*TNC Yield Curve*) to reflect the average duration of income payments and medical payments. An interest rate for wage benefits of 2.72% was assumed for year one and years thereafter. An interest rate for medical benefits of 2.38% was assumed for year one and years thereafter.

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors for charge back year (CBY) 2018 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years are provided in Table 17F.

Table 17F. Actuarial Assumptions for FECA Liability

CBY	COLA	CPIM
2019	1.31%	3.21%
2020	1.51%	3.48%
2021	1.89%	3.68%
2022	2.16%	3.71%
2023+	2.21%	4.09%

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

Voluntary Separation Incentive (VSI) Program

The *VSI Program* was established by *NDAA for FYs 1992 and 1993* to reduce the number of military personnel on active duty. The DoD Board of Actuaries approved the assumed annual interest rate of 1.9% used to calculate the actuarial liability. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest cost.

The Market Value of Investments in Market-based and Marketable Securities is $137.8 million for FY 2018 and $138.6 million for FY 2017.

DoD Education Benefits Fund (EBF)

The EBF was established by *NDAA for FY 1985* to recruit and retain military members and aid in the readjustment of military members to civilian life. The actuaries calculate the actuarial liability annually based on the assumed interest rate of 3.25% as approved by the DoD Board of Actuaries.

The Market Value of Investments in Market-based and Marketable Securities is $1.1 billion for both FY 2018 and FY 2017.

Other Federal Employment Benefits

Other Federal Employment Benefits primarily consists of an estimated liability for incurred-but-not-reported medical claims not processed prior to fiscal year-end and accrued pensions and annuities related to certain life insurance and pension plans.

Note 18. General Disclosures Related to the Statement of Net Cost

Table 18. Costs and Exchange Revenue by Major Program

For the years ended September 30 ($ in millions)	2018	2017
Military Retirement Benefits		
Gross Cost	$ 104,973.1	$ 96,630.1
Less: Earned Revenues	(41,456.8)	(29,360.3)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	17,019.2	13,411.6
Net Program Costs	80,535.5	80,681.4
Civil Works		
Gross Cost	12,603.8	9,168.2
Less: Earned Revenues	(4,816.2)	(1,591.9)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	7,787.6	7,576.3
Military Personnel		
Gross Cost	145,255.3	139,512.6
Less: Earned Revenues	(1,349.3)	(1,294.0)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	143,906.0	138,218.6
Operations, Readiness & Support		
Gross Cost	259,653.5	302,022.8
Less: Earned Revenues	(24,396.2)	(57,810.7)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	(284.2)	10,657.4
Net Program Costs	234,973.1	254,869.5
Procurement		
Gross Cost	112,506.4	85,881.3
Less: Earned Revenues	(7,297.4)	(10,503.1)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	105,209.0	75,378.2
Research, Development, Test & Evaluation		
Gross Cost	88,386.3	84,380.8
Less: Earned Revenues	(9,905.5)	(8,602.0)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	78,480.8	75,778.8
Family Housing & Military Construction		
Gross Cost	11,714.5	10,521.9
Less: Earned Revenues	(1,234.9)	(5,133.5)
Losses (Gains) from Actuarial Assumption Changes for Militray Retirement Benefits	-	-
Net Program Costs	10,479.6	5,388.4
Total Net Cost	$ 661,371.6	$ 637,891.2

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Department supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's current processes and systems capture costs based on appropriation groups as presented in Table 18. The lower level costs for major programs are not presented as required by the Government Performance and Results Act of 1993 (*GPRA*). The Department is in the process of reviewing available data and developing a cost reporting methodology required by *SFFAS 4*, as amended by *SFFAS 55*.

The Department's military retirement and postemployment costs are reported in accordance with *SFFAS 33*. As required by the standard, the Department separately presents on the SNC gains and losses from changes in long term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits.

Note 19. Disclosures Related to the Statement of Changes in Net Position

Cumulative Results of Operations – Prior Period Adjustments

The FASAB issued *SFFAS 48* and *SFFAS 50*, which permit alternative methods in establishing opening balances and are effective for periods beginning after September 30, 2016 with early implementation allowed. Some DoD Components used the principles of these standards for FY 2017; additional DoD Components used the principles of these standards in FY 2018.

During FY 2018, the Department decreased the beginning Cumulative Results of Operation by $2.5 billion through prior period adjustments, General PP&E for land and buildings. As a result, the FY 2017 ending balance of $390.1 billion adjusted to an FY 2018 beginning balance of $392.6 billion. This entry also adjusted downward the ending balance of General PP&E by $2.5 billion.

During FY 2017, the Department increased the beginning Cumulative Results of Operations by $37.3 billion through prior period adjustments, from an FY 2016 ending balance of $469.5 billion to an FY 2017 beginning balance of $432.2 billion. The Department increased the ending balance of Operating Materiel and Supplies by $24.4 billion and of General PP&E by $12.9 billion.

Reconciliation Differences

Statement of Budgetary Resources to the Statement of Changes in Net Position

Appropriations (Discretionary and Mandatory) reported on the Statement of Budgetary Resources exceed Appropriations Received on the Statement of Changes in Net Position by $68.8 billion in FY 2018 and $66.3 billion in FY 2017. A reconciliation of these amounts is presented in Table 19A.

Table 19A. Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

For the year ended September 30 ($ in millions)		2018		2017
Appropriations, Statement of Budgetary Resources (SBR)	$	863.6	$	777.0
Permanent and Temporary Reductions		95.8		87.6
Trust and Special Fund Receipts		(164.2)		(153.1)
Miscellaneous Items		(0.4)		(0.8)
Total Difference		(68.8)		(66.3)
Appropriations Received, Statement of Changes in Net Position	$	794.8	$	710.7

Permanent and Temporary Reductions primarily includes the amount of prior year balances and current year budget authority permanently reduced by enacted legislation; receipts upon collection not immediately available for obligation, but awaiting legislation; and authority currently unavailable, awaiting specific legal requirements to be met.

Miscellaneous Items primarily includes the current year authority transfers in, authority made available from receipt or appropriation balances previously precluded from obligation, non-allocation transfers of invested balances, re-estimated loan subsidy appropriation, and current year authority transfers out.

Funds from Dedicated Collections Information to the Balance Sheet and Statement of Changes in Net Position

Funds from Dedicated Collections information is presented on a combined basis in Note 23, *Funds from Dedicated Collections*. Table 19B summarizes the elimination of intradepartmental activity between Funds from Dedicated Collections and all Other Fund types to arrive at the consolidated Net Position amounts presented on the DoD Agencywide Balance Sheet and Statement of Changes in Net Position.

Table 19B. Reconciliation of Combined Unexpended Appropriations and Cumulative Results of Operations to Consolidated Unexpended Appropriations and Cumulative Results of Operations

As of September 30	2018		
($ in millions)	Combined	Consolidating Eliminations	Consolidated
Unexpended Appropriations - Dedicated Collections	$ -	$ -	$ -
Unexpended Appropriations - Other Funds	529,746.6	-	529,746.6
Cumulative Results of Operations - Dedicated Collections	14,614.6	(2,163.8)	16,778.4
Cumulative Results of Operations - Other Funds	(358,834.7)	2,163.8	(360,998.5)
Total Net Position	$ 185,526.5	$ -	$ 185,526.5

As of September 30	2017		
($ in millions)	Combined	Consolidating Eliminations	Consolidated
Unexpended Appropriations - Dedicated Collections	$ -	$ -	$ -
Unexpended Appropriations - Other Funds	457,849.4	-	457,849.4
Cumulative Results of Operations - Dedicated Collections	14,618.9	(1,530.8)	16,149.7
Cumulative Results of Operations - Other Funds	(404,727.9)	1,530.8	(406,258.7)
Total Net Position	$ 67,740.4	$ -	$ 67,740.4

Note 20. Disclosures Related to the Statement of Budgetary Resources

The Statement of Budgetary Resources is presented on a combined basis in accordance with OMB *Circular No. A-136*; thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other principal financial statements, which are presented on a consolidated basis.

Budgetary Resources Obligated for Undelivered Orders

Table 20A. Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30 ($ in millions)	2018	2017
Intragovernmental		
Unpaid	$ 120,202.7	*
Prepaid / Advanced	3,285.7	*
Total Intragovernmental	123,488.4	*
Non-Federal		
Unpaid	319,795.6	*
Prepaid / Advanced	23,988.3	*
Total Non-Federal	343,783.9	*
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 467,272.3	$ 417,855.6

** FY 2017 presentation not required*

The breakout of total Budgetary Resources Obligated for Undelivered Orders at the End of the Period between (1) Intragovernmental and Non-Federal and (2) paid and unpaid amounts is a new presentation requirement for FY 2018; the FY 2017 presentation is not required in accordance with OMB Circular No. A-136.

Available Borrowing / Contract Authority

Table 20B. Available Borrowing / Contract Authority at the End of the Period

As of September 30 ($ in millions)	2018	2017
Available Borrowing and Contract Authority, End of the Period	$ -	$ -

The Department utilizes borrowing authority for the Military Housing Privatization Initiative. Borrowing authority is used in compliance with OMB *Circular No. A-129*. There was no remaining borrowing authority available at the end of the period for FY 2018 or FY 2017.

Apportionment Categories for New Obligations and Upward Adjustments

Table 20C. Apportionment Categories of New Obligations and Upward Adjustments, Budgetary and Non-Budgetary Credit Reform Financing Account

As of September 30 ($ in billions)	2018 Apportionment Category A	2018 Apportionment Category B	2018 Exempt from Apportionment	2018 Total
Direct	$ 424.1	$ 268.0	$ 156.6	$ 848.7
Reimbursable	27.7	177.9	-	205.6
New Obligations and Upward Adjustments	$ 451.8	$ 445.9	$ 156.6	$ 1,054.3

As of September 30 ($ in billions)	2017 Apportionment Category A	2017 Apportionment Category B	2017 Exempt from Apportionment	2017 Total
Direct	$ 409.1	$ 237.9	$ 153.0	$ 800.0
Reimbursable	16.2	157.0	8.4	181.6
New Obligations and Upward Adjustments	$ 425.3	$ 394.9	$ 161.4	$ 981.6

Apportionment 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).

Permanent Indefinite Appropriations

The following permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

The Department received the following permanent indefinite appropriations in FY 2018 and FY 2017:

Department of the Army General Gift Fund (*10 U.S.C. §2601(c)(1)*)

Department of the Navy General Gift Fund (*10 U.S.C. §2601(c)(2)*)

Department of the Air Force General Gift Fund (*10 U.S.C. §2601(c)(3)*)

Department of Defense General Gift Fund (*10 U.S.C. §2601*)

Disposal of Department of Defense Real Property (*40 U.S.C. §572(b)(5)(A)*)

Lease of Department of Defense Real Property (*40 U.S.C. §485(h)*)

Foreign National Employees Separation Pay Account, Defense (*10 U.S.C. §1581*)

United States Naval Academy Gift and Museum Fund (*10 U.S.C. §§6973*, *6974*)

Ship Stores Profits, Navy (*10 U.S.C §7220*, *31 U.S.C. §1321*)

Burdensharing Contributions (*10 U.S.C. §2350j*)

Forest Program (*10 U.S.C. §2665*)

Medicare-Eligible Retiree Health Care Fund (*10 U.S.C. §1111*)

Military Retirement Fund (*10 U.S.C. §1461*)

Education Benefits Fund (*10 U.S.C. §2006*)

Host Nation Support for U.S. Relocation Activities (*10 U.S.C. §2350k*)

Hydraulic Mining Debris Reservoir (*33 U.S.C. §683*)

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (*16 U.S.C. §810(a)*)

Payments to States (*33 U.S.C. §701c-3*)

Wildlife Conservation (*16 U.S.C. §§670-670f*)

Ainsworth Bequest (*31 U.S.C. §1321*)

DoD Family Housing Improvement Fund (*10 U.S.C. §2883(a)*)

DoD Military Unaccompanied Housing Improvement Fund (*10 U.S.C. §2883(a)*)

Voluntary Separation Incentive Fund (*10 U.S.C. §1175(h)*)

Rivers & Harbors Contributed Funds (*33 U.S.C. §§560*, *701h*)

Concurrent Receipt Accrual Payments to the Military Retirement Fund (*10 U.S.C. §1466(b)(1)*)

Rocky Mountain Arsenal, Restoration (United States Statutes at Large, Volume 100, page 4003, section 1367 (*100 Stat. 4003 §1367*))

Homeowners Assistance Fund (*42 U.S.C. §3374(d)*, *Public Law 111-5*)

Payments to Military Retirement Fund, Defense (*10 U.S.C. §1466*)

Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund (*10 U.S.C. §1116(a)*)

Medicare-Eligible Retiree Health Fund Contribution, Navy (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Marine Corps (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Army (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Army (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Air Force (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force (*10 U.S.C. §1116*)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force (*10 U.S.C. §1116*)

Department of Defense Vietnam War Commemoration Fund, Defense (*Public Law 110-181*, *122 Stat. 141 §598*)

Legal Arrangements Affecting the Use of Unobligated Balances

A portion of the Department's unobligated balances represent trust fund receipts collected in the current fiscal year exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the funds and are available for obligation in the future. The Department operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances.

Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government

Table 20D presents a reconciliation between the budgetary resources, obligations incurred, distributed offsetting receipts, and net outlays in the FY 2017 column on the Combined Statement of Budgetary Resources (SBR) to the actual amounts for FY 2017 from the "Analytical Perspectives – Federal Budget by Agency and Account" and "Appendix – Detailed Budget Estimates by Agency" sections of the FY 2019 President's Budget. The FY 2020 Budget will display the FY 2018 actual values and is expected to be published in February 2019 at *https://www.whitehouse.gov/omb/budget*.

Table 20D. Explanation of Differences Between the SBR and the Budget of the U.S. Government

For the year ended September 30 ($ in billions)	FY 2017 Actual			
	Budgetary Resources	New Obligations & Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 1,140.4	$ 981.6	$ 98.0	$ 731.9
Expired Accounts that are Excluded from the Budget of the U.S. Government	(53.9)	(20.3)	-	-
Adjustments to the SBR	(0.1) *	(0.1) *	-	-
Permanent Reporting Differences	(0.1) **	(0.1) **	-	-
Other	-	-	-	(0.1)
Budget of the U.S. Government	$ 1,086.3	$ 961.1	$ 98.0	$ 731.8

* *The $(0.1) billion difference reported for Budgetary Resources and New Obligations and Upward Adjustments is due to a FY 2017 adjustment to the SBR which had been reported on the Budget of the U.S. Government in the prior year.*

** *The $(0.1) billion difference reported for Budgetary Resources and New Obligations and Upward Adjustements is due to different reporting requirements on the SBR versus the Budget of the U.S. Government.*

Other Disclosures

In compliance with OMB guidance, $123.0 billion of FY 2018 and $119.0 billion of FY 2017 General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds. This duplicate reporting on the SBR relates to amounts from the Military Services' contributions and Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The Department received additional funding of $65.9 billion in FY 2018 and $82.8 billion in FY 2017 to cover obligations incurred above baseline operations in support of contingency operations.

Note 21. Reconciliation of Net Cost of Operations to Budget

The Reconciliation of Net Cost of Operations to Budget reconciles the cost (proprietary) reflected on the Statement of Net Cost to the budgetary information on the Statement of Budgetary Resources. This is accomplished by aligning budgetary obligations and non-budgetary resources available with the cost of the Department's operations.

Table 21. Reconciliation of Net Cost of Operations to Budget

For the years ended September 30 ($ in millions)	2018	2017
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 1,054,342.4	$ 981,610.9
Less: Spending Authority from Offsetting Collections and Recoveries (-)	(240,985.5)	(222,120.7)
Obligations Net of Offsetting Collections and Recoveries	813,356.9	759,490.2
Less: Offsetting Receipts (-)	(101,973.1)	(97,963.0)
Net Obligations	711,383.8	661,527.2
Other Resources		
Donations and Foreitures of Property	19.8	2.4
Transfers In/Out Without Reimbursement (+/-)	23.8	139.7
Imputed Financing from Costs Absorbed by Others	5,309.1	3,673.9
Other (+/-)	2,328.7	(5,390.9)
Net Other Resources	7,681.4	(1,574.9)
Total Resources Used to Finance Activities	719,065.2	659,952.3
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but Not Yet Provided		
Undelivered Orders (-)	(49,416.7)	(15,889.4)
Unfilled Customer Orders	12,444.6	3,327.5
Resources That Fund Expenses Recognized in Prior Periods (-)	(24,039.3)	(31,928.9)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	2,021.4	559.3
Resources that Finance the Acquisition of Assets (-)	(108,594.2)	(106,271.6)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations		
Less: Trust or Special Fund Receipts Related to Exchange in the Entity's Budget (-)	(220.2)	(255.7)
Other (+/-)	(2,918.4)	5,384.0
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	(170,722.8)	(145,074.8)
Total Resources Used to Finance the Net Cost of Operations	548,342.4	514,877.5

Table 21. Reconciliation of Net Cost of Operations to Budget (continued)

For the years ended September 30 ($ in millions)	2018	2017
Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	1,154.9	244.5
Increase in Environmental and Disposal Liability	1,677.2	1,644.9
Upward/Downward Reestimates of Credit Subsidy (+/-)	(50.9)	(8.7)
Increase in Exchange Revenue Receivable from the Public (-)	(195.3)	(16.9)
Other (+/-)	75,916.6	97,606.6
Total Components Requiring or Generating Resources in Future Periods	78,502.5	99,470.4
Components that Will Not Require or Generate Resources		
Depreciation and Amortization	54,021.6	14,885.1
Reevaluation of Assets or Liabilities (+/-)	1,754.3	2,170.2
Other (+/-)		
Trust Fund Exchange Revenue	(65,225.4)	(51,990.0)
Cost of Goods Sold	70,045.1	63,126.6
Operating Materials and Supplies Used	31,350.5	39,100.3
Other	(57,419.4)	(43,748.9)
Total Components that Will Not Require or Generate Resources	34,526.7	23,543.3
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	113,029.2	123,013.7
Net Cost of Operations	$ 661,371.6	$ 637,891.2

Resources Used to Finance Other Activities, Other Resources, Other primarily consists of nonexchange gains and losses to revalue assets, as well as reconcile the proprietary and budgetary amounts.

Resources Used to Finance Items Not Part of the Net Cost of Operations, Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations, Other primarily consists of nonexchange gains and losses to revalue assets, as well as reconcile the proprietary and budgetary amounts.

Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period, Components Requiring or Generating Resources in Future Periods, Other consists primarily of future funded expenses.

Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period, Components that Will Not Require or Generate Resources, Other primarily consists of cost capitalization offsets and other expenses not requiring budgetary resources.

Note 22. Disclosures Related to Incidental Custodial Collections

In FY 2018 and FY 2017, the Department collected $11.8 million and $1.5 million, respectively, of incidental custodial revenues generated primarily from forfeitures of unclaimed money and property. These funds are not available for use by the Department; the accounts are closed and relinquished to the Treasury at the end of the fiscal year.

Note 23. Funds from Dedicated Collections

The Department's Funds from Dedicated Collections are financed by specifically identified revenues and other financing sources provided by non-federal sources. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Department's general revenues. There has been no legislation in FY 2018 or FY 2017 which has significantly altered the purposes of the Department's Funds from Dedicated Collections.

The disclosures in this note are made in accordance with *SFFAS 27*, as amended by *SFFAS 43*.

Table 23A. Combined Balance Sheet – Funds from Dedicated Collections

As of September 30 ($ in millions)	2018			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Assets				
Fund Balance with Treasury	$ 297.4	$ 1,598.2	$ 2,172.6	$ 4,068.2
Investments	9,231.6	-	1,391.8	10,623.4
Accounts and Interest Receivable	504.1	6.5	6.9	517.5
Other Assets	133.5	296.3	719.0	1,148.8
Total Assets	$ 10,166.6	$ 1,901.0	$ 4,290.3	$ 16,357.9
Liabilities and Net Position				
Accounts Payable and Other Liabilities	$ 26.2	$ 1,645.0	$ 72.1	$ 1,743.3
Total Liabilities	26.2	1,645.0	72.1	1,743.3
Unexpended Appropriations	-	-	-	-
Cumulative Results of Operations	10,140.4	256.0	4,218.2	14,614.6
Total Liabilities and Net Position	$ 10,166.6	$ 1,901.0	$ 4,290.3	$ 16,357.9

As of September 30 ($ in millions)	2017			
	Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Assets				
Fund Balance with Treasury	$ 118.7	$ 1,279.5	$ 2,087.2	$ 3,485.4
Investments	9,095.3	-	1,279.3	10,374.6
Accounts and Interest Receivable	509.2	6.4	9.5	525.1
Other Assets	597.4	288.5	742.1	1,628.0
Total Assets	$ 10,320.6	$ 1,574.4	$ 4,118.1	$ 16,013.1
Liabilities and Net Position				
Accounts Payable and Other Liabilities	$ 6.1	$ 1,324.5	$ 63.6	$ 1,394.2
Total Liabilities	6.1	1,324.5	63.6	1,394.2
Unexpended Appropriations	-	-	-	-
Cumulative Results of Operations	10,314.5	249.9	4,054.5	14,618.9
Total Liabilities and Net Position	$ 10,320.6	$ 1,574.4	$ 4,118.1	$ 16,013.1

Table 23B. Combined Statement of Net Cost – Funds from Dedicated Collections

For the year ended September 30 ($ in millions)	2018 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	$ 85.6	$ 316.5	$ 1,811.3	$ 2,213.4
Less: Earned Revenues	-	(400.5)	(308.8)	(709.3)
Net Cost of Operations	$ 85.6	$ (84.0)	$ 1,502.5	$ 1,504.1

For the year ended September 30 ($ in millions)	2017 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Gross Program Costs	$ 64.8	$ 318.7	$ 1,079.3	$ 1,462.8
Less: Earned Revenues	-	(439.5)	(282.9)	(722.4)
Net Cost of Operations	$ 64.8	$ (120.8)	$ 796.4	$ 740.4

Table 23C. Combined Statement of Changes in Net Position – Funds from Dedicated Collections

For the year ended September 30 ($ in millions)	2018 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	$ 10,314.5	$ 249.9	$ 4,054.5	$ 14,618.9
Budgetary Financing Sources	373.4	-	1,584.5	1,957.9
Other Financing Sources	(461.9)	(77.9)	81.7	(458.1)
Less: Net Cost of Operations	85.6	(84.0)	1,502.5	1,504.1
Change in Net Position	(174.1)	6.1	163.7	(4.3)
Net Position, End of Period	$ 10,140.4	$ 256.0	$ 4,218.2	$ 14,614.6

For the year ended September 30 ($ in millions)	2017 Harbor Maintenance and Related Funds	Rivers and Harbors Contributed and Advance Fund	Other Funds	Combined Total
Net Position, Beginning of Period	$ 9,972.2	$ 232.9	$ 3,733.5	$ 13,938.6
Budgetary Financing Sources	407.1	-	1,023.3	1,430.4
Other Financing Sources	-	(103.8)	94.1	(9.7)
Less: Net Cost of Operations	64.8	(120.8)	796.4	740.4
Change in Net Position	342.3	17.0	321.0	680.3
Net Position, End of Period	$ 10,314.5	$ 249.9	$ 4,054.5	$ 14,618.9

Tables 23A, 23B, and 23C are presented on a combined basis and relate solely to Funds from Dedicated Collections. The Net Position amounts related to Funds from Dedicated Collections reflected on Tables 23A and 23C will not equal those reflected on the DoD Agencywide Balance Sheet and Statement of Changes in Net Position, as those statements are presented on a consolidated basis. Refer to Note 19, *Disclosures Related to the Statement of Changes in Net Position*, for additional information on reconciling the combined Funds from Dedicated Collections Net Position amounts to the consolidated Funds from Dedicated Collections Net Position amounts.

Purpose, Source of Revenue, and Authority for Funds from Dedicated Collections

Harbor Maintenance and Related Funds

Harbor Maintenance Trust Fund (*26 U.S.C. §9505*) – The United States Army Corps of Engineers *(USACE) Civil Works* mission is funded by the Energy and Water Development Appropriations Acts. The *Water Resources Development Act of 1986* covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of all administrative expenses incurred by the Treasury, USACE, and the Department of Commerce. Taxes collected from imports, domestics, passengers, and foreign trade are deposited into the Trust Fund. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Coastal Wetlands Restoration Trust Fund and Coastal Wetlands Planning, Protection, and Restoration Act (*16 U.S.C. §§3951-3956*) – USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to achieve a goal of "no net loss of wetlands" in coastal Louisiana. USACE is also responsible for allocating funds. Federal contributions are 75 percent of project costs, or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This Trust Fund receives funding from the Sport Fish Restoration and Boating Trust Fund.

Inland Waterways Trust Fund (*26 U.S.C. §9506*) – Excise taxes from the public are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The Bureau of the Fiscal Service manages and invests for the Trust Fund.

Rivers and Harbors Contributed and Advance Funds

Rivers and Harbors Contributed and Advance Funds (*33 U.S.C. §§701h*, *702f*, and *703*) – Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army (executed by USACE) may accept such funds and expend them in the immediate performance of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification, enlargement of river channels, and similar work, in the course of flood control and river and harbor maintenance.

Other Funds from Dedicated Collections

Other funds from dedicated collection have been aggregated in accordance with *SFFAS 43*.

Special Recreation Use Fees (*16 U.S.C. §§460l-6a* and *6812(e)(1)*) – The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes and reservoirs under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. Receipts cover operation and maintenance of recreational sites.

Hydraulic Mining in California, Debris (*33 U.S.C. §683*) – Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris Commission are required to pay an annual tax as determined by the Commission. USACE collects taxes and expends funds under the direction of the Department of the Army. Funds repay advances by the Federal Government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954 (*33 U.S.C. §701c-3*) – USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated and made available for use in the following fiscal year with 75 percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the counties where the property is located, or for defraying county government expenses.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (*16 U.S.C. §§803(f)* and *810*) – The Federal Energy Regulatory Commission (*FERC*) assesses charges against licensees when a reservoir or other improvement is constructed by the U.S. All proceeds from Indian reservations are credited to the Indians of the reservations. All other proceeds arising from licenses, except those established by the FERC for administrative reimbursement, are paid to the Treasury and allocated for specific uses. The Department of the Army is allocated 50 percent of charges from all licenses, except licenses for the occupancy and use of public lands and national forests. These funds are deposited in a special fund and used for maintenance, operation, and improvement of dams, and other navigation structures owned by the U.S., or in construction, maintenance, or operation of headwater, or other improvements to navigable waters of the U.S.

Fund for Non-Federal Use of Disposal Facilities (for dredged material) (*33 U.S.C. §2326*) – Non-federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Defense Commissary Agency Surcharge Trust Fund (*10 U.S.C. §2685*) – Surcharge on sales of commissary goods finance the Commissary System operating expenses and capital purchases, precluded by law from being paid with appropriated funds. Revenue is generated through a five percent surcharge applied to each sale. These funds finance commissary-related information technology investments, equipment, advance design modifications to prior year construction projects, and maintenance and repair of facilities and equipment.

Note 24. Fiduciary Activities

Table 24A. Schedule of Fiduciary Activity

For the years ended September 30 ($ in millions)	2018	2017
Fiduciary Net Assets, Beginning of Year	$ 77.8	$ 80.1
Fiduciary Revenues	-	-
Contributions	42.5	73.5
Investment Earnings	0.3	0.3
Gain (Loss) on Disposition of Investments, Net	-	-
Administrative and Other Expenses	-	-
Distibutions To and On Behalf Of Beneficiaries	(42.7)	(76.1)
Increase / (Decrease) in Fiduciary Net Assets	0.1	(2.3)
Fiduciary Net Assets, End of Year	$ 77.9	$ 77.8

Table 24B. Schedule of Fiduciary Net Assets

As of September 30 ($ in millions)	2018	2017
Cash and Cash Equivalents	$ 77.9	$ 77.8
Less: Liabilities	-	-
Total Fiduciary Net Assets	$ 77.9	$ 77.8

Fiduciary activities exist when the Department has collected, received, held, or made disposition of assets on behalf of an individual or non-Federal entity. Fiduciary assets are not recognized on the Balance Sheet.

Public Law 89-538 authorized the Department, through the Savings Deposit Program (*SDP*), to collect voluntary contributions from members of the Armed Forces serving in designated areas, up to $10,000 per deployment per member. These contributions and earned interest (10% per year, paid quarterly) are deposited in the Treasury on behalf of the members and kept as a separate fund. Military members have access to SDP statements for viewing deposits and other activity. Funds are returned to a military member upon request after leaving the designated area; however, at 120 days if a request is not made, the funds are returned to the member via direct deposit by the Department. Funds in excess of $10,000 may be withdrawn quarterly. Otherwise, while in the designated area, a withdrawal of deposit may only be made in limited situations.

Note 25. Other Disclosures

Table 25. Future Payments Due for Non-Cancelable Operating Leases

As of September 30 ($ in millions)	2018			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
Intragovernmental				
Fiscal Year				
2019	$ 711.0	$ 3.2	$ 110.6	$ 824.8
2020	499.4	3.2	106.4	609.0
2021	500.5	3.2	107.2	610.9
2022	500.1	2.5	109.1	611.7
2023	486.2	2.6	14.2	503.0
After 5 Years	1,147.1	6.4	25.4	1,178.9
Total Intragovernmental Future Lease Payments	3,844.3	21.1	472.9	4,338.3
Non-Federal				
Fiscal Year				
2019	220.4	0.8	18.2	239.4
2020	181.2	0.7	18.4	200.3
2021	148.8	0.5	18.2	167.5
2022	96.6	0.2	18.4	115.2
2023	61.0	0.1	18.7	79.8
After 5 Years	70.6	0.1	22.7	93.4
Total Non-Federal Future Lease Payments	778.6	2.4	114.6	895.6
Total Future Lease Payments	$ 4,622.9	$ 23.5	$ 587.5	$ 5,233.9

The future lease payments due presented on Table 25 are for non-cancelable operating leases only. Unlike capital leases, operating leases do not transfer the benefits and risks of ownership; rather, payments for operating leases are expensed over the life of the lease. Future year cost projections use the Consumer Price Index. Office space is the largest component of land and building leases. Other leases are primarily commercial leases with the general public and include automobile leases.

Note 26. Disclosure Entities and Related Parties

In accordance with *SFFAS 47*, the Department is disclosing its relationship with its Department-sponsored DoD Nonappropriated Fund Instrumentalities (NAFIs) and Federally Funded Research and Development Centers (FFRDCs). The financial position and results of operations of NAFIs and FFRDCs are not reported in the DoD consolidated financial statements.

The Department has a special relationship with NAFIs, which are fiscal entities supported in whole or in part by nonappropriated funds (NAFs). For the most part, NAFs are generated from sales and user fees. NAFIs are established by Department policy, controlled by the Military Departments, and governed by sections of *title 10, United States Code*. NAFIs, consisting primarily of the Military Services exchanges and morale, welfare, and recreation (*MWR*) entities, are intended to enhance the quality of life of members of the uniformed services, retired members, and dependents of such members, and to support military readiness, recruitment, and retention.

The Under Secretary of Defense for Personnel and Readiness (*USD(P&R)*) exercises overall policy direction for and oversight of DoD NAF activities. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (*USD(C)/CFO*) and the Defense Finance and Accounting Service (*DFAS*), in coordination with the USD(P&R), are responsible for NAF accounting policy. DoD policy requires DoD Components to appoint advisory groups for NAFIs. The advisory group ensures that the NAFI is responsive to authorized patrons and to the purposes for which the NAFI was created. Additionally, the NAFIs are subject to the Department's policy requirements for financial reporting to USD(P&R) and financial audits conducted by independent public accounting firms.

Similarly, the Department maintains long-term contractual relationships with the parent organizations of ten Department-sponsored FFRDCs to meet research or development needs that cannot be met as effectively by existing government or contractor resources. There are three categories of FFRDCs that provide support to the Department – (1) research and development laboratories, (2) systems engineering and integration centers, and (3) study and analysis centers. All DoD funding for FFRDC work is provided through the Department's contract with the parent organization that operates each FFRDC. Federal Acquisition Regulation *(FAR) Part 35.017* provides federal policy for the establishment and use of FFRDCs.

The FFRDC relationships are defined through a bi-lateral sponsoring agreement between each DoD sponsoring organization and the university or private-sector non-profit parent organization that operates each FFRDC. While the Department does not control the day-to-day operations of the FFRDCs, the parent organization must agree that the FFRDC will conduct its business in a manner befitting its special relationship with the Department, operate in the public interest with objectivity and independence, and be free from organizational conflicts of interest. An FFRDC may be used only for work that is within its purpose, mission, and general scope of effort, as established in the sponsoring agreement.

The FFRDCs provide significant benefits to the Department, which are critical to national security. Congress restricts the amount of support that the Department may receive from Department-sponsored FFRDCs through a limitation that it sets annually on the staff years of technical effort that may be funded.

The Department has not identified any related party relationships that meet the disclosure requirements of SFFAS 47.

Required Supplementary Stewardship Information

The stewardship objective of federal financial reporting requires the Department to report on its stewardship of certain resources entrusted to it and on certain responsibilities assumed by it that cannot be reflected in traditional financial measures. These resources and responsibilities do not meet the criteria for assets and liabilities but are important to understanding the operations and financial condition of the Department.

Costs of stewardship-type resources are treated as expenses in the year the costs are incurred. However, the costs and associated resources are intended to provide long-term benefits to the public.

The Department's stewardship investments are measured by expensed for (1) federally-financed, but not federally owned physical property (Non-Federal Physical Property) and (2) federally-financed Research and Development (R&D).

Non-Federal Physical Property

Table RSSI-1. Non-Federal Physical Property Investments

As of September 30 ($ in millions)	2018	2017	2016	2015	2014
Transferred Assets					
National Defense Mission Related	$ 1,162.4	$ 1,011.4	$ 1,265.2	$ 1,307.2	$ 1,113.2
Funded Assets					
National Defense Mission Related	16.4	15.5	17.2	12.7	12.4
Total Non-Federal Phsical Property Investments	$ 1,178.8	$ 1,026.9	$ 1,282.4	$ 1,319.9	$ 1,125.6

The Non-Federal Physical Property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. In addition, Non-Federal Physical Property investments include federally-owned physical property transferred to state and local governments. The Department participates in cost-sharing agreements with non-federal sponsors which are governed under numerous Water Resources Development Acts. The Department's transferred assets include expenditures supporting the design, build, and construction services/management for the missions of commercial navigation, flood/storm damage reduction, hydropower, regulatory, environmental, recreation, and water supply.

Investments in Research and Development

Investment values included in this report are based on R&D expenditures. The R&D programs are classified in the following categories: Basic Research, Applied Research, and Development. The amounts reported in Table RSSI-2 present the expenditures from FY 2014 to FY 2018 for all DoD Components.

Table RSSI-2. Investments in Research and Developments

As of September 30 ($ in millions)	2018	2017	2016	2015	2014
Basic Research	$ 2,321.1	$ 1,960.3	$ 2,106.8	$ 1,958.0	$ 1,948.2
Applied Research	6,393.6	6,988.6	6,307.5	5,744.7	5,500.6
Development					
Advanced Technology Development	5,862.9	5,736.5	5,525.8	5,007.6	5,253.3
Advanced Component Development and Prototypes	16,243.7	13,965.7	12,517.9	11,954.9	10,947.0
System Development and Demonstration	13,241.3	11,487.3	11,037.7	10,733.8	11,459.7
Research, Development, Test and Evaluation Management Support	6,882.3	5,189.3	5,335.5	5,163.3	5,262.5
Operational Systems Development	24,776.1	21,611.1	20,428.8	20,441.9	20,334.3
Total	$ 75,721.0	$ 66,938.8	$ 63,260.0	$ 61,004.2	$ 60,705.6

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of knowledge or better understanding of the subject under study. Major outputs are scientific studies and research papers.

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, or limited construction of a weapon system component, to include non-system-specific development efforts.

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development consists of the five stages:

- Advanced Technology Development is the systematic use of the knowledge or understanding gained from research and directed toward proof of concept and feasibility rather than directed toward the development of hardware for service use. It employs demonstration activities intended to test a technology or method.
- Advanced Component Development and Prototypes evaluates integrated technologies in an operating environment as realistic as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system-specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components and complete weapon systems ready for operational and developmental testing and field use.
- System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

- Research, Development, Test, and Evaluation Management Support bolsters installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses furthering the Research and Development program.
- Operational Systems Development funding finances projects, programs, or upgrades in engineering and manufacturing development stages which have received approval for production, including production funds that have been budgeted in subsequent fiscal years.

Required Supplementary Information

This section provides the deferred maintenance and repairs disclosures, required in accordance with *SFFAS 42*, and the Combining Statement of Budgetary Resources, which disaggregates the information aggregated for presentation on the DoD Agencywide Combined Statement of Budgetary Resources.

Real Property Deferred Maintenance and Repairs

Maintenance and repairs are activities directed toward keeping real property assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Deferred Maintenance and Repairs (DM&R) are maintenance and repairs that were not performed when needed or were scheduled to be and are delayed for a future period. DM&R are identified through condition assessment surveys in accordance with the September 10, 2013 Under Secretary of Defense for Acquisition Technology and Logistics policy memorandum, *Standardizing Facility Condition Assessments*. The real property record is the data source for obtaining the reported total deferred maintenance and repairs. Facility Categories are:

- Category 1: Buildings, Structures, and Linear Structures that are enduring and required to support an ongoing mission, including multi-use Heritage Assets;
- Category 2: Buildings, Structures, and Linear Structures that are Heritage Assets; and
- Category 3: Buildings, Structures, and Linear Structures that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.

Table RSI-1. Real Property Deferred Maintenance and Repairs (excluding Military Family Housing)

As of September 30 ($ in millions)	2018 Plant Replacement Value	2018 Required Work (Deferred Maintenance & Repair)	2018 Percentage
Property Type			
Category 1	$ 1,122,340.6	$ 95,815.9	9%
Category 2	94,998.7	10,903.7	11%
Category 3	18,301.0	4,097.0	22%
Total	$ 1,235,640.3	$ 110,816.6	9%

As of September 30 ($ in millions)	2017 Plant Replacement Value	2017 Required Work (Deferred Maintenance & Repair)	2017 Percentage
Property Type			
Category 1	$ 1,111,711.7	$ 100,054.3	9%
Category 2	85,461.0	10,420.6	12%
Category 3	21,899.8	4,701.0	21%
Total	$ 1,219,072.5	$ 115,175.9	9%

Table RSI-2. Real Property Deferred Maintenance and Repairs (Military Family Housing only)

As of September 30 ($ in millions)	2018		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$ 24,560.0	$ 1,451.0	6%
Category 2	531.0	123.0	23%
Category 3	383.0	111.0	29%
Total	$ 25,474.0	$ 1,685.0	7%

As of September 30 ($ in millions)	2017		
Property Type	Plant Replacement Value	Required Work (Deferred Maintenance & Repair)	Percentage
Category 1	$ 21,466.0	$ 1,428.0	7%
Category 2	536.0	116.0	22%
Category 3	328.0	55.0	17%
Total	$ 22,330.0	$ 1,599.0	7%

As of the end of FY 2018, the Department estimates deferred facility maintenance cost of more than $112.5 billion for facilities with replacement cost of $1.3 trillion. The totals include $2.2 billion in USACE Civil Works-related maintenance needs with replacement cost of more than $267.1 billion.

Maintenance and Repair Policies

The Department is migrating to the Sustainment Management System (*SMS*), to perform a cyclical assessment of real property facilities and assign a facility condition index (FCI), which considers an asset's key life-cycle attributes such as age and material.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department considers mission, health and safety, and quality of life when assigning priority to maintenance needs and assessing whether a facility is in acceptable condition. Generally, an asset is considered acceptable when it is in good condition with an assigned FCI of 90 percent or above.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD facilities and is not restricted to capitalized assets.

Equipment Deferred Maintenance and Repairs

Table RSI-3. Equipment Deferred Maintenance and Repairs

As of September 30 ($ in millions)	2018	2017
Major Categories		
Aircraft	$ 583.7	$ 1,003.6
Automotive Equipment	47.3	432.7
Combat Vehicles	372.6	258.8
Construction Equipment	8.7	5.7
Electronics and Communications Systems	113.9	351.3
Missiles	123.9	127.7
Ships	221.2	249.4
Ordnance Weapons and Munitions	65.8	50.2
Other Items Not Identified Above	74.3	298.4
Total	$ 1,611.4	$ 2,777.8

Maintenance and Repair Policies

Depot maintenance requirements for equipment are developed during the annual budget process and updated based on work completion, shifts in priorities, work stoppages, or additional requirements. Not all unfunded depot maintenance requirements are deferred. In support of the Planning, Programming, Budgeting, and Execution (PPBE) process, each Military Service has fairly detailed and methodical processes for determining their depot maintenance requirements. During this process, and as more information becomes available, depot requirements are adjusted and refined, and the amount of funding is determined, based on Military Service priorities and assessment of risk.

Ultimately, Military Service depot maintenance requirements and funding amounts are included in the baseline budget. In the year of execution, the Military Services may take steps to either mitigate, or exacerbate the levels of deferred maintenance depending upon the availability of resources and Military Service priorities. The Military Services may take steps to mitigate deferred maintenance through the reprogramming of resources from cancelled programs, or from those of a lesser priority, or utilize supplemental funding. The Military Services may also cancel requirements, direct maintenance be performed at the field-level, or even reduce force structure and reprogram those operation and maintenance funds.

Maintenance and Repair Prioritization and Acceptable Condition Standards

The Department prioritizes maintenance and repair requirements based on mission and health and safety. In addition, emerging requirements and real world events drive review and reprioritization of maintenance and repair requirements. The Department employs risk-based methodologies in determining acceptable levels of equipment operational risk.

Deferred Maintenance and Repair Exclusions

The deferred maintenance and repair information presented relates to all DoD equipment and is not restricted to capitalized assets.

Significant Changes in Deferred Maintenance and Repair

The Department's deferred maintenance and repair work for equipment, platforms, and weapon systems decreased by $1.2 billion during FY 2018. The decrease was driven by the United States Special Operations Command (*USSOCOM*) paying for all maintenance and repairs during the current fiscal year; therefore it did not have to defer maintenance and repair work.

Combining Statement of Budgetary Resources

Table RSI-4. Combining Statement of Budgetary Resources (Budgetary)

For the year ended September 30 ($ in millions)	2018							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Contstuction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 6,518.2	$ 66,143.6	$ 20,602.4	$ 14,586.2	$ -	$ 11,986.6	$ 61,171.2	$ 181,008.2
Appropriations (Discretionary and Mandatory)	144,017.0	147,080.9	93,807.9	10,241.0	69,065.7	25,087.7	374,282.8	863,583.0
Borrowing Authority (Discretionary and Mandatory)	-	-	-	-	-	-	-	-
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	88,428.1	88,428.1
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,385.9	3,771.0	11,324.3	6,201.2	-	20,516.2	76,215.3	119,413.9
Total Budgetary Resources	$ 151,921.1	$ 216,995.5	$ 125,734.6	$ 31,028.4	$ 69,065.7	$ 57,590.5	$ 600,097.4	$1,252,433.2
Memorandum (Non-Add) Entries								
Net Adjustments to Unobligated Balances Brought Forward, Oct 1	$ 2,777.7	$ 5,318.7	$ 1,427.8	$ 245.9	$ -	$ 442.5	$ 12,087.7	$ 22,300.3
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	$ 148,779.7	$ 140,398.4	$ 101,647.5	$ 13,553.1	$ 69,065.7	$ 26,937.2	$ 553,827.7	$1,054,209.3
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	228.8	73,423.7	22,497.8	16,427.8	-	30,618.9	22,505.9	165,702.9
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	(894.3)	3,769.9	2,875.6
Unapportioned, Unexpired Accounts	-	14.9	11.3	0.9	-	921.6	984.5	1,933.2
Unexpired Unobligated Balance, End of Year	228.8	73,438.6	22,509.1	16,428.7	-	30,646.2	27,260.3	170,511.7
Expired Unobligated Balance, End of Year	2,912.6	3,158.5	1,578.0	1,046.6	-	7.1	19,009.4	27,712.2
Unobligated Balance, End of Year (Total)	3,141.4	76,597.1	24,087.1	17,475.3	-	30,653.3	46,269.7	198,223.9
Total Budgetary Resources	$ 151,921.1	$ 216,995.5	$ 125,734.6	$ 31,028.4	$ 69,065.7	$ 57,590.5	$ 600,097.4	$1,252,433.2
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	$ 138,990.3	$ 111,904.0	$ 78,315.2	$ 6,338.1	$ 64,541.9	$ 5,932.9	$ 357,193.6	$ 763,216.0
Distributed Offsetting Receipts (-)	-	-	(7.8)	-	(98,904.2)	(860.2)	(2,200.9)	(101,973.1)
Agency Outlays, Net (Discretionary and Mandatory)	$ 138,990.3	$ 111,904.0	$ 78,307.4	$ 6,338.1	$ (34,362.3)	$ 5,072.7	$ 354,992.7	$ 661,242.9

For the year ended September 30 ($ in millions)	2017							
	Military Personnel	Procurement	Research, Development, Test & Evaluation	Family Housing & Military Contstuction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	Combined
Budgetary Resources								
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 7,237.0	$ 66,103.3	$ 19,865.4	$ 15,528.9	$ -	$ 10,249.9	$ 61,999.5	$ 180,984.0
Appropriations (Discretionary and Mandatory)	139,378.1	124,108.8	75,852.3	6,818.8	67,652.2	7,625.7	355,545.8	776,981.7
Borrowing Authority (Discretionary and Mandatory)	-	-	-	-	-	-	-	-
Contract Authority (Discretionary and Mandatory)	-	-	-	-	-	-	76,540.2	76,540.2
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	1,288.5	3,379.7	9,618.1	4,988.0	-	11,929.8	74,501.8	105,705.9
Total Budgetary Resources	$ 147,903.6	$ 193,591.8	$ 105,335.8	$ 27,335.7	$ 67,652.2	$ 29,805.4	$ 568,587.3	$1,140,211.8
Memorandum (Non-Add) Entries								
Net Adjustments to Unobligated Balances Brought Forward, Oct 1	$ 3,026.3	$ 4,351.5	$ 4,199.9	$ 778.6	$ -	$ 337.9	$ 12,667.6	$ 25,361.8
Status of Budgetary Resources								
New Obligations and Upward Adjustments (Total)	$ 144,236.1	$ 132,572.2	$ 86,162.6	$ 12,995.8	$ 67,652.2	$ 18,261.3	$ 519,601.3	$ 981,481.5
Unobligated Balance, End of Year:								
Apportioned, Unexpired Accounts	356.2	57,701.9	16,576.9	12,695.8	-	9,738.3	19,380.5	116,449.6
Exempt from Apportionment, Unexpired Accounts	-	-	-	-	-	1,800.6	4,958.6	6,759.2
Unapportioned, Unexpired Accounts	-	(422.4)	9.6	206.7	-	0.1	2,116.5	1,910.5
Unexpired Unobligated Balance, End of Year	356.2	57,279.5	16,586.5	12,902.5	-	11,539.0	26,455.6	125,119.3
Expired Unobligated Balance, End of Year	3,311.3	3,740.1	2,586.7	1,437.4	-	5.1	22,530.4	33,611.0
Unobligated Balance, End of Year (Total)	3,667.5	61,019.6	19,173.2	14,339.9	-	11,544.1	48,986.0	158,730.3
Total Budgetary Resources	$ 147,903.6	$ 193,591.8	$ 105,335.8	$ 27,335.7	$ 67,652.2	$ 29,805.4	$ 568,587.3	$1,140,211.8
Outlays, Net								
Outlays, Net (Total) (Discretionary and Mandatory)	$ 137,936.4	$ 104,343.9	$ 69,329.3	$ 6,272.7	$ 67,676.3	$ 7,087.5	$ 339,272.8	$ 731,918.9
Distributed Offsetting Receipts (-)	-	-	(0.5)	-	(96,285.9)	(649.2)	(1,027.4)	(97,963.0)
Agency Outlays, Net (Discretionary and Mandatory)	$ 137,936.4	$ 104,343.9	$ 69,328.8	$ 6,272.7	$ (28,609.6)	$ 6,438.3	$ 338,245.4	$ 633,955.9

Table RSI-5. Combining Statement of Budgetary Resources (Non-Budgetary Credit Reform Financing Account)

For the year ended September 30 ($ in millions)	2018 Operations, Readiness & Support	2018 Combined	2017 Operations, Readiness & Support	2017 Combined
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 85.1	$ 85.1	$ 79.7	$ 79.7
Appropriations (Discretionary and Mandatory)	-	-	-	-
Borrowing Authority (Discretionary and Mandatory)	55.4	55.4	58.1	58.1
Contract Authority (Discretionary and Mandatory)	-	-	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	61.6	61.6	76.6	76.6
Total Budgetary Resources	202.1	202.1	214.4	214.4
Memorandum (Non-Add) Entries				
Net Adjustments to Unobligated Balances Brought Forward, Oct 1	-	-	-	-
Status of Budgetary Resources				
New Obligations and Upward Adjustments (Total)	133.1	133.1	129.4	129.4
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	-	-	-
Exempt from Apportionment, Unexpired Accounts	-	-	-	-
Unapportioned, Unexpired Accounts	69.0	69.0	85.0	85.0
Unexpired Unobligated Balance, End of Year	69.0	69.0	85.0	85.0
Expired Unobligated Balance, End of Year	-	-	-	-
Unobligated Balance, End of Year (Total)	69.0	69.0	85.0	85.0
Total Budgetary Resources	202.1	202.1	214.4	214.4
Outlays, Net				
Outlays, Net (Total) (Discretionary and Mandatory)	71.2	71.2	(5.0)	(5.0)
Distributed Offsetting Receipts (-)	-	-	-	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 71.2	$ 71.2	$ (5.0)	$ (5.0)

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

November 15, 2018

MEMORANDUM FOR SECRETARY OF DEFENSE
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2018 and FY 2017 Basic Financial Statements (Project No. D2018-D000FE-0063.000, Report No. DODIG-2019-017)

We are providing the subject report to be published in the Department of Defense FY 2018 Agency Financial Report in conjunction with the Department of Defense FY 2018 and FY 2017 Basic Financial Statements provided to us in draft on November 14, 2018. The report includes our disclaimer of opinion on the basic financial statements and our required Reports on Internal Control Over Financial Reporting and Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements. We are issuing our disclaimer of opinion to accompany the Department of Defense FY 2018 and FY 2017 Basic Financial Statements; therefore, this audit report should not be disseminated separately from those statements.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.

Lorin T. Venable

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

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

November 15, 2018

MEMORANDUM FOR SECRETARY OF DEFENSE
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2018 and FY 2017 Basic Financial Statements (Project No. D2018-D000FE-0063.000, Report No. DODIG-2019-017)

Report on the Basic Financial Statements

Public Law 101-576, "Chief Financial Officers Act of 1990," requires the DoD Inspector General to audit the accompanying DoD Agency-Wide Consolidated Balance Sheet as of September 30, 2018, and September 30, 2017, and the related consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary resources, and notes to the basic financial statements (referred to as financial statements in this report).

Management's Responsibility for the Annual Financial Statements

DoD management is responsible for the annual financial statements. Specifically, management is responsible for: (1) preparing financial statements that conform with accounting principles generally accepted in the United States of America (GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the control met broad control objectives of Public Law 97-255, "Federal Managers' Financial Integrity Act of 1982" (FMFIA); (3) ensuring that the DoD's financial management systems substantially comply with Public Law 104-208, "Federal Financial Management Improvement Act of 1996" (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on our audit. We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) and the Office of Management and Budget (OMB) Bulletin No. 19-01, "Audit Requirements for Federal Financial Statements," October 4, 2018. However, because of the matters described in the "Basis for Disclaimer of Opinion" section below, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Management's Assertion

The National Defense Authorization Act for FY 2014 required the DoD to assert to audit readiness and to undergo its first full financial statement audit in 2018.[1] On September 27, 2017, Secretary of Defense James N. Mattis and Under Secretary of Defense (Comptroller)/Chief Financial Officer David L. Norquist notified the DoD Office of Inspector General that the DoD's financial statements were ready for audit. They asserted that "the DoD has the following capabilities (i.e., processes and systems) in place that allow an auditor to scope and perform an audit of full financial statements, that results in actionable feedback on:

- Universe of Transactions – The DoD can provide detailed accounting transactions for material financial statement line items;

- Fund balance with Treasury – The DoD can provide processes to reconcile fund balance with the Department of the Treasury;

- Journal vouchers – The DoD can provide a list of material journal vouchers and support;

- Existence, completeness, and rights and obligations and valuation of assets – The DoD can provide asset populations and has applied alternative valuation methods to certain asset categories; and

- Environmental and disposal liabilities for real property and general equipment – The DoD has identified and valued its liabilities."

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[1] Public Law 113-66, "National Defense Authorization Act for Fiscal Year 2014," December 26, 2013.

Basis for Disclaimer of Opinion

OMB Bulletin No. 19-01 identifies reporting entities required to undergo financial statement audits. Auditors conducting the audits of these entities issued disclaimers of opinion on the following DoD Component financial statements.

- Department of the Army General Fund
- Department of the Navy General Fund
- Department of the Air Force General Fund
- U.S. Marine Corps General Fund
- Department of the Army Working Capital Fund
- Department of the Navy Working Capital Fund
- Department of the Air Force Working Capital Fund

In addition to the required reporting entities, the auditors also issued disclaimers of opinion on the Component financial statements for the Defense Health Program, Defense Logistics Agency, U.S. Transportation Command, and U.S. Special Operations Command.

When combined, these reporting entities are material to the DoD financial statements. As a result, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

We performed limited audit procedures at the Agency-Wide level and compiled the work from the audits of the DoD Components to identify material weaknesses in internal control over financial reporting that affected the DoD as a whole. We also compiled material weaknesses that DoD Components identified within their Statements of Assurance. These material weaknesses limit the DoD's ability to produce reliable financial statements. The underlying material weaknesses in internal control contributed to our disclaimer of opinion on the financial statements.

We considered the disclaimers of opinion on the DoD Component financial statements a scope limitation in forming our conclusions on the Agency-Wide Basic Financial Statements. Accordingly, we did not perform all the auditing procedures required by

GAGAS and OMB Bulletin No. 19-01 to determine whether material amounts on the financial statements were presented fairly. Therefore, our work may not identify all issues that could affect the financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in "Basis for Disclaimer of Opinion," we could not obtain sufficient appropriate evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. Thus, the basic financial statements may contain undetected misstatements that are both material and pervasive.

Emphasis of Matter

In this first year audit of the Agency-Wide Basic Financial Statements, DoD management did not provide a completed Agency Financial Report until after the close of business on November 14, 2018, which limited our ability to complete a thorough review of the annual financial statements. However, during our review of the draft Agency Financial Report, we noted a material inconsistency between the basic financial statements and applicable sections of OMB Circular No. A-136 (Revised), "Financial Reporting Requirements," July 30, 2018. Specifically, Note 3 and Note 16 were not presented in accordance with OMB Circular No. A-136. We did not modify our disclaimer report on the FY 2018 Basic Financial Statements with respect to this matter.

Other Matter

DoD management referenced information on websites or other forms of interactive data outside the DoD Agency Financial Report, this information is not required. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. DoD management presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements. These elements are not required parts of the basic financial statements. Therefore, we do not express an opinion or provide any assurance on the information. However, based on our limited review, we did not find any material inconsistencies between the information and applicable sections of OMB Circular No. A-136.

Reports on Internal Control Over Financial Reporting and Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

In accordance with Government Auditing Standards, we also have included our consideration of DoD's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of the reports is described in the Attachment. The reports are an integral part of our audit in accordance with Government Auditing Standards in considering DoD's internal control over financial reporting and compliance.

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have a direct and material effect on the basic financial statements and compliance with OMB regulations and audit requirements for financial reporting. We compiled the results from the audits of the DoD Components to determine whether the DoD complied with provisions of applicable laws and regulations, contracts, and grant agreements.

However, it was not our objective to provide an opinion on internal control or compliance with certain provisions of laws and regulations, contracts, and grant agreements. Accordingly, we do not express such an opinion.

See the Attachment for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to officials at the Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. The officials provided technical comments that we have incorporated, as appropriate.

This report will be made publicly available under section 8M, paragraph (b)(1)(A), of the Inspector General Act of 1978. However, this report is intended solely for the information and use of Congress; the OMB; the Government Accountability Office; the Under Secretary of Defense (Comptroller)/Chief Financial Officer; DoD management; and the DoD Office of Inspector General. This report is not intended for, nor should it be used to, any other audience.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

Lorin T. Venable

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

Attachment:
As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered the DoD's internal control over financial reporting. We did this to determine appropriate procedures for auditing the basic financial statements and for expressing our opinion on the basic financial statements, but not for expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

DoD management is responsible for implementing and maintaining effective internal controls, including providing reasonable assurance that DoD personnel recorded, processed, and summarized accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

The purpose of our audit was not to express an opinion on internal controls over financial reporting, and we do not express such an opinion. However, we identified the following material weaknesses by compiling the results from the audits of the DoD Components, performing limited audit procedures at the Agency-Wide level and reviewing the DoD Components' Statements of Assurance. These material weaknesses could adversely affect the DoD's financial operations.

Identified Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the DoD's financial statements will not be prevented, or detected and corrected, in a timely manner. We identified the following 20 material weaknesses.

Financial Management Systems and Information Technology. The FMFIA requires financial management systems to provide reasonable assurances that: obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of reliable financial reports. The FFMIA requires Government agencies to incorporate accounting standards and reporting objectives established for the Government into their financial management systems. In addition, it requires that financial management systems have controls to support financial management. However, the DoD had multiple material financial management systems that did not comply with Federal management system requirements. In addition, the DoD Components did not implement internal controls over their information technology environment that adequately deter fraud, waste, and abuse. These systemic deficiencies in financial management systems and inadequate internal controls prevent the DoD from collecting and reporting financial and performance information that is accurate, reliable, and timely.

Universe of Transactions. OMB Bulletin No. 19-01 states that internal control over financial reporting includes ensuring that transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements. However, the DoD Components were unable to validate the completeness of the universe of transactions underlying their financial statements. Without a complete universe of transactions, the DoD Components cannot perform reconciliations of their financial statement line items. Therefore, auditors may not detect errors within the financial statements.

Financial Statement Compilation. OMB Circular No. A-123 states that management is responsible for developing and maintaining effective internal control to ensure the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. However, at least three DoD Component financial statements were not compiled correctly into the Agency-Wide Basic Financial Statements. The DoD lacked sufficient processes and internal controls to ensure that complete and accurate Component financial statements, including related note disclosures, were prepared prior to the compilation of the Agency-Wide Basic Financial Report. The lack of sufficient processes at the Agency-Wide level increased the risk of material misstatements on the Agency-Wide Basic Financial Statements.

Fund Balance With Treasury. For FY 2018, the DoD reported a Fund Balance With Treasury (FBWT) balance of $580 billion. Statement of Federal Financial Accounting Standards (SFFAS) No. 1, "Accounting for Selected Assets and Liabilities," and the Treasury Financial Manual (TFM), chapter 5100, require the DoD to reconcile its FBWT and explain any discrepancies between its balances and the Department of the Treasury's records. However, the DoD Components have ineffective processes and controls for reconciling their FBWT. The ineffective processes and controls resulted in unreconciled differences between the DoD and Treasury recorded balances that materially affect the financial statements.

Accounts Receivable. For FY 2018, the DoD reported an Accounts Receivable balance of $5.7 billion. SFFAS No. 1 states that a receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities. However, the DoD Components did not have proper controls to record, report, test, or reconcile transactions that should be labeled as a receivable. Failure to establish proper controls to support and document accounts receivable transactions could prevent the recording of receivables or result in recording receivables in the incorrect period or for the incorrect amount, which could result in a material misstatement on the financial statements.

Operating Materials & Supplies. For FY 2018, the DoD reported an Operating Materials and Supplies (OM&S) gross value of $184 billion. SFFAS No. 3, "Accounting for Inventory and Related Property," requires the DoD to value its OM&S at historical costs or any method approximating historical cost. However, SFFAS No. 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials," permits a reporting entity that cannot value its opening balance in accordance with SFFAS No. 3 to apply an alternative valuation method in establishing opening balances for OM&S. The DoD Components were unable to report OM&S in accordance with SFFAS No. 3 because the systems they used did not maintain historical cost data. In addition, the DoD Components did not implement a process to accurately value all OM&S opening balances in accordance with SFFAS No. 48. Therefore, the DoD OM&S balances may be materially misstated on the financial statements.

Inventory and Related Property. For FY 2018, the DoD reported an Inventory and Related Property net balance of $282 billion. SFFAS No. 3 requires the DoD to use historical cost, the latest acquisition cost, or any other valuation method that reasonably approximates historical cost for valuing Inventory. However, the DoD Components lacked the systems and controls necessary to provide assurance over the existence, completeness, and the valuation of Inventory and Related Property recorded in the financial statements. In addition, the DoD has not established policies and procedures to properly manage or account for inventory held by other DoD Components and Government contractors. Therefore, Inventory and Related Property reported on the financial statements may be materially misstated.

General Property, Plant, and Equipment. For FY 2018, the DoD reported a General Property, Plant, and Equipment (PP&E) balance of $759 billion. SFFAS No. 6, "Accounting for Property, Plant, and Equipment," requires the DoD to record General PP&E at acquisition cost. However, the DoD worked with the Federal Accounting Standards Advisory Board (FASAB) to develop an alternative method for establishing a baseline, or starting value of its General PP&E at the time it was acquired. Although the DoD has established a formula that will be used by all DoD Components to value their General PP&E, the FASAB has made it clear that the alternative method for valuing assets is a one-time exception to the established standards. Despite the flexibilities allowed by the FASAB, the DoD had several deficiencies affecting its valuation of its General PP&E. These deficiencies include the inability of the DoD to record General PP&E at acquisition or historical cost, substantiate the existence and completeness of its assets, and assign or determine the value for all real property and general equipment assets. Because the DoD could not accurately account for its assets or value its General PP&E, the DoD is at risk of materially misstating its General PP&E on its financial statements.

Government Property in Possession of Contractors. SFFAS No. 6 requires that property and equipment in the possession of a contractor, acquired on behalf of the Government for use in accomplishing a contract, be considered Government property. Such property should be accounted for based on the nature of the item, regardless of who has possession. The DoD lacked policies, procedures, controls, and supporting documentation for the acquisition, disposal, tracking, and inventory processes of Government property in the possession of contractors, which prevented the DoD from substantiating the existence and completeness of this property. As a result, the financial statements may be incomplete or inaccurate and could be materially misstated.

Accounts Payable. For FY 2018, the DoD reported an Accounts Payable balance of $29 billion. SFFAS No. 1 states that Accounts Payable are "amounts owed by a Federal entity for goods and services received from, progress in contract performance made by, and rents due to other entities." However, the DoD Components had a combination of deficiencies that resulted in unsupported Accounts Payable balances. In addition, the DoD Components did not have the financial management system capabilities to properly record Accounts Payable transactions. Therefore, the Accounts Payable balances on the financial statements may be materially misstated.

Environmental and Disposal Liabilities. For FY 2018, the DoD reported an Environmental and Disposal Liabilities balance of $70 billion. Federal Accounting Standards Advisory Board, Federal Financial Accounting and Auditing Technical Release 2, "Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government," states that an agency is required to recognize a liability for environmental cleanup costs as a result of past transactions or events when a future outflow or other sacrifice of resources is probable and reasonably estimable.

The DoD lacked formal policies, procedures, and supporting documentation to substantiate the completeness and valuation of its Environmental and Disposal Liabilities. As a result, Environmental and Disposal Liabilities reported on the financial statements may be materially misstated.

Legal Contingencies. SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances involving uncertainty as to a possible gain or loss to an entity. Additionally, TFM, volume 1, part 2, chapter 4700, states that significant entities must submit a Legal Representation Letter (LRL) summarizing and evaluating legal actions against the entity and categorizing them as having a probable, reasonably possible, remote, or "unable to determine" chance of a negative outcome. The TFM also states that agencies should avoid excessive use of the term "unable to determine" in assessing the likelihood of loss. In addition, it states that, if agencies categorized a case as "unable to determine," they should provide a note disclosure that includes the information they evaluated which led to their assessment. If a note disclosure is not provided, the agency should provide justification for why a disclosure is not necessary. The Agency-Wide Consolidated LRL included 150 cases, totaling $5.27 trillion. Of the 150 cases, 97 cases, totaling $3.2 trillion, were categorized as "unable to determine." The DoD did not disclose what information was evaluated to categorize these cases as "unable to determine" or provide a justification for why a disclosure was not necessary. Due to the DoD's noncompliance with the TFM, the DoD was unable to substantiate the presentation and disclosure of the legal contingencies balance on the financial statements.

Beginning Balances. SFFAS No. 48 states that beginning balances are account balances that exist at the beginning of the reporting period and are based upon the closing balances of the prior period. These balances reflect the effects of transactions that occurred and accounting policies applied in the prior period. At least six reporting entities do not have the historical data to support beginning balances on their financial statements or the ability to reconcile beginning balances to closing balances at the end of the reporting period. Without a supported beginning balance, the auditors cannot confirm the completeness and accuracy of the amounts reported on the financial statements.

Journal Vouchers. The FMFIA requires that obligations and costs comply with applicable laws. FMFIA also requires that revenues and expenditures be properly recorded and accounted for to permit the preparation of reliable financial reports and to maintain accountability over the assets. Adequate supporting documentation is necessary to demonstrate compliance with the FMFIA requirements. The DoD recorded 1,232 journal vouchers that it categorized as unsupported, totaling more than $175 billion, that directly affected the financial statements. In addition, multiple DoD Components posted journal vouchers to the accounting systems before management performed adequate reviews. The lack of adequate supporting documentation and management reviews at the Component level directly increased the risk of material misstatements on both the Components' financial statements and the Agency-Wide Basic Financial Statements.

Intragovernmental Eliminations. The TFM, volume 1, part 2, chapter 4700, requires agencies to maintain accurate information and supporting documentation on intragovernmental transactions to facilitate the reconciliation and elimination of these transactions during the financial statement preparation process. However, DoD Components could not accurately identify, provide supporting documentation, or fully reconcile their intragovernmental transactions. Additionally, DoD Components eliminated transactions based on data that may not have been accurate. The inability to confirm that the transaction data supporting the intragovernmental eliminations was accurate may have resulted in a material misstatement to the amounts reported on the financial statements.

Statement of Net Cost. SFFAC No. 2, "Entity and Display," states that the Statement of Net Cost should present the amounts paid, the consumption of other assets, and the incurrence of liabilities as a result of rendering services, delivering or producing goods, or carrying out other operating activities. OMB Bulletin No. 19-01 requires that the Statement of Net Cost be included in the Basic Financial Statements and it requires that financial statements be presented in accordance with GAAP. However, at least three reporting entities did not accumulate cost information and record transactions in compliance with GAAP for the Statement of Net Cost. Therefore, DoD management does not have reliable financial information to effectively manage and understand the net costs of its organizations and programs, resulting in a potential material misstatement on the Statement of Net Cost.

Reconciliation of Net Cost of Operations to Budget. SFFAS No. 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," requires a reconciliation of proprietary and budgetary data. At least three reporting entities were unable to perform the required reconciliation. This negatively affects management's and users' understanding of the relationship between the net cost of operations and the budgetary resources obligated. In addition, variances between proprietary and budgetary data may not be identified and resolved, resulting in possible misstatements to amounts reported on the financial statements.

Budgetary Resources. SFFAS No. 7 states that the budget is the Government's primary financial planning and control tool. For this reason, the following material budgetary information should be presented by reporting entities for which financing comes wholly or partially from the budget: total budgetary resources available to the reporting entity during the period, the status of those resources (including "obligations incurred"), and outlays. At least three reporting entities could not accurately determine their total budgetary resources available during the period and the status of those resources. Therefore, the DoD Components are unable to use their Statement of Budgetary Resources to monitor the status of their available funds, and, as a result, the DoD is at greater risk of potential violations of the Antideficiency Act.

Entity Level Controls. The Government Accountability Office Green Book, "Standards for Internal Control in the Federal Government," September 2014, present the internal control standards for federal agencies for both program and financial management. The Green Book states that entity-level controls are controls that have a pervasive effect on an entity's internal control system and may pertain to multiple components. Entity-level controls may include controls related to the entity's risk assessment process, control environment, service organizations, and management override. However, multiple DoD Components do not have sufficient entity level controls to establish an internal control system that will produce reliable financial reporting. The lack of sufficient controls at the Component level directly increased the risk of material misstatements on both the Components' financial statements and the Agency-Wide Basic Financial Statements.

Oversight and Monitoring. OMB Circular No. A-123 defines management's responsibility for internal control. Additionally, it states that agency management is responsible for taking timely and effective action to correct deficiencies and ensuring that corrective action plans are developed for all material weaknesses. However, some DoD Components have not developed corrective action plans for all material weaknesses. Without effective oversight and monitoring, the Components' material weaknesses will continue to affect the DoD's ability to provide reasonable assurance that internal controls over financial reporting are effective.

Report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

Generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws, regulations, contracts, and grant agreements related to financial reporting. We compiled the results from the audits of the DoD Components and determined that the DoD was not compliant with all laws, regulations, contracts, and grant agreements that could have a direct and material effect on the financial statements. Specifically, the DoD did not comply with the Antideficiency Act (ADA), FFMIA, FMFIA, the Federal Information Security Modernization Act, and the Debt Collection Improvement Act. However, our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Additionally, because of the significance of the matters described in "Basis for Disclaimer of Opinion," we performed limited procedures that may not have detected all instances of noncompliance. The following instances of noncompliance impacted material DoD Components.

Antideficiency Act

Section 1341, title 31, United States Code (31 U.S.C. §1341 [1990]), limits the DoD and its agents to making or authorizing expenditures or obligations that do not exceed the available appropriations or funds. Additionally, the DoD or 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), the DoD and its agents are prohibited from making or authorizing expenditures of 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 ADA, the head of the agency must immediately report to the President and Congress all relevant facts and a statement of actions taken. During FY 2018, the DoD reported six ADA violations within four completed cases.

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," establishes timeframes for identifying and reporting ADA violations. The regulation states that the formal investigation and reporting on ADA violations should take no more than 15 months. One potential ADA violation investigation within a case has been open for more than 15 months.

Compliance With FFMIA Requirements

The FFMIA requires the DoD to establish and maintain financial management systems that comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB Circular No. A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with the FFMIA.

For FY 2018, the DoD did not substantially comply with the FFMIA. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer represented that the controls in place to support reliable financial reporting were not effective to provide reasonable assurance. They represented that their financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, or the U.S. Standard General Ledger at the transaction level as of September 30, 2018. In addition, the auditors of the DoD Components identified that the DoD Components did not substantially comply with the FFMIA.

Compliance With FMFIA Requirements

The FMFIA requires the DoD to perform ongoing evaluations and reports on the adequacy of its systems of internal accounting and administrative control. OMB Circular No. A-123, which implemented FMFIA, states that management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

For FY 2018, the DoD did not substantially comply with the FMFIA. The Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer represented that the DoD's internal control over financial reporting was not effective because of the material weaknesses reported in the FY 2018 Agency Financial Report. In addition, the auditors of the DoD Components identified that the DoD Components did not substantially comply with the FMFIA.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations. Component auditors provided recommendations to the DoD Components. We will review all Component auditor recommendations to determine if an Agency-Wide recommendation is appropriate.

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FY 2018

Other Information

Face of Defense: Sailor from Humble Beginnings Achieves Excellence

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Summary of Financial Statement Audit and Management Assurances

Department of Defense (DoD or the Department) management has a fundamental responsibility to develop and maintain effective internal controls to ensure that its programs operate, and federal resources are used, efficiently and effectively to achieve the DoD mission. As discussed in Management's Discussion and Analysis, managers throughout the Department are accountable for ensuring effective internal controls in their areas of responsibility. All DoD Components are required to establish and assess internal controls over financial reporting, mission-essential operations, and financial management systems.

Management-identified weaknesses are determined by assessing internal controls, as required by the Federal Managers' Financial Integrity Act of 1982 (*FMFIA*), the Federal Financial Management Improvement Act of 1996 (*FFMIA*), and Office of Management and Budget (OMB) *Circular No. A-123*, and fall into one of the following categories:

- FMFIA Section 2, Effectiveness of Internal Control over Financial Reporting;
- FMFIA Section 2, Effectiveness of Internal Control over Operations; or
- FMFIA Section 4, Compliance with Federal Financial Management Systems Requirements / FFMIA Section 803(a), Implementation of Federal Financial Management Improvements.

Marines march in formation during the Sunset Parade at the Lincoln Memorial in Washington, D.C., July 17, 2018. The Marines are assigned to Marine Barracks Washington.

Marine Corps photo by Staff Sgt. John A. Martinez Jr.

Summary of Financial Statement Audit

Exhibit 1 lists the 20 areas of material weaknesses in the Department's financial statement reporting as identified by the DoD Inspector General (DoD IG) in the Independent Auditor's Report. The material weakness areas identified by DoD IG in the Independent Auditor's Report are consistent with those identified by DoD management (which are identified using the assessable unit categories as defined by the DoD Enterprise Risk Management and Internal Control Program) with three exceptions: Environmental and Disposal Liabilities, Entity Level Controls, and Oversight and Monitoring. The Department concurs with DoD IG's conclusions and will focus on implementing the necessary corrective actions to address each of the material weaknesses noted by the DoD IG in the Independent Auditor's Report.

Environmental Liabilities

The Department assessed Environmental and Disposal Liabilities (E&DL) in FY 2018 and concluded material weaknesses reported by the Department of the Army and the Department of the Air Force were resolved due to the implementation of an E&DL methodology framework used to produce auditable E&DL estimates and standardize the business practices of reporting active E&DLs. However, the DoD IG identified additional deficiencies within the DoD E&DL approach. The Department concurs with DoD IG's conclusions and will initiate further efforts to substantiate the completeness and valuation of Environmental Liabilities.

Entity Level Controls

During FY 2018, the Department enhanced and updated enterprise-wide guidance documents and tools to assist DoD Components with the establishment and testing of entity-level internal controls; however, implementation of these resources was not completed in FY 2018. The Department concurs with DoD IG's conclusions and will continue to prioritize the implementation of entity-level controls at the DoD Component level to mitigate the risk of material misstatements on the DoD Components' and the Agencywide principal financial statements.

Oversight and Monitoring

Although some DoD Components did not report corrective action plans (CAPs) in FY 2018 for all of their material weaknesses, the Department develops enterprise-wide CAPs through the use of subject matter experts to support the coordination of remediation efforts to address auditor-issued notices of findings and recommendations (NFRs). The Department concurs with the DoD IG's conclusions and will continue to use the NFR Database to track the status of CAPs and validate that they are designed to implement timely and effective corrective actions to remediate all DoD material weaknesses. The status of DoD CAPs will continue to be regularly reported to the Financial Improvement and Audit Remediation Governance Board and the Defense Business Council.

Exhibit 1. Summary of Financial Statement Audit

Audit Opinion: Disclaimer
Restatement: No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Accounting Entries[1]	1			(1)	0
Financial Management Systems and Information Technology[2, 3]	1				1
Universe of Transactions[4]	0	1			1
Financial Statement Compilation	0	1			1
Fund Balance with Treasury	1				1
Accounts Receivable[5]	1				1
Operating Materials & Supplies	1				1
Inventory and Related Property	1				1
General Property, Plant, and Equipment[6]	1				1
Government Property in Possession of Contractors[7]	1				1
Accounts Payable[8]	1				1
Environmental and Disposal Liabilities	1				1
Legal Contingencies[9]	0	1			1
Beginning Balances[9]	0	1			1
Journal Vouchers[10]	0	1			1
Intragovernmental Eliminations[8]	1				1
Statement of Net Cost[9]	1				1
Reconciliation of Net Cost of Operations to Budget[9]	1				1
Budgetary Resources[10]	0	1			1
Entity Level Controls	0	1			1
Oversight and Monitoring	0	1			1
Total Material Weaknesses	**13**	**8**	**0**	**(1)**	**20**

Exhibit 1 Footnotes:

[1] The Accounting Entries material weakness identified by the DoD IG in the DoD Agency Financial Report for FY 2017 was consolidated into the Journal Vouchers material weakness identified by the DoD IG in FY 2018.

[2] The Financial Management Systems and Information Technology material weakness identified by the DoD IG was titled Financial Management Systems by the DoD IG in the DoD Agency Financial Report for FY 2017.

[3] The Financial Management Systems and Information Technology material weakness identified by the DoD IG is included within the Federal Financial Management Systems Requirements material weakness identified by DoD management in Exhibit 6.

[4] The Universe of Transactions material weakness identified by the DoD IG is included within the Federal Financial Management Systems Requirements material weakness identified by DoD management in Exhibit 6.

[5] The Accounts Receivable material weakness identified by the DoD IG is included within the Reimbursable Work Orders material weakness identified by DoD management in Exhibit 2.

[6] The General Property, Plant, and Equipment material weakness identified by the DoD IG includes the Equipment Assets and Real Property Assets material weaknesses identified by DoD management in Exhibit 2.

[7] The Government Property in Possession of Contractors material weakness identified by the DoD IG is included within the Accountability and Management of Property Furnished to Contractors for the Performance of a Contract material weakness identified by DoD management in Exhibit 2.

[8] The Accounts Payable and Intragovernmental Eliminations material weaknesses identified by the DoD IG are included within the Health Care Liabilities, Military Pay, Contract/Vendor Pay, Reimbursable Work Orders, and Transportation of Things material weaknesses identified by DoD management in Exhibit 2.

[9] The Legal Contingencies, Beginning Balances, Statement of Net Cost, and Reconciliation of Net Cost of Operations to Budget material weaknesses identified by the DoD IG are included within the Financial Reporting Compilation material weakness identified by DoD management in Exhibit 2.

[10] The Journal Vouchers and Budgetary Resources material weaknesses identified by the DoD IG are included within the Fund Balance with Treasury material weakness identified by DoD management in Exhibit 2.

Summary of Management Assurances

FMFIA Section 2, Effectiveness of Internal Controls over Financial Reporting

Under the oversight of the DoD Financial Improvement Audit Remediation Governance Board, the Department's assessment of the effectiveness of it internal controls over financial reporting resulted in the downgrade of three previously reported material weaknesses in FY 2018. Exhibit 2 lists the FY 2018 material weaknesses in internal controls over financial reporting, captured by end-to-end process and assessable unit, and reports the changes from the material weaknesses disclosed in the DoD Agency Financial Report *(AFR) for FY 2017*.

Exhibit 2. FY 2018 Effectiveness of Internal Control over Financial Reporting (FMFIA §2)

Statement of Assurance: No Assurance

End-to-End Process	Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Budget-to-Report	Fund Balance with Treasury (FBWT)	3					3
	Financial Reporting Compilation	6					6
Hire-to-Retire	Health Care Liabilities	2					2
	Military Pay	3					3
Procure-to-Pay	Contract/Vendor Pay	6					6
	Reimbursable Work Orders	3					3
	Transportation of Things[1]	2				(2)	0
Acquire-to-Retire	Equipment Assets	2					2
	Real Property Assets[2]	1				1	2
	Environmental Liabilities[3]	1				(1)	0
	Accountability and Management of Property Furnished to Contractors for the Performance of a Contract	1					1
	Internal Use Software (IUS)	1					1
Plan-to-Stock	Inventory	4					4
	Operating Materials & Supplies (OM&S)	3					3
	Requisitioning Process (Customer Orders)	2					2
Total Material Weaknesses		**40**	**0**	**0**	**0**	**(2)**	**38**

[1] In FY 2018, Transportation of Things was reassessed and is no longer reported as a Department-wide area of material weakness.
[2] In FY 2018, the descriptions for Real Property Assets were divided into two areas so that material weaknesses have increased visibility of corrective actions and alignment with notifications of findings and recommendations.
[3] In FY 2018, Environmental Liabilities was reassessed and is no longer reported as a Department-wide area of material weakness.

Exhibit 3. Internal Control over Financial Reporting Corrective Action Plans

Areas of Material Weakness	Year Identified	DoD Components	Corrective Actions	Target Correction Year
Fund Balance with Treasury • Ineffective processes and controls to reconcile transactions posted to the Department's Fund Balance with Treasury (FBWT) accounts with the Treasury's records. • Collections and disbursements are reported to Treasury but are not recorded in the Department's general ledger. • Ineffective processes for providing sufficient and accurate documentation to support FBWT transactions and reconciling items.	FY 2005	Department-wide	• Track and reconcile collection/disbursement activity from the core financial systems and associated feeder systems to the Department's general ledgers and to Treasury accounts. • Develop an auditable FBWT reconciliation process, to include implementation of internal controls that ensure reconciling differences are accurate, documented, and resolved in a timely manner. • Analyze and resolve transactions posted to budget clearing accounts ("suspense" accounts). • Analyze and resolve transactions reported on Treasury's Statement of Differences (e.g., deposit in-transit, Intra-Governmental Payment and Collection, and check issue differences). • Perform aging analysis of appropriations received and apply reconciliations back to at least FY 2013. • Obtain Statement on Standards for Attestation Engagements (SSAE) 16/ SSAE 18, Reporting on Controls on Fund Balance with Treasury – Transaction Distribution which includes Defense Cash Accountability Systems.	FY 2019
Financial Reporting Compilation • Ineffectively designed processes and controls to prepare accurate financial statements supported by general ledger balances that align with strategic performance plans to ensure compliance with Generally Accepted Accounting Principles (GAAP) and the DoD Financial Management Regulation (FMR). • Inability to reconcile detail-level transactions with the general ledgers and provide adequate supporting documentation for adjusting entries. • Accounting balances are unsupported due to inadequate financial management systems and related processes and procedures. • Inconsistency between documented processes and procedures versus actual procedures performed in practice regarding reconciliations and resolving differences.	FY 2005	Department-wide	• Revise standard operating procedures and control descriptions to incorporate the requirements of OMB-A-136, and improve variance analysis and annual financial report review procedures. Implement Standard Financial Information Structure (SFIS) to standardize financial reporting that aligns with the Department's mission. • Obtain population of feeder system transactional data and perform reconciliations from feeder systems to the general ledgers and financial statements. • Establish process to govern posting logic changes within DoD accounting systems; consolidate, categorize, document, and prioritize system requirements for changes to enable correct posting logic compliance issues. • Obtain supporting documentation at the transaction level to support adjustments; complete root cause analysis to identify true source of errors, and correct transactions at the source. Track, maintain, and analyze adjustments to verify materiality at the individual and aggregate levels to assist with addressing underlying root causes.	FY 2002

• Lack of developed approach for performing reconciliations and retaining data for sensitive activities. • Inconsistent procedures for recording Journal Vouchers and Standard Business Transactions. Supporting documentation retention procedures also pose a significant risk to producing accurate and complete financial statements and reports.			• Establish guidelines for reconciliation variances that need to be resolved and require relevant service providers to post corrections in a timely manner. • Develop approach for performing reconciliations and retaining data for sensitive activities.	
Health Care Liabilities • Insufficient financial reporting and accounting for all health care costs and the lack of processes to reconcile Medical Expense and Performance Reporting System data. • Inability to obtain sufficient documentation from compliant transaction-based accounting systems to support the costs of direct care provided by DoD-managed military treatment facilities.	FY 2003	Department-wide	• Develop and implement methodology for patient itemized bills to address the auditor-identified weakness related to direct care. Itemized patient bills for all patients provided care will be attainable with the deployment of the new Electronic Health Record scheduled for full deployment across the Military Health Services by close of FY 2025.	FY 2025
Military Pay • Ineffective processes and controls to record military pay transactions and personnel actions in a timely, complete, and accurate manner. • Unreliable and/or lack of supporting documentation for personnel actions. • Outdated military pay and financial management information technology systems lack modern capabilities to support required auditability framework. Current deficiencies require unsustainable manual activities to support auditability.	FY 2011	Department-wide	• Develop and implement a plan for an integrated pay and personnel system designed to determine pay and entitlements, report ad hoc financial management data, and capture and store key supporting documentation.	FY 2020
Contract/Vendor Pay • Lack of standard data structure governing purchase request format prevents traceability and use of electronic transactions from initiation of funding through contract execution. • Need to implement standard processes for recording contract obligations electronically in financial systems. • Insufficient policies governing the recording of accruals related to contracts. • Inability to reconcile contract data to financial data. Unable to reconcile buyer and seller intragovernmental and intergovernmental transactions.	FY 2003	Department-wide	• Establish and publish DoD Instruction setting policies, procedures, and data standards for purchase requests. • Develop and implement automated pre-award funds validation to ensure accounting systems can accurately record proposed contract award structure. • Monitor all accounting and entitlement systems to track progress toward compliance with standard procedures. • Design and implement controls to ensure contract data can be accurately matched to recorded accounting data for public posting.	FY 2025

• Current systems and processes do not enable matching the contract award to accounting data for public transparency, (e.g., Data Act). • Lack of timely contract closeout and de-obligation of funds limits the Department's access to capital.			• Develop department-wide contract closeout standard operating procedures to ensure financial systems are in balance and de-obligation of funds occur, returning available funds back to programs in a timely manner. • Expand the use of accrual recording based on Wide Area Work Flow acceptance data to additional accounting systems. • Develop policies, procedures, and data standards for electronic intergovernmental / intragovernmental transactions. Pilot capability to obtain contract source data and source documentation for reconciliations to the financial records.	
Reimbursable Work Orders • Lack of evidence of performance, acknowledgement of receipt of intragovernmental goods and services, and validity of open obligations. • Inability to verify the timeliness and accuracy of disbursements and validate recorded reimbursable agreements. • Ineffective process to collect, exchange and reconcile buyer and seller intragovernmental transaction.	FY 2011	Department-wide	• Treasury has identified G-Invoicing as a solution to intragovernmental transaction differences and will develop an online portal for conducting Buy/Sell transactions to manage the processing and approval of general terms and conditions (GT&C) Agreements, Orders, and Invoices. • Reporting entities will perform gap analyses on key processes, build and enter GT&C's agreements in G-Invoicing system, participate in G-Invoicing training, and build orders in accordance with data standards. • Reporting entities will fund, design, and build all accounting system interfaces in alignment with Treasury's G-Invoicing release schedule. • Reporting entities and the Defense Finance and Accounting Service will implement training, guidance, and management oversight of periodic reviews, and identify and implement standard enterprise reconciliations that provide for validation of the seller/buyer-side balances and input of supported journal vouchers for timing differences.	FY 2022
Equipment Assets • Ineffective processes and controls to account for the quantity and value of military and general equipment. • Insufficient internal controls and supporting documentation requirements to ensure timely recording, accuracy and transfer from Construction in Progress (CIP) to the general equipment account.	FY 2006	Department-wide	• Implement Federal Accounting Standards Advisory Board Technical Bulletin 2017-2 and the associated DoD General Equipment (GE) Financial reporting responsibilities policy memo to align financial reporting of GE assets with the accountability of the assets. • Publish and leverage results of the go-forward equipment valuation study which provides a consistent and streamlined methodology for balance sheet reporting of GE assets across the department. • DoD Components are continuing to develop and implement aspects of their "go forward" approach for valuing Equipment and sustaining these values (including CIP) in accordance with GAAP; as well as modifying their Accountable Property	FY 2022

			System of Records (APSR) to ensure they capture the required data. • Continue to leverage the Defense Audit Remediation Working Group for expedited policy guidance and update the DoD Financial Management Regulation chapters for accounting for military and general equipment, as required. • DoD Components to continue to validate asset listings for completeness and accuracy and document process and control environments. • DoD Components to continue to apply controls and procedures to manage property accountability, including adequate documentation to support acquisition and disposal processes throughout the year. • Continue to convene the GE Working Group and DoD Component Property Lead property accountability workshops to highlight policy and guidance gaps impacting the valuation of GE, report on quarterly progress in establishing accountable records, and use as a forum for sharing lessons learned.	
<u>Real Property Assets</u>	FY 2000	Department-wide		
Existence and Completeness • Real property processes, controls and supporting documentation do not substantiate that (1) all existing assets are recorded in an APSR, (2) all assets recorded in the APSR properly reflect DoD's legal interest in the asset.			• Implement and regularly conduct a lifecycle process for a real property physical inventory: ○ Include validation of information for those data elements required in the calculation of Plant Replacement Value for alternative valuation in accordance with Statement of Federal Financial Accounting Standards 50. ○ Ensure adequate documentation is available to support existence and completeness and placed in service dates. • Complete floor-to-book and book-to-floor baseline reconciliation of real property assets with adequate documentation to support existence and completeness.	FY 2019
Valuation, Rights & Obligations, Presentation, and Disclosure • Real property processes, controls and supporting documentation do not substantiate that, (1) all real property assets are properly valued and, (2) documentation for all real property assets properly support rights and obligations, and are appropriately presented and consistently reported in the financial statements. DoD has insufficient internal controls and supporting documentation to ensure timely recording, accuracy and the transfer of Construction in Progress (CIP) to the appropriate real property account upon completion of construction or improvements.			• Implement processes and controls to support DoD policies related to financial reporting of real property. • Document and implement go-forward processes and control environment for all lifecycle processes to include: acquisition (and CIP); inventory; reconciliation of CIP and APSR with financial statements and tenant agreements and records and disposal.	FY 2021

			• Establish systems to properly account for and value real property assets, including CIP. Ensure adequate documentation is available to support rights and obligations for financial statement reporting, specifically real property use agreements outlining responsibilities of each party, to include but not limited to, responsibility for financial reporting.	
<u>Accountability & Management of Property Furnished to Contractors for the Performance of a Contract</u> • In FY 2011, the Department did not have clear guidance and had not properly trained Program Office staff, contract specialists, and accountable property officers regarding policies and procedures for appropriately managing property provided to a contractor (this includes both contractor acquired property (CAP) and Government Furnished Property (GFP). As a result, DoD's accountability records are incomplete. Audit reports have consistently identified a lack of accountability concerning GFP and CAP, for which DoD has title but not immediate physical control.	FY 2011	Department-wide	• Continue to roll out and leverage the electronic DoD enterprise solutions for standard GFP transactions via Defense Logistics Management Standards within the Wide Area Work Flow /Procurement Integrated Enterprise Environment applications. • Continue to review metrics such as GFP contract clause compliance, assertion packages, and APSRs for each component and provide analysis of progress towards accountability. • Components are evaluating current execution and improving guidance and business processes to ensure accountability of GFP and CAP. Components are also continuing to review existing contracts and establish accountability over legacy GFP. • Continue to hold GFP Working Group meetings to share lessons learned, discuss Notice of Findings and Recommendations (NFRs) and corrective action plans (CAPs), resolve identified problems, and promote usage of new electronic GFP transaction solutions.	FY 2020
<u>Internal Use Software</u> • The Department has not properly addressed the management and financial reporting of Internal Use Software (IUS), which is required by Statement of Federal Financial Accounting Standards (SFFAS 10) and must be addressed through updated guidance in the Financial Management Regulation	FY 2015	Department-wide	• DoDI 5000.76, Accountability and Management of Internal Use Software, was signed March 2, 2017, and FMR Vol4, Chapter Internal Use Software was issued in August 2018 to provide accountability of an accounting for IUS. • OSD IUS Tiger Team was established to document all WHS IUS and collect lessons learned to be used Department-wide. • Components are continuing to identify and establish accountability over existing IUS and identifying new acquisitions to ensure capital IUS costs are captured and reported appropriately in accordance with Generally Accepted Accounting Principles. • Components are continuing to develop and implement processes and system changes to APSRs to properly capture and sustain proper accountability and accounting of IUS. • Evaluate DoD-wide compliance for IUS APSR requirements via data calls and	FY 2022

			leverage results to drive IUS APSR requirement and policy changes. • Continue to convene the IUS working group to highlight policy and guidance gaps impacting the accountability and accounting of IUS, report on progress in establishing IUS accountable records and implementing sustainable processes for IUS, and use as a forum for sharing lessons learned. • Validate corrective actions in conjunction with DoD Chief Information Officer through results of standalone audits, DoD-wide audit, agency Statement of Assurance's, and information presented by Components at IUS working group.	
Inventory • DoD does not have sufficient policies and procedures in place to support inventory transactions and related journal vouchers (JV). • Lack of controls to provide assurance that inventory recorded in the financial statements exist and is complete. • Lack of clear audit trails to trace transactions from source documentation to the reported total dollar values on the inventory line item on the financial statements. • Material-in-transit is reported at the summary level instead of detail level and there is a lack of adequate processes and controls to assure the amount reported is correct.	FY 2005	Department-wide	• Develop methodology and inventory condition code reports to support a monthly JV related to inventory, including retention of supporting documentation for all inventory transactions and related JVs. • Conduct periodic inventories and reconciliation of inventory accounts to validate systems of record are performed. Draft revisions to DoDM 4140.01 Volume 5. Implement methodology to value inventory in the absence of historical costs (for baseline of asset inventory). • Improve assurance that inventory recorded in the financial statements exist and is complete through publication of ADC 1244 "Establishing Visibility of Unique Item Tracking Program Items for Service-Owned Assets Stored at DLA Distribution Centers and Corresponding Revisions to Inventory Procedures Related to Capital Equipment" In June 2018. • Develop and implement processes and controls to support the valuation of inventory on a "go-forward" basis. • Modify systems to account for Material-in-transit at the detailed level.	FY 2022
Operating Materials & Supplies (OM&S) • Historical cost data is not maintained; therefore, inventory values cannot be reported as required by Generally Accepted Accounting Principles. • Inability to perform and document annual physical inventories of OM&S and maintain clear audit trails to permit the tracing of transactions from source documentation. • Government-owned / Contractor managed and Government Furnished Material	FY 2005	Department-wide	• Draft revisions to DoDM 4140.01 V5 to support the initiatives to require 100% Annual Inventory (to establish a baseline and/or as a corrective measure); and address issues with co-mingling. • Integrated Process Team (IP) migrating weaknesses associated with the lack of Material Receipt Acknowledgements and developing methodology and inventory condition code reports supporting monthly inventory related JVs; , including retention of key supporting documentation (KSDs) for all inventory transactions and related JVs. • Identify and document the current inventory reconciliation processes,	FY 2022

inventories are not accounted for in DoD accountable property systems.			including key controls and financial transactions. • Establish GAAP-compliant valuation methodologies that include appropriate acquisition cost approaches to support all audit assertions of OM&S.	
<u>Requisitioning Process (Customer Orders)</u> • Off-line requisition systems lack interfaces with the supply and financial automated systems to ensure timely recording of obligations. • The Component's supply and financial systems do not interface with DLA and GSA offline requisition systems.	FY 2013	Department-wide	• Implement system interfaces based on approved Defense Logistics Management Standards for requisitioning and internal ordering. • Conduct testing to validate system interfaces.	FY 2020

Navy Seaman Tarron Finn handles mooring line on the fantail of the aircraft carrier USS Theodore Roosevelt during a port visit to Singapore, April 2, 2018.

Navy photo by Seaman Michael Colemanberry

FMFIA Section 2, Effectiveness of Internal Control over Operations

DoD Components use an entity-wide, risk-based, self-assessment approach to establish and assess internal controls for mission-essential operations. Exhibit 4 lists the FY 2018 material weaknesses in the internal controls over operations, captured by operational area, and reports the changes from the material weaknesses disclosed in the DoD AFR for FY 2017.

Exhibit 4. FY 2018 Effectiveness of Internal Controls over Operations (FMFIA §2)

Statement of Assurance: Modified Assurance

Assessable Unit	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Acquisition [4]	2				(1)	1
Comptroller and/or Resource Management	1					1
Communication	0	1				1
Contract Administration	3					3
Information Technology	2					2
Force Readiness	1					1
Manufacturing, Maintenance, and Repair	0	1				1
Personnel and/or Organizational Management [5] [6]	2	4			(1)	5
Operations	0	1				1
Security	1					1
Support Services	2					2
Supply Operations	1					1
Total Material Weaknesses	**15**	**7**	**0**	**0**	**(2)**	**20**

[4] In FY 2018, Acquisition reassessed a material weakness (MW) for DoD acquisition program oversight, which was determined not to be a systemic issue and was downgraded.
[5] In FY 2018, Personnel and/or Organizational Management split an existing MW into five MWs and added information to include hiring process deficiencies.
[6] In FY 2018, Personnel and/or Organizational Management reassessed and downgraded a MW for Adjudicating personnel matters of up to >18 Months.

Exhibit 5. Effectiveness of Internal Controls over Operations Corrective Action Plans

Areas of Material Weakness	Year Identified	DoD Components	Corrective Actions	Target Correction Year
Acquisition • Lack of Program Executive Office Program Manager acquisition lifecycle oversight mandated by the DoD 5000 series of policies and regulations. Additionally, the organizational structure is non-compliant with the DoD 5000 series. Lack of effective process to support mission by identifying, assessing, and providing oversight of development and Procurement solutions. Inadequate documentation and filing of acquisition records.	FY 2017	Defense Health Agency, Defense Threat Reduction Agency	• Develop and implement Procedural Instruction for Acquisition Approval and Governance. Create supporting tools to aid and inform decisions, reduce the staff effort to review the programs, and improve the monitoring and forecasting of potential trouble or risk areas. • Conduct Systems Reviews, Capability Portfolio Reviews, Configuration Steering Boards and Cost Reviews to identify process inefficiencies and improve the acquisition management process. • Develop additional procedures to establish oversight controls for programs, including procedures to report cost, schedule and performance variances, and to address reported variances. • Establish a system of tracking to report acquisition program performance and highlight variances.	Reassessed annually
Comptroller and/or Resource Management • Ineffective internal controls and management oversight for processes such as management of improper payments and use of Internal Use Software and property furnished to contractors.	FY 2013	Department-wide	• Brief leadership, appoint and train staff, develop risk profiles, conduct initial, quarterly and annual validation and assessment, and automate as appropriate.	FY 2019
Communication • The Department of the Air Force (AF) has identified a systemic issue in communication of security information between installations and appropriate external entities (e.g., the Federal Bureau of Investigation).	FY 2018	Department of the Air Force	• Identify digital fingerprinting hardware and software. • Identify partnering solution with AF Office of Special Investigations. • Security Forces Management Information System Replacement. • Long-term software solution for case management.	FY 2023
Contract Administration • The Department must strategically manage Services Acquisition, define outcomes, and capture data to facilitate strategic management of the acquisition function. • The Department continues to face challenges meeting fiscal year competition goals and needs to address	FY 2009	Department-wide	• Continue to track and monitor training requirements for Acquisition workforce including new training for Mid / High Level Requirements and Contracting Professionals. • Publication of a revised DoDI 5000.74, “Acquisition of Services” as required by the National Defense Authorization Act (NDAA) for FY 2017, Sec. 803, projected for FY 2019.	Reassessed annually

ill- suited contract arrangements and utilize incentives. • The acquisition workforce is not appropriately sized, trained, nor equipped to meet the Department's needs.			• Continue publication of DoD quarterly competition achievement; continue to implement the April 2016 DoD publication, "Guidance on Using Incentive and Other Contract Types" when selecting and negotiating a contract type.	
Information Technology • DoD financial and business management systems and processes do not provide reliable, timely, nor accurate information. • Systemic shortfalls in implementing cybersecurity measures to guard the data protection environment. Gaps in cybersecurity access controls including privileged user authentication and public key infrastructure and device hardening / encryption contribute to data protection vulnerabilities. Issues exist in policy compliance with cybersecurity measures, oversight, and accountability.	FY 2010	Department-wide	• Expand review and analysis of proposed information technology (IT) systems. Update the DoD Instruction (DoDI) 5000.75 and increase Investment Review Board oversight. The target date to correct this material weakness coincides with the full deployment schedule of the core business systems. • Establish processes to ensure stakeholder participation in the Cybersecurity Scorecard meetings and alignment of service scorecard metrics to audit findings. • Revise current user system access policy to include clear guidance on requirements for privileged user access authorization and credential revocation, user access and control training certification, user monitoring and Public Key Infrastructure-based authentication/credentials. • Revise current acquisition and IT purchase contracts and policy to require the adoption of established user access controls and encryption/hardening standards. • Revise current policy on shared file and drive protection, to include requirements for encryption use and stringent password protection that, at a minimum, meets password requirements specified in DoDI 8520.03 for stronger authentication.	FY 2020 Reassessed annually
Force Readiness • Independent and internal reviews of DoD's nuclear enterprise identified problems and recommendations needed for a safe, reliable, and credible nuclear deterrent. These included internal control related items such as a need for increased managerial oversight, for an improved self-assessment program, for increased oversight capability, and for useful nuclear inspection reports. The reviews also made recommendations to address these problems.	FY 2016	Department-wide Nuclear Enterprise	• Develop corrective action plans that align with the recommendations from the independent reviews.	Reassessed annually
Manufacturing, Maintenance, and Repair • Multiple audits and studies identified a wide range of control issues that cumulatively create material weaknesses in ship depot maintenance. Policies for defining, costing, and executing maintenance all require improvement to correctly predict both cost and duration of depot maintenance.	FY 2016	Department of the Navy	• Q1 FY 2018 – Identified obstacles to execution performance. • Q2 FY 2018 – Identified variance between Execution Year Guidance (EYG) to President's Budget and developed mitigations.	FY 2020

			• Q4 FY 2018 – Integrated depot maintenance in assessable units Managers' Internal Control Program. • Q4 FY 2018 – Established the President's Budget as the baseline for execution year variance tracking.	
<u>Personnel and Organizational Management</u> • Average civilian time-to-hire in the Department increased by 40% (from 70 to 106 days) between FY 2013 and FY 2017.	FY 2018	Department-wide	• In FY 2018 the Department required all components to develop and execute data-based Action Plans to reduce time to hire. The Department's initial goal is to reduce average time to hire from 106 to 85 days or less by the end of FY 2019.	FY 2019
• The Department does not systematically collect data on hiring manager satisfaction with process or with quality of candidates for civilian positions.			• In FY 2019 the Department will start collecting hiring quality and satisfaction data; after determining baseline measures, the Department will establish future quality / satisfaction goals consistent with results achieved by other large federal agencies. Expect initial results in FY 2020.	FY 2020
• The Department manages its civilian workforce under 66 personnel systems, over 60 pay systems, and scores of special Human Resource (HR) authorities and flexibilities. This has caused excessive complexity and variability in HR processes.			• The Department is undertaking procedures to simplify, streamline, and standardize its HR processes and to provide more cost-effective HR services. The Department intends to pursue legislative relief where necessary to reduce complexity and increase efficiency of HR processes. Expect initial results in FY 2020.	FY 2020
• DoD HR specialists and managers lack training and tools to master the complex civilian federal hiring process.			• The DoD HR Functional Community was formally organized in FY 2018 to define and assess HR competencies, establish learning standards, and develop career paths. Expect initial results in FY 2021.	FY 2021
• The Department has multiple civilian personnel HR service providers operating within and across components but no systems to define, collect, monitor, or analyze their performance or cost data, nor to monitor and control the types of services provided.			• Execute HR Service Delivery project (HR Reform lead) to define, monitor, and evaluate key performance and efficiency measures for Defense Agency Field Agency (DAFA) HR Service providers; identify and remedy instances of fragmentation, overlap, and duplication; and address inefficiencies and implement reforms. Transition to single SaaS/Cloud civilian human capital management system initially for core HR transactions (mid-2019), and eventually for integrated talent management (i.e., performance management, learning, compensation, awards, workforce and succession planning). (Joint IT, HR, FM Reform project continuing through FY 2023.)	FY 2023
<u>Operations</u> • The Department of the Navy experienced an unacceptable number of tragic surface fleet incidents in the first 8 months of 2017, and conducted two reviews (the Comprehensive Review (CR) and the Strategic Readiness Review (SRR) in early FY 2018 to determine root causes.	FY 2018	Department of the Navy	• Re-establish readiness as a priority. • Match supply and demand. • Establish clear command and control relationships. • Promote a learning culture that learns from experience, following root cause analysis, and trains personnel to avoid future accidents.	FY 2019

			• Address broader recommendations focused on the force and the overall culture of operational risk management, training and department organization. • The Department of the Navy established a Readiness Reform and Oversight Council (co-chaired by the Under Secretary of the Navy and the Vice Chief of Naval Operations) to oversee comprehensive CR/SRR corrective action encompassing 117 specific recommendations identified in the CR/SRR playbook.	
Security • DoD facilities may not have sufficient trained / qualified physical security personnel and infrastructure funding resources necessary to adequately protect assets, facilities, personnel, and mission. Issues regarding policy / contract sufficiency and compliance regarding security force training and accountability are involved.	FY 2017	Department of the Navy	• Revise security personnel contracts to include clear guidance on training completion, monitoring, and documentation requirements, including weapons qualifications. • Revise current security policy to include documentation retention and training requirements. • Revise security policy to require the completion and maintenance of security plans at the regional level. • Review access to approved DoD weapons qualification facilities and opportunities, require planning requirements and ensure policy compliance enforcement and accountability.	Reassessed annually
Support Services • Insufficient Component / assessable unit (AU) audit or review of internal operations: Lack of evidence showing sufficient leadership actions regarding internal audit or review results. Excessive Government Accountability Office and DoD Inspector General (DoD IG) findings. DoD IG report indicates 37% of DoD internal audit organizations have deficiencies or fail in effectively monitoring Component / AU activities, several DoD Components / AUs do not seem to have an internal audit/review function. Systemic deficiencies exist across the audit and review services. • Business Transformation: The Department spends billions of dollars each year to maintain key business functions intended to support the warfighter. Lack of support for transformation. The Department continues to confront decades-old management weaknesses related to its business functions that support these forces.	FY 2005	Department-wide	• Generate requirements for internal audit / review of the performance of operations and their compliance with laws, regulations, and policies and document in the DoD Instruction. • Generate and deliver training in audit objectives and techniques to Department leadership and entire global DoD audit/review and managements' internal control program communities. • Form Office of the Secretary of Defense-level audit function reviewing the audit performance of DoD entity audit / review functions and reporting to DoD senior leadership routinely. • Adopt a reorganization under the new Chief Management Officer in accordance with the NDAA for FY 2018. Initiate expanded Department-wide continuous process improvement (CPI) training, develop CPI experts, and promote continuous and visible leadership support for transformation.	FY 2020

Supply Operations • Government Accountability Office identified several Department-wide weaknesses in the areas of asset visibility and materiel distribution.	FY 2011	Department-wide	• Established plans of actions and milestones to address service chain management (SCM) operations through better asset visibility and distribution processes. • Published and now executing the 2017 Strategy for improving DoD Asset Visibility. The Strategy provides the framework for DoD Components to work collaboratively to provide accurate, reliable, and timely data to enhance visibility of assets throughout their lifecycle, thereby transforming asset data into actionable information in support of logistics decision making and improved customer confidence. • Published and implemented the 2016 Materiel Distribution Improvement Plan focused on performance measures, data reliability, policy, and governance. • Progress is monitored quarterly by the Logistics Executive Steering Committee.	Reassessed annually

A U.S. sniper fires his weapon from a combat rubber raiding craft at targets placed across a lake while a Canadian sniper watches during the Europe Best Sniper Team Competition at Grafenwoehr training area, Germany, July 28, 2018.

Army photo by Kevin S. Abel

FMFIA Section 4, Compliance with Federal Financial Management Systems Requirements

In accordance with FMFIA section 4, the Department requires that all DoD financial systems comply with federal financial management systems requirements. In FY 2018, the Department reported three instances of pervasive non-conformance related to these requirements. Exhibit 6 lists the number of instances of non-conformance with federal financial management systems requirements and reports the changes from the instances of non-conformance disclosed in the DoD AFR for FY 2017.

Exhibit 6. FY 2018 Compliance with Federal Financial Management System Requirements (FMFIA §4)

Statement of Assurance: No Assurance

Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Federal Financial Management Systems Requirements	3					
Total Non-Conformances	**3**	**0**	**0**	**0**	**0**	**3**

FFMIA Section 803(a), Implementation of Federal Financial Management Improvements

Section 803(a) of the FFMIA requires each federal agency to implement and maintain financial management systems that comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Government Standard General Ledger (*USSGL*) at the transaction level. Exhibit 7 lists the instances of non-compliance with federal financial management systems requirements.

Exhibit 7. FY 2018 Implementation of Federal Financial Management Improvements (FFMIA §803(a))

	Agency	Auditor
Federal Financial Management Systems Requirements	Lack of Compliance Noted	Lack of Compliance Noted
Applicable Federal Accounting Standards	Lack of Compliance Noted	Lack of Compliance Noted
USSGL at Transaction Level	Lack of Compliance Noted	Lack of Compliance Noted

Exhibit 8. Compliance with Federal Financial Management System Requirements Corrective Action Plans

Non-Conformance	Year Identified	DoD Components	Corrective Actions	Target Correction Year
Business System Modernization • Ineffective processes and controls to reconcile transactions posted to the Department's Fund Balance with Treasury (FBWT) accounts with the Treasury's records.	FY 2001	Department-wide	Business System Modernization and FFMIA Compliance • In calendar years 2019 through 2022, the Department is scheduled to reduce the number of legacy IT audit relevant systems by 26. • To date, a total of 22 of 25 Other Defense Organizations (ODOs) have been migrated to a common ERP system, the Defense Agencies Initiative (DAI). There are three additional ODOs scheduled for deployment in FY 2019 through FY 2021. The DAI application and the data center hosting location Defense Information System Agency (DISA) both received unmodified SOC 1 reports for FY 18. DAI is an FFMIA compliant Oracle ERP COTS solution. • With the assistance of the Joint Interoperability Test Command, OUSD(C) worked with the Department financial system owners to complete SFIS compliance assessments for 28 systems through FY 2018. Assessments for an additional 26 systems are currently planned through FY 2020. The SFIS requirements are aligned to and consistent with FFMIA requirements. Currently, the Department is assessing which systems require SFIS compliance assessments. • OUSD(C) updated the Internal Control Guide in April 2018 to include additional guidance related to identifying relevant financial and non-financial systems and performing FFMIA assessments. System owners record the FFMIA compliance status for their applications in the FIAR Systems Database (FSD) concurrent with audit readiness status.	FY 2028
FFMIA Compliance • The Department's financial systems currently do not provide the capability to record financial transactions in compliance with FFMIA, current federal financial management requirements, applicable federal accounting standards, and the Treasury USSGL at the transaction level.	FY 2001	Department-wide		
General & Application Controls • The DoD IT systems environment includes numerous legacy systems, core enterprise systems that support the major end-to-end processes, and nine Enterprise Resource Planning (ERP) systems. Most of the business legacy systems were originally designed to support functional purposes, such as human resource management, property management, and logistics management. These systems were not originally created for auditable financial statement reporting. The current systems environment is made up of many legacy, core, and newly implemented (feeder and general ledger) systems that lack integration and are not in line with the Federal Information System Controls Audit Manual (FISCAM) requirements with regards to entity-level technology general controls, application-level general controls	FY 2001	Department-wide	• OUSD(C) has established a database, FSD, to identify applications and hosting locations that impact DoD financial statement audits and track the auditor feedback regarding system controls reliance. As of June 30, 2018, DoD Reporting Entities and Service Organizations had identified a total of 246 systems relevant to financial statement audit. This number is expected to change as the system environment evolves and the financial statement audits mature. • The MILDEPS continue to deploy ERP solutions to their Commands along with software upgrades, implement System Change Requests (SCRs) and standup formal enterprise monitoring programs for transitioning to a Risk Management Framework (RMF). In addition, the Department is integrating audit relevant IT	FY 2025

and automated application controls (including security management, access, segregation of duties, configuration management, system interfaces, master data, and audit trails).

controls into the RMF system accreditation process (for systems that impact financial statement audits) and the target date for incorporating this as a requirement is FY 2019.

- In 2005, DoD service organizations began to obtain System and Organization Control (SOC 1) Reports for systems and hosting services. For FY 2018, DoD Service Organizations have obtained 14 unmodified opinions and 6 modified opinions. This includes two new SOC 1 reports and scope expansions to existing SOC 1 reports in FY 2018. Reporting entities and their auditors have been instructed to provide feedback on the SOC 1 reports and service organizations have also been instructed to provide plans for SOC1 scope expansions and additional SOC 1 reports.
- OUSD(C) has implemented a database to track auditor NFRs and associated corrective action plans. A CFO IT Functional Council was established in April 2018 to report on the status of IT NFRs and associated CAPs, identify common IT issues, share solutions, and identify instances where common solutions are needed.

Air Force Capt. Leland Quinter wears night vision goggles during a C-130J Super Hercules training flight over Poland, Aug. 2, 2018. Quinter is a pilot assigned to the 37th Airlift Squadron.

Air Force photo by Senior Airman Joshua Magbanua

Payment Integrity

The reduction of improper payments[7] and compliance with the Improper Payments Elimination and Recovery Act of 2010 (*IPERA*) continue to be top financial management priorities for the Department. In FY 2018, the Department identified $574 billion in payments subject to testing under IPERA and an improper payment rate less than 1%. Given the large dollar amount of DoD payments, this percentage represents over a billion dollars in overpayments and underpayments.

As shown in Exhibit 9, the Department identified approximately $1 billion (0.21% of total outlays subject to testing under IPERA) as improper payments based on statistically projected testing results. Of this improper payment amount, $665 million (0.12% of total outlays subject to testing under IPERA) was estimated to be monetary losses to the Department. Payments identified as improper do not always represent a monetary loss. For instance, an otherwise legitimate payment that lacks sufficient supporting documentation or approval is reported as improper. Moreover, based on the improper payment testing results in FY 2018, the Department's estimated proper payments were $573 billion.

The Department complies with the requirements of federal improper payments legislation[8] through the activities of its Payment Integrity Program. This program is comprised of eight separate programs that report improper payments for six categories of pay/benefits (civilian pay, commercial pay, military health benefits, military pay, military retirement, and travel pay). These programs collectively encompass the majority of payments made by the Department annually. Of the eight programs reporting improper payments in FY 2018, five programs (Military Health Benefits, DoD Travel Pay[9], Commercial Pay, U.S. Army Corps of Engineers (*USACE*) Travel Pay, and USACE Commercial Pay) met their self-imposed improper payment target rates and three programs (Military Pay, Civilian Pay, and Military Retirement) did not. However, all eight programs reported improper payment estimates below the IPERA statutory threshold of 10%.

When improper payments are identified by the Department as a result of sampling and testing payments within the eight programs, DoD Components conduct evaluations to identify their root causes. Corrective action plans (CAPs) are then developed by the DoD Components to remediate the root causes. The CAPs include milestones or actions that are to be completed by specific dates. Depending on the complexity of the CAPs, execution of the plan may occur over multiple fiscal years until the root causes are fully remediated.

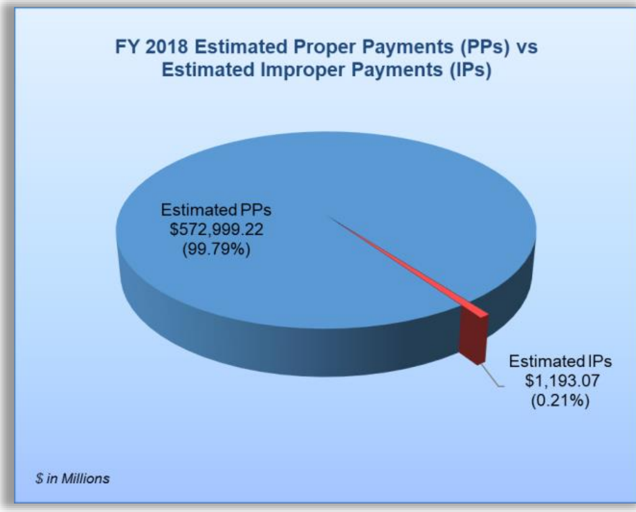
The Department continues to improve payment accuracy in all of its programs to ensure the billions of dollars in federal funds it disburses annually reach intended recipients in the right amount and for the right purpose. Through responsible stewardship and accountability, the Department is committed to earning the trust and confidence of Congress and the American people.

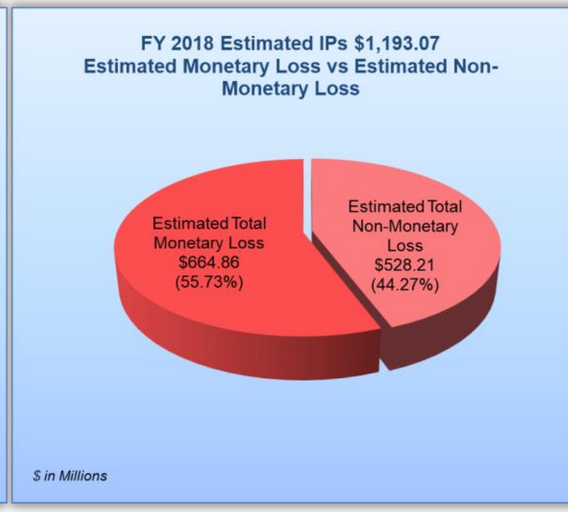
[7] OMB Circular No. A-123, *Appendix C* defines an "improper payment" as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). Additionally, when an agency's review is unable to discern whether a payment was proper as the result of insufficient or lack of documentation, the payment must be considered an improper payment.

[8] Improper Payments Information Act of 2002 (*IPIA*), as amended by the Improper Payments Elimination and Recovery Act of 2010 (*IPERA*) and the Improper Payment Elimination and Recovery Improvement Act of 2012 (*IPERIA*)

[9] In FY 2018, the DoD Travel Pay program met its self-imposed improper payment target rate for the first time in six consecutive fiscal years.

Exhibit 9. FY 2018 Estimated Proper and Improper Payments





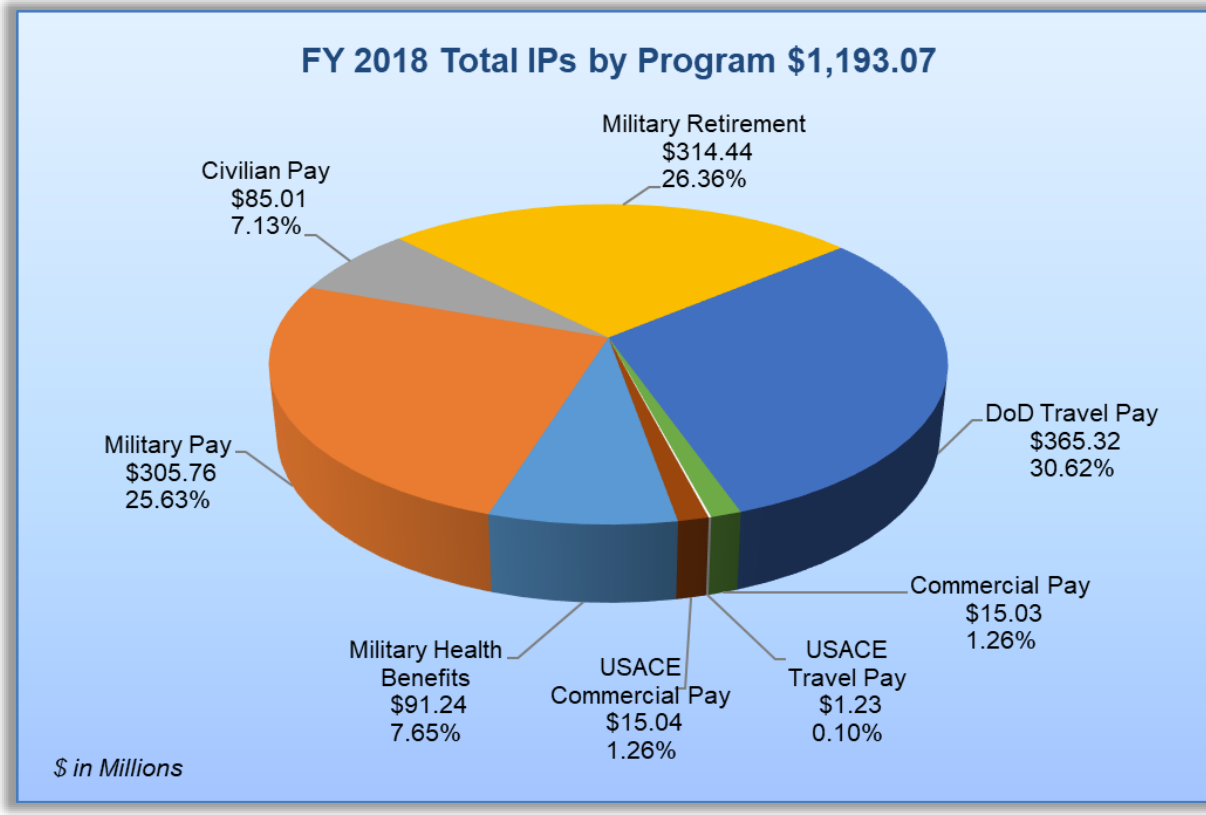
The FY 2018 estimated proper payments presented in Exhibit 9 represent total outlays subject to testing under IPERA ($574 billion) less estimated improper payments. The estimated improper payments increased from $957 million in FY 2017 to $1.2 billion in FY 2018, an increase of $243 million or 25%. The $665 million estimated total monetary loss represents the amount that should not have been paid by the Department and in theory should/could be recovered. The $528 million estimated total non-monetary loss represents the amount that was paid by the Department, but lacked sufficient and/or appropriate supporting documentation or approvals, and did not result in a loss of funds.

In FY 2018, the Department reported improper payments of $1.2 billion for the following eight programs (see Exhibit 10):

1. Military Health Benefits – Payments made by the Defense Heath Agency (*DHA*) to private sector contractors for delivery of health care services to *TRICARE*–eligible beneficiaries.
2. Military Pay – Payments made by the Defense Finance and Accounting Service (*DFAS*) to Active, Reserve, and *National Guard* Military Service members for salary, benefits, and other compensation entitlements.
3. Civilian Pay – Payments made by DFAS to civilian employees for salary, benefits, and other compensation entitlements.
4. Military Retirement – Payments made by DFAS to military retirees and their surviving spouses and other family members for pension and/or disability entitlements.
5. DoD Travel Pay – Payments made by DFAS, the *Army*, the *Navy*, the *Air Force*, and the *Marine Corps* to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel- and/or transportation-related expenses.
6. Commercial Pay – Payments made by DFAS, the Army, and the Navy to vendors and contractors for goods and services. This program does not include payments for "transportation of things" or payments related to government purchase cards.
7. USACE Travel Pay – Payments made by USACE to Active, Reserve, and National Guard Military Service members and civilian employees for temporary and permanent travel- and/or transportation-related expenses.

8. USACE Commercial Pay – Payments made by USACE to vendors and contractors for goods and services.

Exhibit 10. FY 2018 Total Improper Payments Reported by Program



The information reported in this section complies with the guidance provided in OMB Circular No. A-123, Appendix C and OMB *Circular No. A-136*. This section provides required information that demonstrates the Department's commitment to reducing improper payments. For additional information on improper payments not included in this report, please refer to *PaymentAccuracy.gov*.

This section reports detailed information on the following improper payment requirements:

I. Risk Assessment
II. Payment Reporting
III. Recapture of Improper Payments Reporting
IV. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative
V. Accountability
VI. Agency Information Systems and Other Infrastructure
VII. Sampling and Estimation

I. Risk Assessment

OMB Circular No. A-123, Appendix C requires agencies to review all programs and activities and assess their risk for improper payments. Agencies are required to institute a systematic method of reviewing all programs with the end goal of determining whether the programs are or are not susceptible to significant improper payments[10]. Improper payment reviews or risk assessments may use qualitative or quantitative methods. If an agency determines that a program or activity is not susceptible to significant improper payments, the agency must re-assess that program's improper payment risk at least once every three years. Conversely, if an agency determines a program to be susceptible to significant improper payments, the agency is required to estimate and report improper payments for that program annually.

Programs already reporting an annual improper payment estimate in accordance with OMB Circular No. A-123, Appendix C requirements do not need to perform an additional improper payment risk assessment to comply with IPERA requirements, as the quantitative risk assessment method used for reporting the annual estimate fulfills the risk assessment requirement under IPERA. In FY 2018, the Department reported improper payment estimates for each of its eight programs. As a result, in FY 2018, the Department was not required to perform additional risk assessment reviews on its programs. However, in subsequent fiscal years, if a new program is identified or established, a risk assessment should be completed after the first 12 months of the program's operation.

Army Sgt. Madelyn Guerrero provides care to a dog during Continuing Promise 2018 in Puerto Cortes, Honduras, March 17, 2018. U.S. forces conducted civil-military operations, including humanitarian assistance, training engagements, and medical, dental and veterinary support to show U.S. commitment to Central and South America.

Navy photo by Petty Officer 2nd Class Kayla Cosby

[10] "Significant improper payments" are defined as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5% of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays).

II. Payment Reporting

Exhibit 11 reports the estimated amount of payments that were properly paid (PP), improperly paid (IP), and the corresponding percentages of each by program for FY 2018. It also reports the estimated amount of improper payments that resulted in overpayments or underpayments in FY 2018 and the OMB-approved future year (i.e., FY 2019) reduction targets by program.

Exhibit 11. FY 2018 Improper Payment Reduction Outlook

($ in millions)

Program Name	FY 2018 Outlays	FY 2018 PP Amount	FY 2018 PP Rate (%)	FY 2018 IP Amount	FY 2018 IP Rate (%)	FY 2018 Over-Payment	FY 2018 Under-Payment	FY 2019 Est. Outlays	FY 2019 Est. IP Rate (%)	FY 2019 Est. IP Amount	Month and Year Start Date for Data	Month and Year End Date for Data
Military Health Benefits [1, 2, 3]	$ 23,296.55	$ 23,205.31	99.61%	$ 91.24	0.39%	$ 72.38	$ 18.86	$ 24,205.12	0.80%	$ 193.87	Oct-2016	Sep-2017
Military Pay [4]	100,285.18	99,979.42	99.70%	305.76	0.30%	288.64	17.12	103,920.24	0.30%	311.76	Aug-2017	Jul-2018
Civilian Pay	61,609.67	61,524.66	99.86%	85.01	0.14%	85.01	-	61,408.83	0.13%	79.83	Aug-2017	Jul-2018
Military Retirement	69,367.74	69,053.30	99.55%	314.44	0.45%	283.32	31.12	60,566.10	0.40%	242.26	Aug-2017	Jul-2018
DoD Travel Pay [5, 6, 7, 8]	7,961.95	7,596.63	95.41%	365.32	4.59%	345.79	19.53	11,953.70	5.75%	687.34	Aug-2017	Jul-2018
Commercial Pay [9, 10, 11]	292,790.29	292,775.26	99.99%	15.03	0.01%	15.03	-	330,043.97	0.01%	32.92	Jul-2017	Jun-2018
Commercial Bill Pay Office Naples [10]												
USACE Travel Pay	269.98	268.75	99.54%	1.23	0.46%	1.19	0.04	233.01	0.42%	0.99	Jul-2017	Jun-2018
USACE Commercial Pay [12, 13]	18,610.93	18,595.89	99.92%	15.04	0.08%	8.89	6.15	19,352.22	0.25%	48.38	Jul-2017	Jun-2018
Total	$ 574,192.29	$572,999.22	99.79%	$ 1,193.07	0.21%	$ 1,100.25	$ 92.82	$ 611,683.19	0.26%	$ 1,597.35		

Note: Amounts may not sum or calculate exactly due to rounding.

Exhibit 11 Footnotes:

[1] DHA reports data 12 months in arrears. The sample populations for the Military Health Benefits program is comprised of nine sub-programs. 86% of the transactional data samples (outlays) from these sub-programs fall within the period October 2016 to September 2017. The remaining sub-program transactional data samples are for consecutive 12 month periods falling between August 2016 to October 2017.

[2] FY 2018 outlays are the sum of the dollars paid for civilian health care by private sector contractors to health care providers and/or TRICARE beneficiaries. These payments are reviewed by an external independent contractor (EIC) on a quarterly basis. In addition, the FY 2018 outlays also include administrative payments shared among multiple contractors to administer the TRICARE program and other contracts that are not included in the DHA EIC audits, but which are subject to internal and external pre- and post-payment controls.

[3] DHA established its FY 2019 projected IP rate of 0.80% based on a trend of actual improper payments data from prior years. These figures are estimated to be higher than the FY 2018 actuals as a result of DHA's implementation of medical record reviews in FY 2019 (which have the potential to identify additional improper payments), and the implementation of the National Defense Authorization Act *(NDAA) for FY 2017* legislative requirements, which established changes to the TRICARE program that could result in increased payment errors.

[4] The FY 2019 IP rate for the Military Pay program is projected to be 0.30%. This rate remains constant to the IP rate of 0.30% that was estimated and reported in FY 2018. In FY 2019, the Department will implement a revamped sampling plan for this program, which will introduce verification of Military Service member pay and allowances (i.e., entitlements) against existing supporting documentation. The impact of this change on the Department's process of identifying and reporting IPs is unknown. As such, until the results of the new post-payment review procedures conducted in FY 2019 are evaluated, the future year projected IP rate for this program remains constant to the FY 2018 achieved IP rate.

[5] In FY 2018, the Navy was able to complete 12 months of IPs testing on their FY 2017 Windows Integrated Automated Travel System (WinIATS) travel payments and the Marine Corps was able to complete the remaining four months of IPs testing on their FY 2017 WinIATS travel payments. With these additional testing results, the amounts reported in the DoD AFR for FY 2017 for Outlays, IP Amount, and IP Rate would be revised to: Outlays = $6,412.23 million, IP Amount = $368.88 million, and IP Rate = 5.75%. These revised numbers include only nine months of the Defense Travel System data (July 2016 – March 2017).

[6] The DoD Travel Pay program reports travel payments disbursed for the period August 2017 – July 2018 by DFAS and the Military Services. However, the following Army Outside the Continental United States. (OCONUS) offices used different 12 month sampling timeframes in FY 2018 to test their travel payments: Italy Finance Office (October 2017 – September 2018) and Benelux Finance Office (October 2017 – September 2018). In addition, the Air Force also used a different 12 month sampling timeframe in FY 2018 to test their travel payments (i.e., July 2017 – June 2018).

[7] The DoD Travel Pay figures reported for FY 2018 do not include data from the Army 266th Financial Management Support Center (FMSC). A new rotational policy in Europe resulted in high turnover in Army 266th FMSC and the FMSC personnel were not able to complete the IP testing for FY 2018. Army 266th FMSC reported the following travel IPs data in FY 2017: Outlays = $17.49 million, IP Amount = $0.02 million, and IP Rate = 0.11%.

[8] The FY 2019 rate for the DoD Travel Pay program is projected to be 5.75%. This rate is 0.25% lower than the target rate of 6% that was projected for FY 2018. Due to drastic fluctuations in the IP rates over the past three fiscal years, the Department is still working to establish a baseline for this program. Moreover, even though numerous corrective actions have been taken to reduce IPs in this program, until a more consistent baseline is established, future year IP target rates will be projected based on the average rates reported for this program in the previous three fiscal years. The average IP rate for this program based on the rates reported in FY 2016, FY 2017, and FY 2018 is 5.86%. As such, the Department is confident that 5.75% is an achievable target rate.

[9] The Commercial Pay program reports commercial payments disbursed for the period July 2017 – June 2018 by DFAS, the Army, and the Navy. However, the following Army OCONUS offices used different 12 month sampling timeframes in FY 2018 to test their commercial vendor service payments: 175th FMSC (August 2017 – July 2018), Italy Finance Office (October 2017 – September 2018), and Benelux Finance Office (October 2017 – September 2018). Additionally, the figures reported in Exhibit 11 do not include data from the Army 266th FMSC for either FY 2017 or FY 2018. The Commercial Pay program is reported as the DFAS Commercial Pay program on PaymentAccuracy.gov.

[10] Effective FY 2018, the Navy Commercial Bill Pay Office Naples was sampled by DFAS and is reported as part of the Commercial Pay program.

[11] The Commercial Pay program is comprised of payments made by DFAS, the Army, and the Navy to vendors and contractors for goods and services. This program does not include payments for "transportation of things" or payments related to government purchase cards. Title 31, United States Code, section 3726 (*31 U.S.C. §3726*) gives the General Services Agency (*GSA*) the authority and responsibility to audit and settle all federal payments for transportation. The *GSA Transportation Audits Division* conducts post-payment audits on all transportation payments (and supporting documentation) provided by the Department. GSA reviews DoD transportation payments for overcharges only. GSA finances their post-payment audit contract and audit-related functions with overpayments collected from the transportation payments previously paid by the Department and other federal agencies. GSA reported the following data related to DoD transportation payments for the months July 2017 – June 2018: Total Number of Transactions Submitted by the Department = 15.32 million, Total Value of Transactions Submitted by the Department = $4,083.03 million, Total Number of Overcharges Collected by GSA = 0.43 million, and Total Value of Overcharges Collected by GSA = $9.32 million.

[12] In FY 2018, USACE was able to complete the remaining 6 months of IPs testing on their FY 2017 commercial payments. With these additional testing results, the amounts reported in the DoD AFR for FY 2017 for Outlays, IP Amount, and IP Rate would be revised to: Outlays = $17,128.35 million, IP Amount = $157.87 million, and IP Rate = 0.92%.

[13] The FY 2019 Estimated IP rate of 0.25% for USACE Commercial Pay is an increase over the 0.08% reported in FY 2018 (which represents the calculated rate based on estimated IPs as a percent of total FY 2018 outlays). The increase is due to receipt of significant supplemental funding, resulting in increased risk of improper payments associated with a high volume of contract actions occurring in dispersed locations, some remote, under tightened deadlines.

Exhibit 12 reports the amount of FY 2018 improper payments identified in samples by program that resulted in actual monetary losses to the Department. These statistically-based sample amounts are then extrapolated to the payment population of the program to calculate an estimate of the monetary loss to the Department due to improper payments by program. Monetary loss to the Department would be an amount that should not have been paid and, in theory, should/could be recovered. This table excludes payments classified as improper payments solely on the basis of insufficient supporting documentation, since these payments do not represent an actual monetary loss.

Exhibit 12. FY 2018 Improper Payment Classification (Monetary Loss)

($ in millions)

Program Name	Actual Monetary Loss to the Department Identified in the Sample*	Estimated Total Monetary Loss to the Department *
Military Health Benefits	$ 4.14	$ 72.38
Military Pay	276.66	288.64
Civilian Pay	85.01	85.01
Military Retirement	76.24	76.45
DoD Travel Pay	1.98	126.16
Commercial Pay	0.60	15.03
USACE Travel Pay	0.03	1.19
USACE Commercial Pay	-	-
Total	**$ 444.66**	**$ 664.86**

** The monetary loss amounts reported in Exhbit 12 will not match the overpayments reported in Exhibit 11, which include both monetary and non-monetary improper payements.*

A waterspout forms as the USS Gerald R. Ford travels in the Atlantic Ocean, Dec. 4, 2017. The aircraft carrier is underway conducting test and evaluation operations.

Navy photo by Petty Officer 2nd Class Martin Widenhouse

Exhibit 13 reports the root causes for overpayments and underpayments by amount and program for FY 2018.

Exhibit 13. FY 2018 Improper Payment Root Cause Category Matrix

($ in millions)

Program Name	Payment Type	Inability to Authenticate Eligibility: Inability to Access Data	Administrative or Process Errors Made by the Department	Administrative or Process Errors Made by Other Parties [1]	Medical Necessity	Insufficient Documentation to Determine	Notification of Death After Monthly Payments Disbursed for Military Retirees and Annuitants	Total
Military Health Benefits	Overpayments	$ 0.02		$ 71.97	$ 0.18	$ 0.21		$ 72.38
Military Health Benefits	Underpayments			18.86				18.86
Military Pay [2]	Overpayments		288.64					288.64
Military Pay [2]	Underpayments		17.12					17.12
Civilian Pay	Overpayments		85.01					85.01
Civilian Pay	Underpayments							-
Military Retirement [2]	Overpayments		207.22				76.10	283.32
Military Retirement [2]	Underpayments		31.12					31.12
DoD Travel Pay [2]	Overpayments		125.42			220.37		345.79
DoD Travel Pay [2]	Underpayments		19.53					19.53
Commercial Pay	Overpayments		15.03					15.03
Commercial Pay	Underpayments							-
USACE Travel Pay	Overpayments		1.19					1.19
USACE Travel Pay	Underpayments		0.04					0.04
USACE Commercial Pay	Overpayments		8.89					8.89
USACE Commercial Pay	Underpayments		6.15					6.15
Total		**$ 0.02**	**$ 805.36**	**$ 90.83**	**$ 0.18**	**$ 220.58**	**$ 76.10**	**$ 1,193.07**

Exhibit 13 Footnotes:

[1] "Other Parties" includes Participating Lenders, Health Care Providers, or any other organizations administering federal dollars.

[2] The Military Pay, Military Retirement, and DoD Travel Pay programs were determined to be susceptible to significant improper payments in accordance with OMB Circular No. A-123, Appendix C.

Root Causes and Corrective Action Plans for Programs Susceptible to Significant Improper Payments (IPs Exceeding $100 million)

When significant improper payments are identified in a program through testing, DoD Components are required to determine the root causes of the improper payments and to develop CAPs to remediate them. The CAPs for the applicable program are monitored throughout the year by DoD Components and the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) to ensure milestone dates for corrective actions are completed on a timely basis. The implementation and effectiveness of corrective actions is evidenced through the subsequent improper payment testing results for the program. Based on testing performed on the eight programs in FY 2018, three programs (Military Pay, Military Retirement, and DoD Travel Pay) were estimated to have made improper payments in excess of $100 million and were therefore required to develop CAPs and disclose them in this report. In addition, during FY 2018, OUSD(C) worked with DoD Components to strengthen the CAPs for these programs by performing in-depth assessments to ensure that the corrective actions identified were measurable, timely, and effective.

The following information related to improper overpayments and underpayments identified through testing, as well as root causes and corrective actions, is summarized and described at the DoD consolidated level. Individual DoD Component CAPs and target completion dates are maintained and monitored by the DoD Components and OUSD(C). Generally, corrective actions are developed and executed by individual DoD Components with oversight provided by OUSD(C).

Air Force explosive ordnance disposal technicians assess a simulated improvised rocket-assisted munition during a training exercise at Al Udeid Air Base, Qatar, Nov. 25, 2017. The airmen are assigned the 379th Civil Engineer Squadron.

Air National Guard photo by Staff Sgt. Patrick Evenson

Military Pay

In FY 2018, the estimated improper payments for the Military Pay program were $306 million, approximately 94.40% of which were identified as overpayments (see Exhibit 14). Of those overpayments, the majority resulted from debts established after Military Service members left the Department and/or debts initiated and recorded within the military pay systems for Active and Reserve Component Military Service members. This estimate was based on a sampling methodology with a 95% confidence interval, which equated to a 0.30 (+/- 0.02)% improper payment rate and an estimated proper processing rate of 99.70%.

Exhibit 14. FY 2018 Military Pay Estimated Improper Payments by OMB Root Cause Category

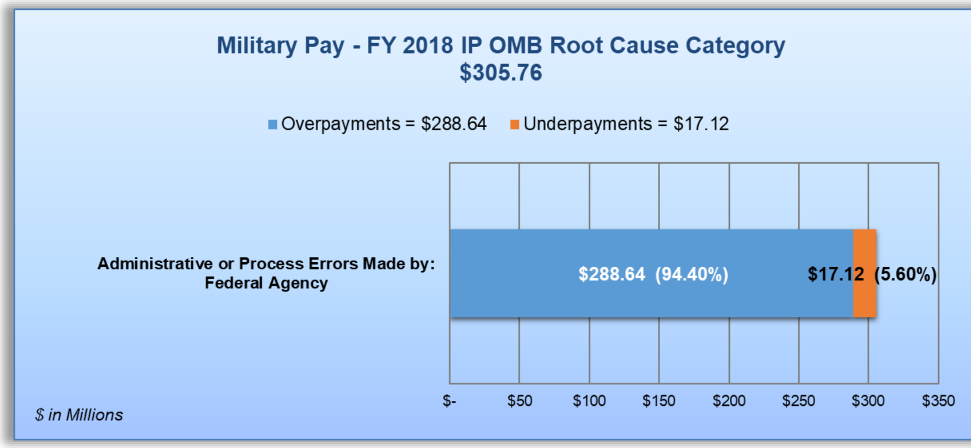


Exhibit 15. Military Pay Summary Corrective Action Plans

The root cause for all improper payments in the Military Pay program was attributed to Administrative or Process Errors Made by the Department, which accounted for $306 million, or 100%, of the improper payments.

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Administrative or Process Errors Made by the Department		
• Contributing factors can include payroll data input errors and untimely updates to payroll records and systems.	• For improper payment statistical sample selections, obtain sufficient personnel supporting documentation for the payroll disbursement from the relevant DoD Component. • Based on review of supporting documentation for each sample item, determine improper payment exceptions and report exceptions to the relevant DoD Component. • Provide instructions to relevant DoD Components for preparation of a root cause analysis for each improper payment exception. Instructions will include guidance for summary level reporting to leadership. • Relevant DoD Components will develop corrective action plans to address specific root causes identified for improper payments attributable to their payroll disbursements. • Based on the root cause analysis, training will be developed and delivered to improve effectiveness over manual payroll processing controls. • Evaluate the cost/benefit of additional or enhanced system controls over payroll processing and implement as applicable.	September 2019

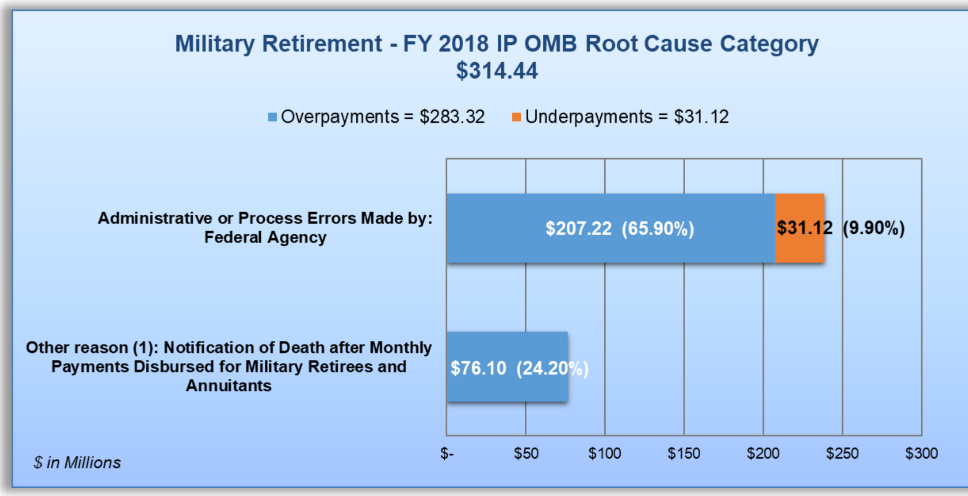
Marines assist a wounded warrior into the ocean during wounded warrior day at White Plaines Beach in Kapolei, Hawaii, July 18, 2018. The Marines are assigned to with 3rd Marine Regiment.

Marine Corps photo by Sgt. Ricky Gomez

Military Retirement

In FY 2018, the estimated improper payments for the Military Retirement program were $314 million. Approximately 90.10% of these improper payments were identified as overpayments (see Exhibit 16). This estimate was based on a sampling methodology with a 95% confidence interval, which equated to a 0.45 (+/- 0.10)% improper payment rate and an estimated proper processing rate of 99.55%.

Exhibit 16. FY 2018 Military Retirement Estimated Improper Payments by OMB Root Cause Category



The primary root cause for improper payments in the Military Retirement program was attributed to Administrative or Process Errors Made by the Department, which accounted for $238 million, or 75.80%, of the program's improper payments. The second major root cause for improper payments in the Military Retirement was Notification of Death after Monthly Payments Disbursed for Military Retirees and Annuitants, which accounted for $76 million, or 24.20%, of the program's improper payments.

Exhibit 17. Military Retirement Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Administrative or Process Errors Made by the Department		
• Processing errors were noted for retired and annuitant pay: new annuitants, new retirees, and changed annuitant account, which included: ○ Payments made despite insufficient documentation, ○ Errors in following processing procedures and applying policy changes for Department of Veterans Affairs waivers awards ○ Untimely application of Dependency and Indemnity Compensation offsets ○ Systematic computation errors ○ Manual computation errors	• Revise the Military Retirement Sampling Plan to stratify the population by risk level based on account type: new retiree accounts, new annuitant accounts, changed retiree accounts, changed annuitant accounts, unchanged retiree accounts, and unchanged annuitant accounts. This sampling approach is designed to provide greater sample coverage and insight into each of the categories where processing errors were noted. • Conduct bi-monthly workgroup meetings to provide DFAS leadership with timely, detailed information to assist in identifying predominant error types, root causes, suggested corrective actions and other data grouped by account type. This includes detailed error descriptions. The information disseminated to DFAS leadership will be used by them to better manage the military retirement program and minimize improper payments. • Increase the scope and frequency of retired and annuitant operations internal personnel training. Training will be focused on the trends identified in the post pay review deliverables.	November 2020
Notification of Death After Monthly Payments Disbursed for Military Retirees and Annuitants		
• Improper payments were made to deceased retirees and annuitants because the notification of death was not obtained until after the monthly payments were disbursed	• Validate the existence of the retiree/annuitant, if living outside the United States. • Certify annually the existence and entitlement for all annuitants who: ○ Are under 55 years of age, ○ Receive hard copy checks in a foreign country, and ○ Have a permanent disability (regardless of age). • Conduct periodic, random certifications for retirees over a certain age. • Validate military retiree's existence if payments are returned and/or if a benefit account was suspended for several months due to bad check/correspondence address.	Completed in FY 2018

Marines ride horses with Mongolian youth at Five Hills Training Area, Mongolia, June 17, 2018, during Khaan Quest 18, a multinational exercise designed to strengthen international peace support capabilities.

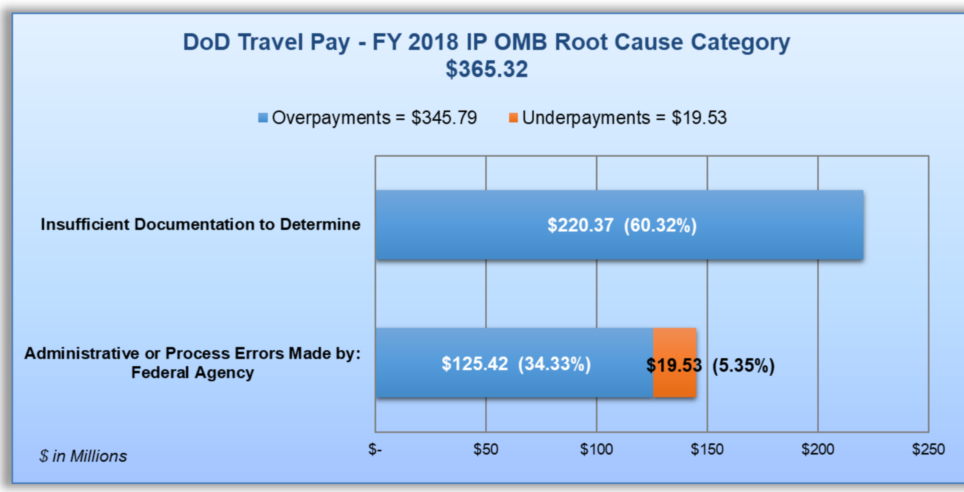
Army National Guard photo by Sgt. Heidi Kroll

DoD Travel Pay

In FY 2018, the estimated improper payments for the DoD Travel Pay program were $365 million. Approximately 94.65% of these improper payments were identified as overpayments (see Exhibit 18). This estimate was based on a sampling methodology with a 95% confidence interval, which equated to a 4.59 (+/- 0.43)% improper payment rate and an estimated proper processing rate of 95.41%.

Payments for the DoD Travel Pay program were processed through three travel systems: the Defense Travel System (*DTS*), the Windows Integrated Automated Travel System (WinIATS), and the Air Force's Reserve Travel System (RTS). The largest portion of travel payments are processed through DTS.

Exhibit 18. FY 2018 Travel Pay Estimated Improper Payments by OMB Root Cause Category



The primary root cause for improper payments in the DoD Travel Pay program was attributed to Insufficient Documentation to Determine, which accounted for $220 million, or 60.32%, of the program's improper payments. The second major root cause for improper payments in the DoD Travel Pay program was Administrative or Process Errors Made by the Department, which accounted for $145 million, or 39.68%, of the program's improper payments.

Exhibit 19. DoD Travel Pay Summary Corrective Action Plans

Improper Payment Root Cause Category	Corrective Actions	Target Completion Date
Insufficient Documentation to Determine		
• Root cause of improper payments are not always clearly defined or linked to a DoD Component's corrective action plans.	• Provide additional guidance and templates to assist DoD Components in documenting root cause and corrective actions.	December 2018
• Lack of sampling plan and/or execution of sampling plan and testing	• Sampling plans will be prepared and documented using approved templates with site specific modifications as necessary. Sampling plans will be prepared for all locations and travel pay systems as applicable and will include a full 12 months of samples. • Sampling plans will be reviewed by DFAS statisticians to ensure compliance with OMB guidelines prior to execution.	December 2018
• Lack of process to evaluate, monitor, and measure improper payments noted in sample testing and the related corrective actions	• Develop and implement processes and tools to evaluate, monitor, and measure improper payments for DoD Travel Pay, including: ○ Develop performance metrics and track via spreadsheets and database dashboards, ○ Perform periodic quality assurance reviews over metrics and corrective action implementation, and ○ Monitor recovery of improper overpayments.	December 2018
	• Develop and publish guidance to DoD Components establishing a monthly reporting schedule for sampling and testing and gaining efficiency in sample reviews.	Completed October 2017
Administrative or Process Errors Made by the Department		
The following types of improper payments result from administrative or process errors: • Overpayment of travel advances, • Airfare paid incorrectly, • Travelers reimbursed for expenses with missing or invalid receipts, and • Travel vouchers paid without the proper signature.	• Develop and deliver focused training for: ○ Validating the status of previous advances before disbursing another advance; ○ Computing cost comparisons for travel reimbursements; ○ The roles of authorizing officials and reviewers in reviewing receipts prior to their approval signature; and ○ Incorporate the DoD video on improper payments, including missing/invalid receipts, into personnel required training programs. • Develop and implement standard checklists to be used in travel voucher reviews to assess the completeness and accuracy of the travel payment prior to disbursement.	December 2018

III. Recapture of Improper Payments Reporting

The Department performs three separate and distinct activities which can result in the collection of amounts improperly paid to the recipient. Collection of these amounts is often referred to as "payment recapture." The three activities performed by DoD are:

(1) Testing payments selected in statistical samples under OMB Circular No. A-123, Appendix C (IPERA Testing);
(2) Testing under the requirements of OMB Circular No. A-123 (Enterprise Risk Management and Internal Control Program (ERM/ICP) Control Activities); and
(3) Payment Recapture Audits as defined under OMB Circular No. A-123, Appendix C (Payment Recapture Audit).

IPERA Testing

Under IPERA Testing, sampled items are tested to identify overpayments or underpayments to eligible recipients, payments to ineligible recipients, payments for ineligible goods or services, and payments for goods or services not received. Tests include review of supporting documentation and such other test procedures as applicable. When a review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, the payment is considered to be improper.

As part of the Department's overall system of internal control, individual overpayments identified in sampled items are reported to the DoD Component where the transaction originated. For example, if DFAS were performing the IPERA testing for the DoD Travel Pay program and identified an overpayment involving an Army employee, DFAS would report the overpayment to the Army. The Army would then contact the affected employee and agree upon a repayment method consistent with the Army's debt management program. In most situations, the repayment would occur through payroll deduction or direct reimbursement by the employee to the Department for the overpayment.

ERM/ICP Control Activities

The framework of internal controls has five components – Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. Within this framework, Control Activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the system of internal control.

Execution of Control Activities can result in the identification of an overpayment. For example, an overpayment in the Commercial Pay program may be identified through Control Activities at the DoD Component level. These overpayments would be subject to collection efforts coordinated between DFAS and the DoD Component offices responsible for originating the transactions. These collections efforts may include direct collection from the contractor or offset against the same contract with that contractor.

Payment Recapture Audit

A Payment Recapture Audit is a review and analysis of a program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments, and is specifically designed to identify overpayments. It is not an audit in the traditional sense covered by Generally Accepted Government Auditing Standards.

As part of their internal controls over payments, federal agencies are required to conduct Payment Recapture Audits for all programs that expend more than $1 million in a fiscal year if conducting such audits is cost-effective. However, federal agencies may exclude program payments from Payment

Recapture Audits if the agency determines that Payment Recapture Audits are not a cost-effective method for identifying and recapturing payments. The Department has determined that Payment Recapture Audits are not a cost-effective repayment capture method for its programs, with the exception of a portion of the DoD Travel Pay program administered by the Defense Travel Management Office (*DTMO*).

Currently, the only payment recapture audit performed by the Department is conducted by DTMO as part of the DoD Travel Pay program. DTMO reviews all travel vouchers for temporary duty personnel processed through DTS using a set of 14 predefined queries designed to identify the most common improper payments.

Individual overpayments identified by DTMO through its *Travel Policy Compliance Tool* are reported through automated notifications to locally based Compliance Tool Administrators at the DoD Component where the travel transaction originated. The DoD Component then contacts the affected employee and agrees upon a repayment method consistent with the DoD Component's debt management program. In most situations, the repayment occurs through payroll deduction or direct reimbursement by the employee to the Department for the overpayment.

Firefighters assigned to the Selfridge Air National Guard Base fire department practice victim-extraction during an ice rescue training exercise on Lake St. Clair, Mich., Jan. 31, 2018. During the winter, residents enjoy recreational activities on the lake's frozen surface, increasing a need for ice-water rescues.

Air National Guard photo by Terry L. Atwell

Overpayment Capture Reporting

Exhibit 20 reports the results of overpayments recaptured as a result of IPERA Testing and ERM/ICP Control Activities as "Overpayments Recaptured Outside of Payment Recapture Audits"; overpayments recaptured as a result of Payment Recapture Audit are reported as "Overpayments Recaptured Through Payment Recapture Audits."

Amounts reported as "Overpayments Recaptured Outside of Payment Recapture Audits" in Exhibit 20 may differ from those reported on Exhibit 11 as "FY 2018 Overpayments" due to: timing differences in reporting, the fact that Exhibit 11 reflects estimates while Exhibit 20 reflects actuals, as well as differences in the manner of compilation. Additionally, note that overpayments identified in one fiscal year may be collected in that fiscal year or in a subsequent fiscal year.

Exhibit 20. FY 2018 Payment Recapture Audit Reporting

($ in millions)

		Overpayments Recaptured Through Payment Recapture Audits				Overpayments Recaptured Outside of Payment Recapture Audits	
Includes Funds Recaptured from a High Priority Program? (Y/N) [1]	Program	Amount Identified in FY 2018	Amount Recaptured in FY 2018	Recapture Rate in FY 2018 (%)	FY 2019 Recapture Rate Target (%)	Amount Identified in FY 2018	Amount Recaptured in FY 2018
N	Military Health Benefits [2, 3, 4]					$ 4.14	$ 22.48
N	Military Pay [5]					276.66	238.40
N	Civilian Pay [5]					85.01	85.01
N	Military Retirement [6]					19.62	17.84
N	DoD Travel Pay [7, 8, 9]	$ 15.67	$ 11.65	74%	85%	3.69	0.87
N	Commercial Pay					0.01	0.01
N	USACE Travel Pay					1.49	1.28
N	USACE Commercial Pay					10.95	8.65
	Total	**$ 15.67**	**$ 11.65**	**74%**	**85%**	**$ 401.57**	**$ 374.54**

Exhibit 20 Footnotes:

[1] The threshold for designation as a high-priority program for FY 2018 reporting is $2 billion in estimated improper payments reported by the federal agency, regardless of the improper payment rate estimate.

[2] "Amount Identified in FY 2018" represents the total overpayment dollars from sampled claims.

[3] These numbers include recoupments for overpayments identified in reviews conducted by an external independent contractor as well as refunds occurring in the course of routine claim adjustments (for claims initially paid in FY 2017 and other fiscal years). DHA has no way to distinguish overpayment recoupments from routine claim adjustments.

[4] The amount recaptured in FY 2018 for the Active Duty Dental Program (*ADDP*) represents refunds shown on contractor invoices to DHA. ADDP data is not included in the TRICARE Encounter Data (*TED*) system, thus contractor invoices were used because TED transactions are not available.

[5] The Military Pay program includes both in-service collections (i.e., collections from active employees) and out-of-service debts (i.e., collections from individuals not actively employed by the Department) in the Amount Recaptured. The Civilian Pay program includes only in-service collections in the Amount Recaptured.

[6] The amounts identified and recaptured for the Military Retirement program are based on a 100% review of deceased retired and deceased annuitant accounts.

[7] "Overpayments Recaptured Outside of Payment Recapture Audits" for the DoD Travel Pay program are overpayments of paid DTS and Navy WinIATS vouchers that were identified by DFAS through their sampling and post-payment review process.

[8] The DoD Travel Policy Compliance Program is the only formal payment recapture audit program of the DoD Travel Pay program and its results are reported "through" payment recapture audits. Program scope is 100% of temporary duty vouchers processed in the DTS and currently includes 14 queries that identify common improper payments.

[9] "Amount Recaptured" includes debts that have been fully collected or are currently in the debt process, such as payroll deductions.

Exhibit 21 reports the disposition of funds recaptured as a result of Payment Recapture Audits. In accordance with IPERA requirements, only funding which is expired at the time of collection can be reallocated.

Exhibit 21. FY 2018 Disposition of Funds Recaptured Through Payment Recapture Audits

($ in millions)

Program	Amount Recaptured *	DoD Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of the Inspector General	Returned to the Treasury	Other **
DoD Travel Pay	$ 11.65	$ -	$ -	$ -	$ -	$ -	$ -	$ 11.65
Total	**$ 11.65**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 11.65**

** "Amount Recaptured" will be identical to the "Amount Recaptured Through Payment Recapture Audits" in Exhibit 20.*
*** "Other" funds remain in the original account until cancelled.*

Exhibit 22 reports an aging schedule of the amount of overpayments identified through Payment Recapture Audits that are outstanding (i.e., overpayments that have been identified, but not recaptured). Identified overpayments were determined to be uncollectible for one of the following reasons: the amount of the debt is $10 or less, a waiver has been approved, or the amount is an out-of-service debt (i.e., debt from an individual not actively employed by the Department).

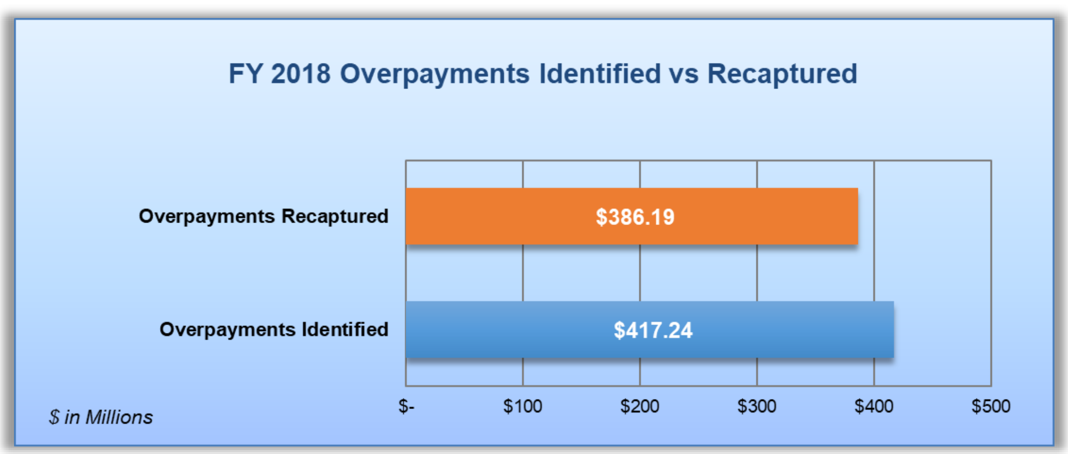
Exhibit 22. Aging of Outstanding Overpayments Identified Through Payment Recapture Audits

($ in millions)

Program	Amount Outstanding (0 - 6 months)	Amount Outstanding (6 months - 1 year)	Amount Outstanding (over 1 year)	Amount Determined to Not Be Collectible
DoD Travel Pay	$ 0.65	$ 3.24	$ 0.12	$ 0.01
Total	**$ 0.65**	**$ 3.24**	**$ 0.12**	**$ 0.01**

Exhibit 23 reports the actual amount (i.e., not estimated) of overpayments identified in FY 2018 and the actual amount of overpayments recaptured in FY 2018. Note: not all overpayments will be collected in the same fiscal year that they were made and/or identified. The Department continues to work to improve its methods to identify, collect, and report improper payments.

Exhibit 23. FY 2018 Overpayments Identified and Recaptured



IV. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The Department of Treasury (*Treasury*) Do Not Pay (*DNP*) Portal is the legislatively-mandated and OMB-designated source of centralized data and analytics services to help federal agencies verify eligibility for payment and to identify and prevent fraud, waste, and abuse associated with improper payments. Federal agencies interface with Treasury's centralized data to achieve a higher degree of certainty that a payee is legitimate and eligible before making a payment. All payments that are identified to be potentially improper are then adjudicated and either paid or not paid. Improper payments, however, may still occur at some later point due to reasons that the DNP Portal cannot detect or prevent.

DFAS

DFAS sends a Commercial Pay weekly batch file of invoices in a non-pay status to the DNP Portal and receives results the next day. DFAS then researches any potential improper payments identified to determine if the proposed payment is proper based on established business rules. To date, DFAS has been able to adjudicate and clear all potential improper payments identified using the DNP Portal.

DFAS does not conduct payment reconciliations to the Debt Check database, which is subset of the data contained in the *Treasury Offset Program*, and the Credit Alert Verification Reporting System (*CAIVRS*). 99% of the false positives received are based on the Death Master File (*DMF*) results along with name match results from the DNP Portal. The remaining 1% of false positives are deemed not to be improper payments based on established business rules related to vendor performance in accordance with established contracts.

DHA

Individual Payments

DHA processes relatively few (5 – 20) case recoupment refunds each month for small dollar amounts ($5 – 20,000). The DNP Portal search is utilized for 100% of all case recoupment refunds prior to making the payment to verify (1) a business or individual has not been placed on the List of Excluded Individuals/Entities (*LEIE*) and/or (2) an individual is not deceased. Any matches are referred to the DHA Office of General Counsel (*DHA OGC*).

Vendor, Contract Payments

DHA processes an average of 225 routine payments per month for 13 unique contractor payees. Those unique contractor Employer Identification Numbers (EINs) are checked in the DNP Portal only once at the beginning of each month. The initial DNP Portal check is then carried for all remaining payments being made to that unique payee for the rest of the month. This process is then repeated every month, therefore maintaining 100% validation of a contractor in the DNP Portal. This pre-payment validation of payees is to verify that a DHA payee has not been placed on the System for Award Management (*SAM*) Exclusion Records (referred to as the Excluded Parties List System (EPLS) in IPERIA) or the LEIE. Any matches are validated with the Treasury Offset Program, ensuring the contractor does not have the same EIN as an individual's Social Security Number. The contractor is responsible for resolving these matching issues due to proprietary reasons. If the contractor is on the SAM, LEIE, and/or Treasury Offset Program list, the finding is referred to the assigned Contracting Officer.

The risk for payments to a subcontractor or individual via the contractor, however, lies outside of DHA control. DHA contractors are not required to utilize the DNP Portal and there is no current mechanism in place to require the contractors to use the DNP Portal at the pre-payment phase to comply with IPERA requirements.

Army combat engineers blast through a concrete wall during demolition training at Fort Hood, Texas, July 17, 2018. The soldiers are assigned to the 2nd Armored Brigade Combat Team, 1st Cavalry Division.

Army photo by Maj. Carson Petry

USACE

On a daily basis, USACE sends payments certified for the next day's disbursing process to the DNP Portal. The DNP Portal searches for potential matches of pending USACE payments and vendors/persons identified on the DMF and the SAM Exclusion Records. USACE then researches any potential improper payments identified to determine if the proposed payment is proper based on established business rules. To date, USACE has been able to adjudicate and clear all potential improper payments identified using the DNP Portal.

USACE has determined that the majority of matches received were false positives. The other matches received were not deemed to be improper payments based on established business rules related to vendor performance in accordance with established contracts.

File Matching with the DMF Outside of Do Not Pay for Military Retiree and Annuitant Benefit Payments

The Defense Manpower Data Center (*DMDC*) has a computer matching agreement with the Social Security Administration (*SSA*) to use its DMF to identify potential accounts that need to be suspended or cancelled as a result of a retiree's or annuitant's passing. As part of the end-of-month processing, DFAS produces two files (one for retirees, one for annuitants) that are sent to DMDC to match or conduct comparisons against the monthly DMF. The results are compiled and forwarded to DFAS.

DFAS then runs its match process to suspend (but not cancel) pay accounts and to notify next of kin that this action was based on information received from SSA. The disbursement system suspends payment to prevent additional benefits from being improperly paid. For any electronic funds transfer payment that was mistakenly disbursed, an electronic transaction is generated to automatically reclaim the payment from the bank account where it was originally deposited after the official notification of death is processed. The normal recovery rate is approximately 95% within 60 days of the official death confirmation.

V. Accountability

The Department recognizes the difficulty of any single official exercising direct personal control over all aspects of each business transaction. Therefore, the Department relies on automated systems, manual controls, and accountable officials to ensure accountability of government funds, including the accuracy, propriety, and legality of payments. The Under Secretary of Defense (Comptroller)/Chief Financial Officer (*USD(C)/CFO*) is the Accountable Official for the Department and is responsible for ensuring that, to the greatest extent possible, all DoD payments are accurate.

The Department adheres to *10 U.S.C. §2773(a)*, which holds Departmental Accountable Officials (DAOs) and Certifying Officials (COs) accountable for government funds. DAOs and COs are subject to pecuniary liability for an illegal, improper, or incorrect payment. This law forms the basis of the DoD Financial Management Regulation (*DoD FMR*), *Volume 5, Chapter 5*, which addresses the selection, appointment, responsibilities, and qualifications for certifying officers; certification of vouchers for payment; DAOs; random review of disbursement vouchers; and pecuniary liability. Moreover, the Department's efforts to recover overpayments are administered in accordance with the debt collection policy in DoD FMR, *Volume 16*.

The DoD FMR also contains chapters that specifically address improper payments (i.e., *Volume 4, Chapter 14*) and recovery auditing (i.e., *Volume 10, Chapter 22*). The Deputy Chief Financial Officer (*DCFO*) is the Executive Agent and Senior Accountable Official (SAO) for the DoD Payment Integrity Program. The DCFO, along with the Director of Accounting and Finance Policy and the Payment Integrity Program manager, provides oversight to the Payment Integrity Program and are each held accountable in their performance plans for reducing and recapturing improper payments as well as achieving compliance with IPERA.

The Department continues to take many proactive steps to hold individuals accountable for the prevention and reduction of improper payments. In FY 2013, following the DoD Travel Pay program's initial year of noncompliance, a Department-wide remediation plan was developed and implemented to assist the program in meeting its future years' improper payment target rates. By FY 2017 this plan evolved into an improper payments SAO steering committee, which is responsible for proactive oversight of the Payment Integrity Program, implementing best practices, monitoring performance, and driving actions for achieving IPERA compliance. This committee, which is comprised of SAOs from across the Military Services and several other DoD Components, is held accountable for reducing and recapturing improper payments through corrective action plans and remediation progress is monitored and measured through performance metrics. Moreover, the SAO steering committee helps ensure that improper payment estimates for all programs are complete and accurate and that program target rates are met.

Military Pay

The Department is committed to ensuring that Military Service members are paid timely and accurately. To accomplish this important mission, individuals within the Military Pay hire-to-retire process are held accountable for their respective areas of responsibilities. Military Service members are held accountable to report timely their eligibility information as well as any qualifying change of life situations affecting their pay to their Personnel and/or Finance offices. Personnel and/or Finance offices are held accountable to process Military Service member payroll and benefit documentation accurately and timely and to ensure the documentation is correctly entered into entitlement systems. Personnel and/or Finance office employees are required to perform reconciliations on a regular basis and to make timely edits or updates to a Military Service member's pay in entitlement systems, as necessary. Management is held accountable for ensuring that controls are in place to properly capture, record, and approve Military Service members' pay and entitlement information. Additionally, management is responsible for reviewing finance reports, which reflect pay and entitlements paid to Military Service members, and for conducting monthly internal reviews to compare and reconcile pay and personnel records.

Military Retirement

The DFAS Director of Retired and Annuitant *(R&A) Pay* is held accountable in a performance plan for reducing and recapturing improper payments. The DFAS Director of R&A Pay is required, under a performance plan element of "Internal Controls and Audit Support," to actively support R&A work group efforts to reduce improper payments identified by the DFAS Post-pay Review & Analysis, Reports & Analysis Enterprise Solutions & Standards – Compliance team. Moreover, executives at *DFAS Cleveland*, where R&A Pay is managed, are held accountable to meet established percentage goals for improper payments through annual performance plan criteria.

DoD Travel Pay

The Department is committed to ensuring that all employees, both Military Service members and civilians, are reimbursed timely and accurately for their travel-related expenses. To accomplish this mission, individuals within the travel management process are held accountable for their respective areas of responsibility.

DAOs involved in the travel management process serve as control points within the Department. Individuals officially appointed as DAOs for the travel process may include reviewing officials, approving officials, and authorizing officials. If appointed, DAOs are subject to pecuniary liability for illegal, improper, or incorrect payments resulting from information, data, or services they negligently provide to COs and upon which the COs relied to certify payment vouchers. DAOs must be appointed and terminated using a DoD (DD) Form 577.

COs are subject to pecuniary liability under 10 U.S.C. §2773(a) and *31 U.S.C. §3528*. They are responsible for certifying travel claims for payment, forwarding certified claims to the supporting disbursing office, comparing pre-trip and post-trip estimates of expenses, reviewing all lodging receipts, and reviewing individual reimbursable expense receipts of $75 or more. Responsibilities for individuals appointed as COs are applicable to both DTS and non-DTS travel claims. COs must be appointed by an appropriate authority and they must acknowledge their appointment as a CO by signature as well as complete a DD Form 577.

Travelers are held accountable for preparing their vouchers (i.e., DD Form 1351-2) after travel has been completed. Travelers must provide all supporting documentation including the original (or legible copies of) orders and receipts for all lodging expenses, as well as claimed reimbursable expenses of $75 or more, to their DAOs and/or COs. Moreover, travelers are liable under *18 U.S.C. §§287* and *1001* and the False Claims Act, *31 U.S.C. §§3729-3731*, if they knowingly submit false, fictitious, or fraudulent travel claims.

VI. Agency Information Systems and Other Infrastructure

Military Pay

Internal Controls

The Department has internal controls in place that support the reduction of improper payments in the Military Pay program to the levels the Department has targeted. However, in FY 2018 there were three outstanding material weaknesses in the Military Pay hire-to-retire process. The material weaknesses were identified by the Army and the Navy in FY 2011. Although the material weaknesses have had an impact on the Payment Integrity Program, significant progress has been made by the Army and the Navy to remediate them. The Army and the Navy plan to fully resolve the deficiencies by FY 2020. Moreover, OUSD(C) provides ongoing oversight to ensure that the material weaknesses are resolved by their target dates and coordination continues between the ERM/ICP and the Payment Integrity Program.

Human Capital

Currently, the Department has the human capital it needs to reduce improper payments in the Military Pay program to the levels the Department has targeted. However, as the Military Pay program evolves and DoD operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

Information Systems and Other Infrastructure

The Department has the information systems and other infrastructure it needs to reduce improper payments in the Military Pay program to the levels the Department has targeted. The primary system currently used by the Department to process Military Pay is the Defense Joint Military Pay System (DJMS). DJMS received an unmodified System and Organizational Control (SOC) 1 Type 2 report under Statement on Standards for Attestation Engagements *(SSAE) No. 18* in FY 2018. However, as technology advances, the Department continues to consider ways to improve the accuracy and efficiency of Military Pay through implementation of new payroll and entitlement processing systems and enhancements to existing systems.

Military Retirement

Internal Controls

The Department has internal controls in place to support the reduction of improper payments in the Military Retirement program to the levels the Department has targeted. As part of the internal control framework for this program, the DFAS Director of R&A Pay has identified and documented known risks associated with the processes for providing pay services to the customers of the Military Retirement program. Along with identifying these risks by process, the Director of R&A Pay instituted key controls and control activities to mitigate the documented risks. The Director also tests the controls to ensure their effectiveness and documents the test results. In addition, OUSD(C) is committed to the coordination of activities between the ERM/ICP and the Payment Integrity Program to leverage best practices in internal controls.

Human Capital

Currently, the Department has the human capital it needs to reduce improper payments in the Military Retirement program to the levels the Department has targeted. However, as the Military Retirement program evolves and DoD operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

Information Systems and Other Infrastructure

The Department has the information systems and other infrastructure it needs to reduce improper payments in the Military Retirement program to the levels the Department has targeted. As technology advances, the Department continues to consider improving the accuracy and efficiency of Military Retirement through implementation of new retiree and annuitant pay systems and enhancements to existing systems.

DoD Travel Pay

Internal Controls

The Department has the internal controls in place to support the reduction of improper payments in the DoD Travel Pay program to the levels the Department has targeted. In addition, OUSD(C) is committed to the coordination of activities between the ERM/ICP and the Payment Integrity Program to leverage best practices in internal controls.

Human Capital

Currently, the Department has the human capital it needs to reduce improper payments in the DoD Travel Pay program to the levels the Department has targeted. However, as the DoD Travel Pay program evolves and DoD operations change, additional skill sets and personnel resources may be needed to sustain and advance the program.

Information Systems and Other Infrastructure

The Department has the information systems and other infrastructure it needs to reduce improper payments in the DoD Travel Pay program to the levels the Department has targeted. The primary system currently used by the Department to process travel payments is DTS. DTS received an unmodified SOC 1 Type 2 report under SSAE No. 18 in FY 2018. However, as technology advances, the Department continues to consider ways to improve the accuracy and efficiency of travel pay through implementation of new travel and entitlement processing systems and enhancements to existing systems.

Service members signal as an F/A-18E Super Hornet launches from the flight deck of the aircraft carrier USS Theodore Roosevelt in the Persian Gulf, Feb. 27, 2018.

Navy photo by Petty Officer 3rd Class Alex Corona

VII. Sampling and Estimation

The primary disbursing DoD Components use statistically valid and rigorous methods that are designed to meet or exceed OMB's requirements of a 95% confidence level and a margin of error of +/- 3.0%. By using these methods, disbursing DoD Components are able to identify valid sample sizes and project improper payment percentages for the Department's Payment Integrity Program. The smaller disbursing DoD Components normally perform 100% post-payment reviews or a full review of payments above a specific dollar threshold, with random sampling for lower dollar payments.

Military Pay

DFAS designed the program samples using a dollar-stratified sampling plan and the Neyman Allocation method. The Neyman Allocation method stratifies financial data from DJMS and the Marine Corps Total Force System (MCTFS) and allocates the data to defined strata. The overall variable sample size was calculated for the combined systems to produce a point estimate with a 95% confidence interval and a margin of error of +/- 2.5%. Samples were then randomly selected using the Statistical Package for the Social Sciences (SPSS) statistical software from each system's population as a whole. Each payment within each stratum had an equal probability of selection.

On a monthly basis, DFAS statistically sampled Military Pay accounts stratified by Active Duty (i.e., Army, Navy, Air Force, and Marine Corps) and Reserve Components (i.e., Army Reserve, Army National Guard, Navy Reserve, Air Force Reserve, Air National Guard, and Marine Corps Reserve), and further stratified by the dollar amount of disbursements. The Defense Management Data Center provided the total universe of Military Pay accounts for each Military Service. DFAS reviewed the sampled pay accounts and calculated estimates of improper payments.

In FY 2019, based on a recommendation made by the Government Accountability Office (GAO) in Report No. *GAO-18-377*, the Department is revising its post-payment review procedures for this program to include verification of Military Service members pay and allowances with sufficient supporting documentation.

Air Force Chief Master Sgt. Hope L. Skibitsky leads an all-female military training instructor formation to honor Women's History Month during a Basic Military Training graduation at Joint Base San Antonio, March 9, 2018.

Air Force photo by Ismael Ortega

Military Retirement

On a monthly basis, DFAS statistically sampled Military Retirement payments stratified by retired and annuitant pay accounts. The reviews contained samples of drilling Reserve units, retiree offsets, survivor benefit plans, transfers to/from the Temporary Disability Retired List to the Permanent List, and Veterans Affairs offsets. The overall variable sample size was calculated to produce a point estimate with a 95% confidence interval and a margin of error of +/- 2.5%.

In FY 2018, DFAS updated its Military Retirement sampling plan to a methodology that stratifies the population by the status of the account (e.g. new accounts, accounts with changes, and unchanged accounts).

DoD Travel Pay

DFAS designed the program samples using a dollar-stratified sampling plan and the Neyman Allocation method. The Neyman Allocation method stratifies financial data from DTS and WinIATS and allocates the data to defined strata. The overall variable sample size was calculated for the combined systems to produce a point estimate with a 95% confidence interval and a margin of error of +/- 2.5%. Samples were then randomly selected using SPSS statistical software from each system's population as a whole. Each payment within each stratum had an equal probability of selection.

On a monthly basis, DFAS sampled vouchers from DTS stratified by component (i.e., Army, Navy, Marine Corps, Air Force, and other DoD Components) and vouchers from WinIATS stratified by travel type (i.e., Active, Reserve, Casualty, Contingency, Civilian Permanent Change of Station (PCS), other DoD Component, International Military Education and Training, Military PCS, Navy Reserve Officers' Training Corps, and Navy Travel). In addition, each population was further stratified by dollar amount.

DFAS statisticians selected a random sample and the Post-pay Review and Analysis team reviewed the samples and calculated estimates of improper payments. Furthermore, to form the overall DoD Travel Pay improper payments estimate, the DFAS DTS and WinIATS improper payment estimates were combined with the Army's WinIATS estimates of overseas travel, the Navy's WinIATS estimate, the Air Force's RTS estimate, and the Marine Corps' WinIATS estimate.

In FY 2018, DFAS segregated the U.S. Special Operations Command (*USSOCOM*) data from the DTS Defense Agencies population and sampled it separately in order to provide USSOCOM with more detailed information regarding the root causes of their travel pay errors. DFAS selected USSOCOM because it accounts for the largest number of travel vouchers amongst the Defense Agencies.

Fraud Reduction Report

The Fraud Reduction and Data Analytics Act of 2015 (*FRDAA*) was enacted on June 30, 2016 to help improve federal agencies' financial and administrative controls and procedures to assess and mitigate fraud risks and to improve federal agencies' development and use of data analytics for the purposes of preventing, detecting, and responding to fraud. The FRDAA requires agencies to (1) conduct an evaluation of fraud risks and use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; (2) collect and analyze data on detected fraud to monitor fraud trends and use the data and information to continuously improve fraud controls; and (3) use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response.

A Marine ascends out of a cave at Marine Corps Air Station Futenma, Japan, April 19, 2018, during training to detect chemical or radiological threats in difficult-to-access areas.

Marine Corps photo by Cpl. Charles Plouffe

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

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

Further, the Department conducted a pilot program of its framework with select DoD Components to obtain feedback to help enhance the framework's applicability and effectiveness. Feedback received from the pilot program included recommendations to develop a list of frequently asked questions (FAQs), consolidate the framework's toolkits, provide additional potential examples of fraud schemes, highlight the operational benefits of FRDAA compliance, and provide additional fraud risk management training. The Department is working to address each of these recommendations prior to the planned Department-wide implementation of its framework in FY 2019. Once fully implemented, the framework will help raise the maturity level of fraud risk management efforts across the Department and help facilitate the development of an enterprise-wide fraud risk profile. The fraud risk profile, which includes an analysis of the types of internal and external fraud risks, the perceived likelihood and impact of fraud risks, management's risk tolerance, and a prioritized inventory of fraud risks, will assist the Department in the development of an enterprise-wide anti-fraud strategy.

In addition to the steps taken to develop and implement the Fraud Risk Management framework, the Department revised its Enterprise Risk Management and Internal Control Program policies and procedures to align with the updated guidance provided by Office of Management and Budget (OMB) *Circular No. A-123*. This effort included developing an Internal Control Guide to assist DoD Components with strengthening their internal controls and updating the Statement of Assurance Handbook to incorporate FRDAA requirements.

The Department also continued to participate in meetings with the OMB working group tasked by the FRDAA to oversee the scope and development of an inter-agency library to improve the sharing of fraud risk management best practices and data analytics techniques for preventing, detecting, and responding to fraud. As part of this endeavor, the Department contributed to OMB's development of a fraud taxonomy, which is intended to serve as a comprehensive system to effectively communicate fraud risks across the Federal Government, by identifying fraud risks and data analytic approaches for asset misappropriation and procurement fraud. The lessons learned and best practices identified during these activities will be communicated with program managers to further enhance Department-wide fraud prevention and detection.

An unarmed Trident II D5 missile launches from the ballistic missile submarine USS Nebraska in the Pacific Ocean off the coast of California, March 26, 2018, as part of a Navy Strategic Systems Programs test.

Navy photo by Mass Communication Specialist 1st Class Ronald Gutridge

Reduce the Footprint

Consistent with Section 3 of OMB *Memorandum M-12-12*, OMB Management Procedures *Memorandum No. 2015-01*, and the *National Strategy for the Efficient Use of Real Property*, the Department sets annual targets to reduce the total square footage of domestic office and warehouse inventory compared to the FY 2015 baseline as part of the annual Real Property Efficiency Plan submission to OMB and the General Services Administration. Exhibit 24 and Exhibit 25 present the Department's Reduce the Footprint comparisons of FY 2017 office and warehouse square footage and operations and maintenance costs to the FY 2015 baseline.

Exhibit 24. Reduce the Footprint Baseline Comparison

	FY 2015 Baseline	FY 2017	Change (FY 2017 - FY 2015 Baseline)
Square footage ($ in millions)	$ 339.3	$ 284.6	$ (54.7)

Through FY 2017, the Department reduced its office and warehouse inventory by over 54 million square feet by focusing on various methods such as consolidation of underutilized assets, termination of leases, and demolition of excess facilities. Additionally, the Department continued conducting physical inspections and inventories of real property in preparation for the FY 2018 full-scope financial statement audit. These tests of existence and completeness led to the discovery of assets which were not previously reported correctly in the Department's accounting records.

Exhibit 25. Reporting of Estimated Operation and Maintenance Costs – Owned and Direct Lease Buildings

	FY 2015 Reported Costs	FY 2017	Change (FY 2017 - FY 2015 Baseline)
Operation and Maintenance Costs ($ in millions)	$ 829.5	$ 895.9	$ 66.4

Through FY 2017, the Department's estimated annual operation and maintenance costs of its owned and direct leased facilities increased more than $66 million. The Department's operation and maintenance costs are funded, managed, and disbursed at the base or installation level as opposed to the asset level (e.g., by facility). As a result, the Department is not currently able to trace the actual operations and maintenance costs associated with its office and warehouse inventory at the asset level and must rely on estimates mathematically derived from the allocation of base or installation level costs to all of the various facilities contained therein. As the Department's office and warehouse inventory represents less than 15% of the total DoD real property footprint, changes in the calculated allocation of operations and maintenance costs to office and warehouse space may potentially be driven by factors unrelated to the office and warehouse facilities.

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (*the 2015 Act*), which amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (*Inflation Adjustment Act*, *28 U.S.C. § 2461, note*), requires federal agencies to annually adjust the level of civil monetary penalties for inflation to improve their effectiveness and maintain their deterrent effect. The implementation of this law helps deter violations of law; encourages corrective actions for existing violations; and helps prevent fraud, waste, and abuse within the Department.

The Department publishes its civil monetary penalties adjustments as two separate final rules in the *Federal Register* – one containing the adjustments related to the U.S. Army Corps of Engineers (*USACE*) and one containing the adjustments related to the remainder of the Department. Exhibit 26 provides the civil monetary penalties that the Department may impose, the authority for imposing the penalty, the year enacted, the year of the latest adjustment, and the current penalty level. Additional supporting details about these penalties are available at Federal Register Volume 83, page 3077 (*83 FR 3077*) and *83 FR 19180*.

Exhibit 26. FY 2018 Civil Monetary Penalty Adjustments for Inflation

Penalty (Name or Description)	Statutory Authority	Year Enacted	Latest Year of Adjustment	Current Penalty ($ amount or range)	Sub-Agency / Bureau / Unit	Location for Penalty Updates
Unauthorized Activities Directed at or Possession of Sunken Military Craft	National Defense Authorization Act for FY 2005, 10 U.S.C. § 113, note	2004	2018	$129,211	Department of the Navy	83 FR 3077 (January 23, 2018)
Unlawful Provision of Health Care	10 U.S.C. § 1094(c)(1)	1985	2018	$11,346	Defense Health Agency	84 FR 3077 (January 23, 2018)
Wrongful Disclosure - Medical Records	10 U.S.C. § 1102(k)	1986	2018	$6,709 (First Offense) $44,726 (Subsequent Offense)	Defense Health Agency	85 FR 3077 (January 23, 2018)
Violation of the Pentagon Reservation Operation and Parking of Motor Vehicles Rules and Regulations	10 U.S.C. § 2674(c)(2)	1990	2018	$1,848	Deputy Chief Information Officer	86 FR 3077 (January 23, 2018)
Violation Involving False Claim	31 U.S.C. § 3802(a)(1)	1986	2018	$11,181	Office of the Inspector General	87 FR 3077 (January 23, 2018)
Violation Involving False Statement	31 U.S.C. § 3802(a)(2)	1986	2018	$11,181	Office of the Inspector General	88 FR 3077 (January 23, 2018)
Class I Civil Administrative Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act, 33 U.S.C. § 1319(g)(2)(A)	1987	2018	$21,394 per violation, with a maximum of $53,484	U.S. Army Corps of Engineers	83 FR 19180 (May 2, 2018)
Judicially Imposed Civil Penalties for Violations of Clean Water Act Section 404 Permits	Clean Water Act, 33 U.S.C. § 1344(s)(4)	1987	2018	Maximum of $53,484 per day for each violation	U.S. Army Corps of Engineers	84 FR 19180 (May 2, 2018)
Civil Administrative Penalties for Violations of Section 205(e) of the National Fishing Enhancement Act	National Fishing Enhancement Act, 33 U.S.C. § 2104(e)	1984	2018	Maximum of $23,426 per violation	U.S. Army Corps of Engineers	85 FR 19180 (May 2, 2018)

Grants Oversight and New Efficiency Act Requirements

The Grants Oversight & New Efficiency (*GONE*) Act was enacted on January 28, 2016 with the goal of helping federal agencies to more efficiently identify and close out expired federal grant awards (including cooperative agreements). To accomplish this, the GONE Act required, among other things, that the head of each federal agency (1) submit a report to Congress in FY 2017 which identifies and quantifies federal grant awards which had been expired for more than two years but had not been closed out and (2) submit a follow-up report to Congress in FY 2018 which discloses progress made in closing out the previously reported expired grant awards. Exhibit 27 provides information related to the expired federal grant awards previously disclosed in the Agency Financial Report for FY 2017 which were not closed out as of September 30, 2018.

Exhibit 27. Unclosed Previously Reported Expired DoD Grant and Cooperative Agreement Awards as of September 30, 2018

Category	2 - 3 Years	> 3 - 5 Years	> 5 Years
Number of Grants / Cooperative Agreements with Zero Dollar Balances	631	554	413
Number of Grants / Cooperative Agreements with Undisbursed Balances	423	147	141
Total Amount of Undisbursed Balances	$ 37,714,877	$ 37,456,451	$ 13,923,750

During FY 2018, the Department successfully closed out 54% of the expired federal grant awards that were previously reported in FY 2017. To achieve this progress in closing out the identified federal grant awards, the Department instituted a number of business process improvements such as

- Increasing staff (both newly hired civilian employees as well as contractors) to reduce the backlog of expired federal grant awards requiring closeout;
- Using new systems that now track closeout requirements, thereby assisting grants offices in tracking when awards are ready to closeout;
- Increasing collaboration between the offices awarding federal grants and those administering the federal grant award; and
- Establishing new business practices to batch federal grant awards by recipient, thereby reducing the burden of the closeout process for both the grant officer and the grantee.

Additionally, through an increased emphasis on data reconciliation during FY 2018, the Department discovered that 415 expired federal grant awards were erroneously reported in FY 2017 and were, in fact, closed.

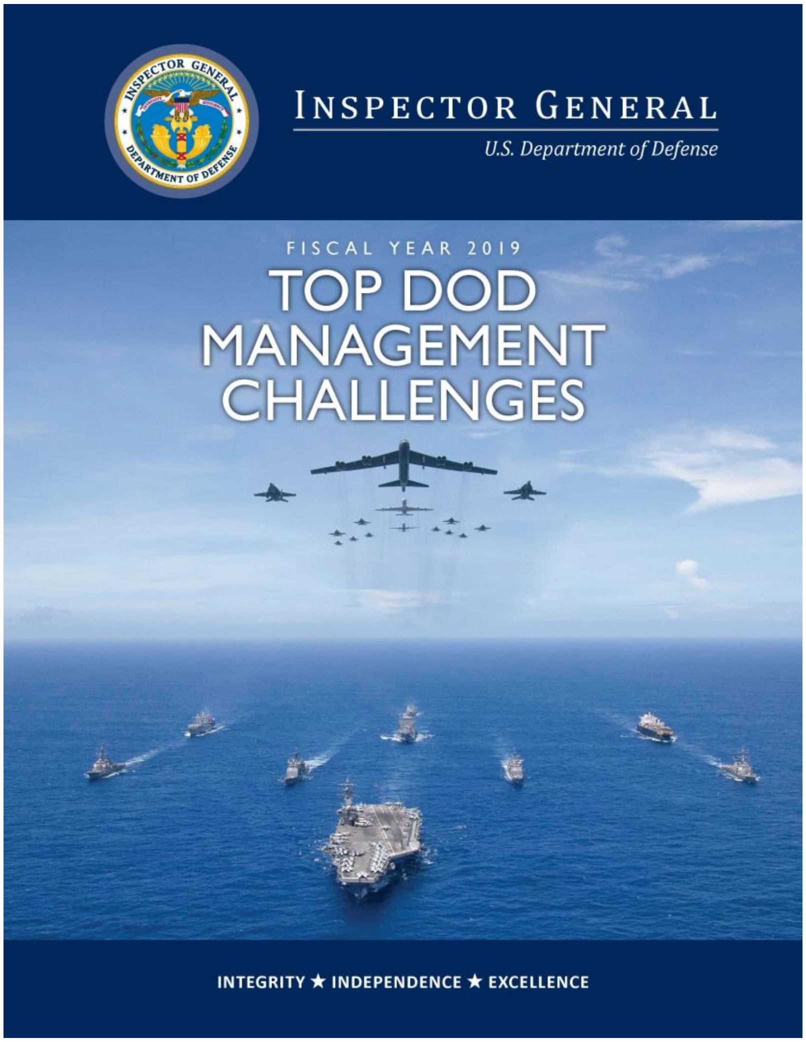
Despite these efforts, many challenges remain such as the lack of adequate staffing, delays caused by DoD and grantee staff changes, and the lack of a centralized system for the management and reporting of federal grant awards. The Department continues to actively research mitigation strategies for these and other challenges, among which include sponsoring Department-wide grant management workshops to facilitate the sharing of best practices, working to develop guidance for the process of closing out federal grant awards, and exploring options for the centralization of federal grant award report collection.

Management Challenges

In accordance with the *Reports Consolidation Act of 2000*, the DoD Inspector General (*DoD IG*) prepares an annual statement that summarizes what the DoD IG considers to be the most serious management and performance challenges facing the Department. This statement is included in a larger report by the DoD IG which provides additional background and descriptive information about each challenge and provides an assessment of the Department's progress in addressing the challenges.

The DoD Office of the Inspector General uses the DoD IG report as a research and planning tool to identify areas of risk in DoD operations. As the report is forward-looking and outlines the most significant management and performance challenges facing the Department now and in the future, it is labelled as FY 2019 rather than FY 2018 to reflect its forward-looking orientation.

The DoD IG's statement summarizing the most serious management and performance challenges facing the Department is included on the following page. The complete DoD IG report on FY 2019 Top DoD Management Challenges as well as reports from previous years are available at the *DoD IG website*.



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

October 15, 2018

Each Inspector General (IG) is required by law, the Reports Consolidation Act of 2000, to prepare an annual statement that summarizes what the IG considers to be the "most serious management and performance challenges facing the agency" and to assess the agency's progress in addressing those challenges. The law states that the "agency head may comment on the IG's statement, but may not modify the statement." The law also requires the IG's statement to be included in the agency's Financial Report.

The following is the DoD Office of Inspector General's (OIG) statement on the top management and performance challenges facing the DoD. The DoD OIG identified these challenges based on a variety of factors, including DoD OIG oversight work, research, and judgment; oversight work done by other DoD components; oversight work conducted by the GAO; and input from DoD officials. While we reviewed DoD statements, documents, and assessments of these and other critical issues, we identified these top challenges independently.

The DoD OIG also uses this document to determine areas of risk in DoD operations and where to allocate the DoD OIG oversight resources. This document is forward looking and identifies the top challenges facing the DoD in FY 2019 and in the future.

As reflected in this document, the top 10 DoD management and performance challenges are:

1. Implementing DoD Reform Initiatives
2. Countering China, Russia, Iran, and North Korea
3. Countering Global Terrorism
4. Financial Management: Implementing Timely and Effective Actions to Address Financial Management Weaknesses Identified During the First DoD-Wide Financial Statement Audit
5. Improving Cyber Security and Cyber Capabilities
6. Ensuring Ethical Conduct
7. Enhancing Space-Based Operations, Missile Detection and Response, and Nuclear Deterrence
8. Improving Readiness Throughout the DoD
9. Acquisition and Contract Management: Ensuring that the DoD Gets What It Pays For On Time, at a Fair Price, and With the Right Capabilities
10. Providing Comprehensive and Cost-Effective Health Care

In this document, we discuss each challenge, actions taken by the DoD to address the challenge, and oversight work by the DoD OIG and others related to the challenge.

These challenges are not listed in order of importance or by magnitude of the challenge. All are critically important management challenges facing the DoD.

Glenn A. Fine

Glenn A. Fine
Principal Deputy Inspector General
Performing the Duties of Inspector General

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FY 2018

Appendices

Face of Defense: Former Slave, 2-Time Olympian Becomes an Airman

For the full article, click icon

Appendix A – Acronyms and Abbreviations

Acronym	Definition
ADA	Antideficiency Act
ADDP	Active Duty Dental Program
AF	Air Force
AF-IPPS	Air Force Integrated Personnel and Pay System
AFR	Agency Financial Report
AM&E	Assessment, Monitoring, and Evaluation
ASD	Assistant Secretary of Defense
ASP	Agency Strategic Plan
AU	Assessable Unit
BEA	Business Enterprise Architecture
BRAC	Base Realignment and Closure
BRS	Blended Retirement System
CAIVRS	Credit Alert Verification Reporting System
CAP	Corrective Action Plan
CBY	Charge Back Year
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief Financial Officer
CJCS	Chairman of the Joint Chiefs of Staff
CMO	Chief Management Officer
CNGB	Chief of the National Guard Bureau
CNO	Chief of Naval Operations
CO	Certifying Official
COLA	Cost of Living Adjustment
CONOPS	Concept of Operations
COO	Chief Operating Officer
COTS	Commercial Off-The-Shelf
CPIM	Consumer Price Index Medical
CR	Comprehensive Review
CSA	Chief of Staff of the Army
CSAF	Chief of Staff of the Air Force
DAI	Defense Agencies Initiative
DAO	Departmental Accountable Official
DARPA	Defense Advanced Research Projects Agency
DATA	Digital Accountability and Transparency Act
DBC	Defense Business Council
DBS	Defense Business Systems
DC3	DoD Cyber Crime Center
DCFO	Deputy Chief Financial Officer
DCMA	Defense Contract Management Agency
DEAMS	Defense Enterprise Accounting and Management System
DERP	Defense Environmental Restoration Program
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Services
DHA	Defense Heath Agency
DIB	Defense Industrial Base
DISA	Defense Information System Agency
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency
DM&R	Deferred Maintenance and Repairs
DMDC	Defense Manpower Data Center
DMF	Death Master File
DNP	Do Not Pay
DoD	Department of Defense
DoD IG	Department of Defense Inspector General
DoD OIG	Department of Defense Office of the Inspector General
DoDI	Department of Defense Instruction
DoDIN	Department of Defense Information Network
DOL	Department of Labor
DSCA	Defense Security Cooperation Agency
DTD	Direct Treasury Disbursing
DTMO	Defense Travel Management Office
DTS	Defense Travel System
E2E	End-to-End
E&DL	Environmental and Disposal Liabilities
EBF	Education Benefits Fund
EBS	Enterprise Business System

Acronym	Definition
EIC	External Independent Contractor
EIN	Employer Identification Number
ELPS	Excluded Parties List System
EO	Executive Order
EOU	Excess, Obsolete, and Unserviceable
ERM	Enterprise Risk Management
ERM/ICP	Enterprise Risk Management and Internal Control Program
ERP	Enterprise Resource Planning
FAR	Federal Acquisition Regulation
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FECA	Federal Employees' Compensation Act
FERC	Federal Energy Regulatory Commission
FFATA	Federal Funding Accountability and Transparency Act
FFMIA	Federal Financial Management Improvement Act of 1996
FFRDC	Federally Funded Research and Development Center
FGB	FIAR Governance Board
FIAR	Financial Improvement Audit Readiness
FISCAM	Federal Information System Controls Audit Manual
FISMA	Federal Information Security Modernization Act of 2014
FM	Financial Management
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FMSC	Financial Management Support Center
FR	Federal Register
FRDAA	Fraud Reduction and Data Analytics Act
FSD	FIAR Systems Database
FUSRAP	Formerly Utilized Sites Remedial Action Program
FY	Fiscal Year
FYDP	Future Years Defense Program
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GAO	Government Accountability Office
GC	General Counsel
GCSS-A	Global Combat Support System – Army
GCSS-MC	Global Combat Support Systems-Marine Corps
GFEBS	General Fund Enterprise Business System
GMRA	Government Management Reform Act of 1994
GONE Act	Grants Oversight and New Efficiency Act of 2016
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
GRPA	Government Performance and Results Act
GSA	General Services Agency
HII	Hiring Improvement Initiatives
HR	Human Resources
ICP	Internal Control Program
IGT	Intragovernmental Transactions
IP	Improper Payment / Improperly Paid
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IPPS-A	Integrated Personnel and Pay System – Army
ISIS	Islamic State of Iraq and Syria
IT	Information Technology
JCS	Joint Chiefs of Staff
JIE	Joint Information Environment
JRSS	Joint Regional Security Stack
JV	Journal Voucher
LEIE	List of Excluded Individuals/Entities
LMP	Logistics Modernization Program
MCTFS	Marine Corps Total Force System
MERHCF	Medicare Eligible Retiree Health Care Fund
MHPI	Military Housing Privatization Initiative
MHS	Military Health System
MILDEPS	Military Departments
MRF	Military Retirement Fund
MW	Material Weakness
MWR	Morale, Welfare, and Recreation

Acronym	Definition
NAF	Nonappropriated Fund
NAFI	Nonappropriated Fund Instrumentality
NATO	North Atlantic Treaty Organization
NDAA	National Defense Authorization Act
NDBOP	National Defense Business Operations Plan
NDS	National Defense Strategy
NFR	Notice of Findings and Recommendations
NIPRNet	Non-Classified Internet Protocol Router Network
No.	Number
NOAA	National Oceanic and Atmospheric Administration
NPV	Net Present Value
OCO	Overseas Contingency Operations
OCONUS	Outside the Continental United States
ODCFO	Office of the Deputy Chief Financial Officer
ODOs	Other Defense Organizations
OEP	Organizational Execution Plans
OGC	Office of General Counsel
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
P2P	Procure-to-Pay
PCS	Permanent Change of Station
PP	Proper Payment / Properly Paid
PP&E	Property, Plant and Equipment
PPA	Prompt Payment Act
PPBE	Planning, Programming, Budgeting, and Execution
QCO	Quick Closeout
R&A Pay	Retired and Annuitant Pay
R&D	Research and Development
R2F	Readiness Recovery Framework
RACER	Remedial Action Cost Engineering Requirements
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test, and Evaluation
RMF	Risk Management Framework
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
RTS	Reserve Travel System
SAM	System for Award Management
SAO	Senior Accountable Official
SARA	Superfund Amendments and Reauthorization Act
SBR	Statement of Budgetary Resources
SC	Security Cooperation
SCM	Service Chain Management
SCNP	Statement of Changes in Net Position
SCR	System Change Request
SDP	Savings Deposit Program
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SMS	Sustainment Management System
SNC	Statement of Net Cost
SOC	System and Organization Controls
SOF	Special Operations Forces
SPSS	Statistical Package for the Social Sciences
SRR	Strategic Readiness Review
SSA	Social Security Administration
SSAE	Statement on Standards for Attestation Engagements
STB	Standard Transaction Broker
TED	TRICARE Encounter Data
TNC	Treasury Nominal Coupon
Treasury	United States Department of the Treasury
TSP	Thrift Savings Plan
U.S.	United States
U.S.C.	United States Code
USACE	U.S. Army Corps of Engineers
USCYBERCOM	U.S. Cyber Command
USD	Under Secretary of Defense
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer

Acronym	Definition
USD(P&R)	Under Secretary of Defense for Personnel and Readiness
USSGL	United States Government Standard General Ledger
USSOCOM	U.S. Special Operations Command
USSTRATCOM	U.S. Strategic Command
USTRANSCOM	U.S. Transportation Command
VCJCS	Vice Chairman of the Joint Chiefs of Staff
VSI	Voluntary Separation Incentive
WCF	Working Capital Funds
WG	Working Group
WinIATS	Windows Integrated Automated Travel System

Deputy Defense Secretary Pat Shanahan holds a Javelin anti-tank weapon during a visit to Joint Base Lewis-McChord, Wash., to speak with military personnel about unit readiness, Nov. 14, 2017.

DoD photo by Air Force Tech. Sgt. Brigitte N. Brantley

Appendix B – URL Index

Link Title	URL
Active Duty Dental Program (ADDP)	https://www.tricare.mil/CoveredServices/Dental/ADDental/ADDP
Air Force Audit Agency	https://www.afaa.af.mil/
Air Force Integrated Personnel and Pay System (AF-IPPS)	http://www.dtic.mil/dtic/tr/fulltext/u2/1019572.pdf
Annual Performance Report	https://cmo.defense.gov/Publications/Annual-Performance-Plan-and-Performance-Report/
Antideficiency Act Reports	https://www.gao.gov/legal/appropriations-law-decisions/resources#reports
Arms Export Control Act of 1976	http://uscode.house.gov/view.xhtml?path=/prelim@title22/chapter39&edition=prelim
Atomic Energy Act of 1954	https://www.nrc.gov/docs/ML1327/ML13274A489.pdf#page=23
Basic Research	https://basicresearch.defense.gov/
Bipartisan Budget Act of 2018	https://www.congress.gov/115/bills/hr1892/BILLS-115hr1892enr.pdf
Blended Retirement System (BRS)	https://militarypay.defense.gov/blendedretirement/
Budget Control Act of 2011	https://www.congress.gov/112/plaws/publ25/PLAW-112publ25.pdf
Bureau of the Fiscal Service	https://www.fiscal.treasury.gov/
Chairman of the Joint Chiefs of Staff (CJCS)	http://www.jcs.mil/About/The-Joint-Staff/Chairman/
Chief Financial Officers (CFO) Act of 1990	https://www.gpo.gov/fdsys/pkg/STATUTE-104/pdf/STATUTE-104-Pg2838.pdf
Chief Management Officer (CMO), Department of Defense (DoD)	https://cmo.defense.gov/
Chief of Naval Operations (CNO)	http://www.navy.mil/cno/index.asp
Chief of Staff of the Air Force (CSAF)	https://www.af.mil/About-Us/Air-Force-Senior-Leaders/CSAF/
Chief of Staff of the Army (CSA)	https://www.army.mil/leaders/csa/
Chief of the National Guard Bureau (CNGB)	http://www.nationalguard.mil/Leadership/CNGB.aspx
Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA)	https://www.gpo.gov/fdsys/pkg/STATUTE-94/pdf/STATUTE-94-Pg2767.pdf
Consolidated Appropriations Act of 2018	https://www.congress.gov/115/bills/hr1625/BILLS-115hr1625enr.pdf
Credit Alert Verification Reporting System (CAIVRS)	https://www.hud.gov/program_offices/housing/sfh/caivrs
David Packard Excellence in Acquisition Award	https://www.dau.mil/about/p/Packard Award
Death Master File (DMF)	https://www.ssa.gov/dataexchange/request_dmf.html
Defense Advanced Research Projects Agency (DARPA)	https://www.darpa.mil/
Defense Agencies Initiative (DAI)	http://www.dla.mil/HQ/InformationOperations/Offers/DefenseAgenciesInitiative/
Defense Business Council (DBC)	https://cmo.defense.gov/Governance/Defense-Business-Council/
Defense Contract Management Agency (DCMA)	http://www.dcma.mil/
Defense Enterprise Accounting and Management System (DEAMS)	http://www.dtic.mil/dtic/tr/fulltext/u2/1019788.pdf
Defense Environmental Restoration Program (DERP)	https://www.denix.osd.mil/derp/home/
Defense Federal Acquisition Regulation Supplement (DFARS)	https://www.acq.osd.mil/dpap/dars/dfarspgi/current/
Defense Finance and Accounting Service (DFAS)	https://www.dfas.mil/
Defense Finance and Accounting Service (DFAS) Cleveland	https://www.dfas.mil/careers/PDFs/ClevelandSiteSheet.html
Defense Health Agency (DHA) Office of General Counsel (OGC)	https://www.health.mil/About-MHS/OASDHA/Defense-Health-Agency/Office-of-General-Counsel

Link Title	URL
Defense Heath Agency (DHA)	https://www.health.mil/dha
Defense Industrial Base (DIB)	https://policy.defense.gov/OUSDP-Offices/ASD-for-Homeland-Defense-Global-Security/Defense-Critical-Infrastructure-Program/Partnering/#dib
Defense Logistics Agency (DLA)	http://www.dla.mil/
Defense Logistics Agency (DLA) Disposition Services	http://www.dla.mil/DispositionServices.aspx
Defense Manpower Data Center (DMDC)	http://www.dmdc.osd.mil/
Defense Security Cooperation Agency (DSCA)	http://www.dsca.mil/
Defense Travel Management Office (DTMO)	https://www.defensetravel.dod.mil/
Defense Travel System (DTS)	https://www.defensetravel.dod.mil/site/dts.cfm
Department of Defense Appropriations Act of 1993	https://www.gpo.gov/fdsys/pkg/STATUTE-106/pdf/STATUTE-106-Pg1876.pdf#page=67
Department of Health and Human Services	https://www.hhs.gov/
Department of Homeland Security	https://www.dhs.gov/
Department of the Air Force	https://www.af.mil/
Department of the Army	https://www.army.mil/
Department of the Navy	http://www.navy.mil/
Department of the Treasury	https://home.treasury.gov/
Deputy Chief Financial Officer (DCFO)	https://comptroller.defense.gov/About-OUSD-C/dcfo_Bio.aspx
Deputy Secretary of Defense	https://www.defense.gov/our-story/meet-the-team/deputy-secretary-of-defense/
Do Not Pay (DNP)	https://donotpay.treas.gov/
DoD Cyber Crime Center (DC3)	https://www.dc3.mil/
DoD Cyber Strategy	https://media.defense.gov/2018/Sep/18/2002041658/-1/-1/1/CYBER_STRATEGY_SUMMARY_FINAL.PDF
DoD Financial Management (FM) Certification Program	https://comptroller.defense.gov/External-Links/FMCert/
DoD Financial Management Regulation	https://comptroller.defense.gov/FMR.aspx
DoD Financial Management Regulation (DoD FMR)	https://comptroller.defense.gov/FMR.aspx
DoD FMR, Volume 10, Chapter 22, "Payment Recapture Audits"	https://comptroller.defense.gov/Portals/45/documents/fmr/current/10/10_22.pdf
DoD FMR, Volume 16, "Department of Defense Debt Management"	https://comptroller.defense.gov/Portals/45/documents/fmr/Volume_16.pdf
DoD FMR, Volume 4, Chapter 14, "Improper Payments"	https://comptroller.defense.gov/Portals/45/documents/fmr/current/04/04_14.pdf
DoD FMR, Volume 5, Chapter 5, "Certifying Officers, Departmental Accountable Officials, and Review Officials"	https://comptroller.defense.gov/Portals/45/documents/fmr/current/05/05_05.pdf
DoD Inspector General (DoD IG)	http://www.dodig.mil/About/Leaders/
DoD Inspector General (IG) Website	http://www.dodig.mil/reports.html/Category/14742/
DoD Instruction 1020.03, "Harassment Prevention and Response in the Armed Forces"	http://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodi/102003.pdf
DoD Instruction 3110.06, "War Reserve Material (WRM) Policy"	http://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodi/311006p.pdf?ver=2018-10-05-071002-703
DoD Instruction 5000.61, "DoD Modeling and Simulation (M&S) Verification, Validation, and Accreditation"	http://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodi/500061p.pdf

Link Title	URL
DoD Instruction 5010.40, "Managers' Internal Control Program Procedures"	http://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodi/501040p.pdf
DoD Office of the Inspector General (OIG)	http://www.dodig.mil/
Executive Order (EO) 13777, "Enforcing the Regulatory Reform Agenda"	https://www.gpo.gov/fdsys/pkg/FR-2017-03-01/pdf/2017-04107.pdf
Federal Accounting Standards Advisory Board (FASAB)	http://www.fasab.gov/
Federal Acquisition Regulation (FAR)	https://www.acquisition.gov/browse/index/far
Federal Acquisition Regulation (FAR), Part 32	https://acquisition.gov/far/current/html/FARTOCP32.html
Federal Acquisition Regulation (FAR), Part 35.017	https://www.acquisition.gov/sites/default/files/current/far/html/Subpart%2035_0.html#wp1085198
Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 (the 2015 Act)	https://www.congress.gov/114/plaws/publ74/PLAW-114publ74.pdf#page=17
Federal Civil Penalties Inflation Adjustment Act of 1990 (Inflation Adjustment Act)	https://www.gpo.gov/fdsys/pkg/STATUTE-104/pdf/STATUTE-104-Pg890.pdf
Federal Credit Reform Act of 1990	https://www.fiscal.treasury.gov/fsreports/ref/ussgl/creditreform/fcra.htm#titleV
Federal Employees' Compensation Act (FECA)	https://www.dol.gov/owcp/dfec/regs/statutes/feca.htm
Federal Energy Regulatory Commission (FERC)	https://www.ferc.gov/
Federal Financial Management Improvement Act of 1996 (FFMIA)	https://www.congress.gov/104/bills/hr4319/BILLS-104hr4319ih.pdf
Federal Funding Accountability and Transparency Act of 2006 (FFATA)	https://www.congress.gov/109/plaws/publ282/PLAW-109publ282.pdf
Federal Information Security Modernization Act of 2014 (FISMA)	https://www.congress.gov/113/plaws/publ283/PLAW-113publ283.pdf
Federal Managers' Financial Integrity Act of 1982 (FMFIA)	https://www.gpo.gov/fdsys/pkg/STATUTE-96/pdf/STATUTE-96-Pg814.pdf
Federal Register (FR)	https://www.federalregister.gov/
Federal Register Volume 83, page 19180 (83 FR 19180)	https://www.gpo.gov/fdsys/pkg/FR-2018-05-02/pdf/2018-09316.pdf
Federal Register Volume 83, page 3077 (83 FR 3077)	https://www.gpo.gov/fdsys/pkg/FR-2018-01-23/pdf/2018-01168.pdf
Foreign Military Sales (FMS)	http://www.dsca.mil/programs/foreign-military-sales-fms
Formerly Utilized Sites Remedial Action Program (FUSRAP)	https://www.usace.army.mil/Missions/Environmental/FUSRAP/
Fraud Reduction and Data Analytics Act of 2015 (FRDAA)	https://www.congress.gov/114/plaws/publ186/PLAW-114publ186.pdf
Fraud Reduction and Data Analytics Act of 2015 (FRDAA)	https://www.congress.gov/114/plaws/publ186/PLAW-114publ186.pdf
FY 2017 DoD Agency Financial Report (AFR)	https://comptroller.defense.gov/odcfo/afr2017.aspx
FY 2017 Request of Additional Appropriations	https://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2017/marchAmendment/FY17_March_Amendment.pdf
FY 2019 Annual Performance Plan	https://cmo.defense.gov/Portals/47/Documents/Publications/NBDOP/TAB B FY18-22 NDBOP Appendices.pdf
General Counsel (GC), Department of Defense (DoD)	http://ogc.osd.mil/
General Fund Enterprise Business System (GFEBS)	http://www.eis.army.mil/programs/gfebs
General Services Agency (GSA)	https://www.gsa.gov/

Link Title	URL
General Services Agency (GSA) Transportation Audits Division	https://www.gsa.gov/buying-selling/products-services/transportation-logistics-services/transportation-audits
Global Combat Support System – Army (GCSS-A)	http://www.eis.army.mil/programs/gcss-a
Global Combat Support Systems-Marine Corps (GCSS-MC)	https://www.marcorsyscom.marines.mil/PEOs/PEO-EIS/GCSS-MC/
Government Accountability Office (GAO)	https://www.gao.gov/
Government Accountability Office (GAO) Standards for Internal Control in the Federal Government ("Green Book")	https://www.gao.gov/assets/670/665712.pdf
Government Accountability Office (GAO) Report No. GAO-15-593SP, "A Framework for Managing Fraud Risks in Federal Programs"	https://www.gao.gov/assets/680/671664.pdf
Government Accountability Office (GAO) Report No. GAO-18-377, "Improper Payments: Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes"	https://www.gao.gov/products/GAO-18-377
Government Management Reform Act of 1994 (GMRA)	https://www.congress.gov/103/bills/s2170/BILLS-103s2170enr.pdf
Government Performance and Results Act of 1993 (GPRA)	https://www.congress.gov/103/bills/s20/BILLS-103s20enr.pdf
GPRA Modernization Act of 2010 (GPRAMA)	https://www.congress.gov/111/plaws/publ352/PLAW-111publ352.pdf
Grants Oversight and New Efficiency (GONE) Act of 2016	https://www.congress.gov/114/plaws/publ117/PLAW-114publ117.pdf
Hill Air Force Base	https://www.hill.af.mil/
Improper Payments Elimination and Recovery Act of 2010 (IPERA)	https://www.congress.gov/111/plaws/publ204/PLAW-111publ204.pdf
Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)	https://www.congress.gov/112/plaws/publ248/PLAW-112publ248.pdf
Improper Payments Information Act of 2002 (IPIA)	https://www.congress.gov/107/plaws/publ300/PLAW-107publ300.pdf
Integrated Personnel and Pay System – Army (IPPS-A)	http://www.eis.army.mil/programs/ipps-a
Interpretation of Federal Financial Accounting Standards (Interpretation) 6	http://files.fasab.gov/pdffiles/handbook_interp_6.pdf
Joint Chiefs of Staff (JCS)	http://www.jcs.mil/
Joint Information Environment (JIE)	https://www.disa.mil/About/Our-Work/JIE
Joint Regional Security Stack (JRSS)	https://disa.mil/-/media/Files/DISA/Fact-Sheets/JRSS-Fact-Sheet-April-2017.ashx
List of Excluded Individuals/Entities (LEIE)	https://oig.hhs.gov/exclusions/background.asp
Logistics Modernization Program (LMP)	http://www.eis.army.mil/programs/lmp
Low-Level Radioactive Waste Policy Amendments Act of 1985	https://www.nrc.gov/docs/ML1327/ML13274A489.pdf#page=295
Military Health System (MHS)	https://www.health.mil/
Morale, Welfare, and Recreation (MWR)	https://www.militaryonesource.mil/morale-welfare-and-recreation
National Defense Authorization Act (NDAA) for FY 1984	http://uscode.house.gov/statutes/pl/98/94.pdf
National Defense Authorization Act (NDAA) for FY 1985	https://www.gpo.gov/fdsys/pkg/STATUTE-98/pdf/STATUTE-98-Pg2492.pdf

Link Title	URL
National Defense Authorization Act (NDAA) for FY 1986	https://www.gpo.gov/fdsys/pkg/STATUTE-99/pdf/STATUTE-99-Pg583.pdf
National Defense Authorization Act (NDAA) for FY 1992 and 1993	https://www.gpo.gov/fdsys/pkg/STATUTE-105/pdf/STATUTE-105-Pg1290.pdf
National Defense Authorization Act (NDAA) for FY 1996	https://www.congress.gov/104/plaws/publ106/PLAW-104publ106.pdf#page=360
National Defense Authorization Act (NDAA) for FY 2001	https://www.congress.gov/106/plaws/publ398/PLAW-106publ398.pdf
National Defense Authorization Act (NDAA) for FY 2005	https://www.congress.gov/108/plaws/publ375/PLAW-108publ375.pdf#page=312
National Defense Authorization Act (NDAA) for FY 2012	https://www.congress.gov/112/plaws/publ81/PLAW-112publ81.pdf
National Defense Authorization Act (NDAA) for FY 2014	https://www.congress.gov/113/plaws/publ66/PLAW-113publ66.pdf
National Defense Authorization Act (NDAA) for FY 2016	https://www.congress.gov/114/plaws/publ92/PLAW-114publ92.pdf
National Defense Authorization Act (NDAA) for FY 2017	https://www.congress.gov/114/crpt/hrpt840/CRPT-114hrpt840.pdf
National Defense Authorization Act (NDAA) for FY 2018	https://www.congress.gov/115/crpt/hrpt404/CRPT-115hrpt404.pdf
National Defense Business Operations Plan (NDBOP)	https://cmo.defense.gov/Portals/47/Documents/Publications/NBDOP/TAB A FY18-22 NDBOP (CMO signed 05_18_18).pdf
National Defense Strategy (NDS)	https://dod.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf
National Guard	http://www.nationalguard.mil/
National Historic Preservation Act	https://www.fema.gov/media-library-data/20130726-1623-20490-5704/nhpa.pdf
National Security Act of 1947	https://legcounsel.house.gov/Comps/National%20Security%20Act%20Of%201947.pdf
National Security Strategy	https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf
National Strategy for the Efficient Use of Real Property	https://obamawhitehouse.archives.gov/sites/default/files/omb/financial/national-strategy-efficient-use-real-property.pdf
Navy Enterprise Resource Planning (ERP)	http://www.erp.navy.mil/
North Atlantic Treaty Organization (NATO)	https://www.nato.int/
Nuclear Waste Policy Act of 1982	https://www.nrc.gov/docs/ML1327/ML13274A489.pdf#page=419
Office of Management and Budget (OMB)	https://www.whitehouse.gov/omb/
Office of the Deputy Chief Financial Officer (ODCFO)	https://comptroller.defense.gov/ODCFO/
Office of the Secretary of Defense (OSD)	https://dod.defense.gov/About/Office-of-the-Secretary-of-Defense/
Office of the Under Secretary of Defense (Comptroller) (OUSD(C))	https://comptroller.defense.gov/
OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget"	https://www.whitehouse.gov/wp-content/uploads/2018/06/a11.pdf
OMB Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control"	https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf
OMB Circular No. A-123, Appendix C, "Requirements for Payment Integrity Improvement"	https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2013/m-13-23.pdf
OMB Circular No. A-123, Appendix D, "Compliance with the Federal Financial Management Improvement Act of 1996"	https://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-20.pdf

Link Title	URL
OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables"	https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A129/a-129.pdf
OMB Circular No. A-136, "Financial Reporting Requirements"	https://www.whitehouse.gov/wp-content/uploads/2018/07/A-136-2018.pdf
OMB Circular No. A-25, "User Charges"	https://www.whitehouse.gov/wp-content/uploads/2017/11/Circular-025.pdf
OMB Management Procedures Memorandum No. 2015-01, "Implementation of OMB Memorandum M-12-12 Section 3: Reduce the Footprint"	https://www.whitehouse.gov/wp-content/uploads/2017/11/m-15.01Reduce-the-Footprint-Policy.pdf
OMB Memorandum M-12-12, "Promoting Efficient Spending to Support Agency Operations"	https://obamawhitehouse.archives.gov/sites/default/files/omb/memoranda/2012/m-12-12.pdf
OMB Memorandum M-17-23, "Guidance on Regulatory Reform Accountability under Executive Order 13777, titled 'Enforcing the Regulatory Reform Agenda' "	https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2017/M-17-23.pdf
OMB Memorandum M-18-02, "Fiscal Year 2017-2018 Guidance on Federal Information Security and Privacy Management Requirements"	https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2017/M-18-02 %28final%29.pdf
Operation Atlantic Resolve	https://dod.defense.gov/News/Special-Reports/0218_Atlantic-Resolve/
PaymentAccuracy.gov	https://paymentaccuracy.gov/
Prompt Payment Act (PPA)	https://www.gpo.gov/fdsys/pkg/STATUTE-96/pdf/STATUTE-96-Pg85.pdf
Public Law 110-181, "National Defense Authorization Act (NDAA) for FY 2008"	https://www.congress.gov/110/plaws/publ181/PLAW-110publ181.pdf
Public Law 111-5, "American Recovery and Reinvestment Act of 2009"	https://www.govinfo.gov/content/pkg/PLAW-111publ5/pdf/PLAW-111publ5.pdf
Public Law 89-538	http://www.gpo.gov/fdsys/pkg/STATUTE-80/pdf/STATUTE-80-Pg347.pdf
Qualified Recycling Program	http://www.dla.mil/DispositionServices/Offers/Disposal/QRP.aspx
Remedial Action Cost Engineering Requirements (RACER)	https://frtr.gov/ec2/ecracersystem.htm
Reports Consolidation Act of 2000	https://www.congress.gov/106/plaws/publ531/PLAW-106publ531.pdf
Resource Conservation and Recovery Act (RCRA)	https://www.gpo.gov/fdsys/pkg/STATUTE-90/pdf/STATUTE-90-Pg2795.pdf
Retired and Annuitant (R&A) Pay	https://www.dfas.mil/retiredmilitary
Savings Deposit Program	https://militarypay.defense.gov/Benefits/Savings-Deposit-Program/
Social Security Administration (SSA)	https://www.ssa.gov/
Standard Financial Information Structure (SFIS)	https://comptroller.defense.gov/ODCFO/sfis.aspx
Statement of Federal Financial Accounting Standards (SFFAS) 12, "Recognition of Contingent Liabilities Arising from Litigation: An Amendment of SFFAS 5, Accounting for Liabilities of the Federal Government"	http://files.fasab.gov/pdffiles/handbook_sffas_12.pdf
Statement of Federal Financial Accounting Standards (SFFAS) 27, "Identifying and Reporting Funds from Dedicated Collections"	http://files.fasab.gov/pdffiles/handbook_sffas_27.pdf
Statement of Federal Financial Accounting Standards (SFFAS) 29, "Heritage Assets and Steward Ship Land"	http://files.fasab.gov/pdffiles/handbook_sffas_29.pdf

Link Title	URL
Statement of Federal Financial Accounting Standards (SFFAS) 30, "Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts"	*http://files.fasab.gov/pdffiles/handbook_sffas_30.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 31, "Accounting for Fiduciary Activities"	*http://files.fasab.gov/pdffiles/handbook_sffas_31.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates"	*http://files.fasab.gov/pdffiles/handbook_sffas_33.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 4, "Managerial Cost Accounting Standards and Concepts"	*http://files.fasab.gov/pdffiles/handbook_sffas_4.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 42, "Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32"	*http://files.fasab.gov/pdffiles/handbook_sffas_42.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 43, "Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds"	*http://files.fasab.gov/pdffiles/handbook_sffas_43.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 47, "Reporting Entity"	*http://files.fasab.gov/pdffiles/handbook_sffas_47.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 48, "Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials"	*http://files.fasab.gov/pdffiles/handbook_sffas_48.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 5, "Accounting for Liabilities of the Federal Government"	*http://files.fasab.gov/pdffiles/handbook_sffas_5.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 50, "Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35"	*http://files.fasab.gov/pdffiles/handbook_sffas_50.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 55, "Amending Inter-entity Cost Provisions"	*http://files.fasab.gov/pdffiles/handbook_sffas_55.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 6, "Accounting for Property, Plant, and Equipment"	*http://files.fasab.gov/pdffiles/handbook_sffas_6.pdf*
Statement of Federal Financial Accounting Standards (SFFAS) 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting"	*http://files.fasab.gov/pdffiles/handbook_sffas_7.pdf*

Link Title	URL
Statement on Standards for Attestation Engagements (SSAE) No. 18	*https://www.aicpa.org/content/dam/aicpa/research/standards/auditattest/downloadabledocuments/ssae-no-18.pdf*
Strategic Petroleum Reserve	*https://www.energy.gov/fe/services/petroleum-reserves/strategic-petroleum-reserve*
Superfund Amendments and Reauthorization Act of 1986 (SARA)	*https://www.gpo.gov/fdsys/pkg/STATUTE-100/pdf/STATUTE-100-Pg1613.pdf*
Sustainment Management System (SMS)	*https://www.erdc.usace.army.mil/Media/Fact-Sheets/Fact-Sheet-Article-View/Article/476728/builder-sustainment-management-system/*
System and Organization Controls (SOC) 1 Reports	*https://www.aicpa.org/interestareas/frc/assuranceadvisoryservices/aicpasoc1report.html*
System for Award Management (SAM)	*https://sam.gov/*
The Digital Accountability and Transparency Act of 2014 (DATA Act)	*https://www.congress.gov/113/plaws/publ101/PLAW-113publ101.pdf*
Thrift Savings Plan (TSP)	*https://www.tsp.gov/*
Title 10, United States Code	*http://uscode.house.gov/view.xhtml?path=/prelim@title10&edition=prelim*
Title 10, United States Code, section 1111	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:1111%20edition:prelim)*
Title 10, United States Code, section 1116	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:1116%20edition:prelim)*
Title 10, United States Code, section 113(b)	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:113%20edition:prelim)*
Title 10, United States Code, section 1175(h)	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:1175%20edition:prelim)*
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Title 10, United States Code, section 1466	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:1466%20edition:prelim)*
Title 10, United States Code, section 1466(b)(1)	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:1466%20edition:prelim)*
Title 10, United States Code, section 1581	*https://www.gpo.gov/fdsys/pkg/USCODE-2001-title40/pdf/USCODE-2001-title40-chap10-subchapII-sec485.pdf*
Title 10, United States Code, section 2006	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:2006%20edition:prelim)*
Title 10, United States Code, section 2222	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:2222%20edition:prelim)*
Title 10, United States Code, section 2350j	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title10-section2350j&num=0&edition=prelim*
Title 10, United States Code, section 2350k	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title10-section2350k&num=0&edition=prelim*
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Title 10, United States Code, section 2601 (c)(2)	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:2601%20edition:prelim)%20*
Title 10, United States Code, section 2601 (c)(3)	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:2601%20edition:prelim)%20*
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Title 10, United States Code, section 2773(a)	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:2773%20edition:prelim)*
Title 10, United States Code, section 2883(a)	*http://uscode.house.gov/view.xhtml?req=(title:10%20section:2883%20edition:prelim)*

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Title 10, United States Code, section 7220	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title10-section7220&num=0&edition=prelim*
Title 16, United States Code, section 3951-3956	*http://uscode.house.gov/view.xhtml?path=/prelim@title16/chapter59A&edition=prelim*
Title 16, United States Code, section 460l-6a	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title16-section460l-6a&num=0&edition=prelim*
Title 16, United States Code, section 670-670f	*http://uscode.house.gov/view.xhtml?path=/prelim@title16/chapter5C/subchapter1&edition=prelim*
Title 16, United States Code, section 6812(e)(1)	*http://uscode.house.gov/view.xhtml?req=(title:16%20section:6812%20edition:prelim)*
Title 16, United States Code, section 803(f)	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title16-section803&num=0&edition=prelim*
Title 16, United States Code, section 810	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title16-section810&num=0&edition=prelim*
Title 16, United States Code, section 810(a)	*http://uscode.house.gov/view.xhtml?req=(title:16%20section:810%20edition:prelim)*
Title 18, United States Code, section 1001	*http://uscode.house.gov/view.xhtml?req=(title:18%20section:1001%20edition:prelim)*
Title 18, United States Code, section 287	*http://uscode.house.gov/view.xhtml?req=(title:18%20section:287%20edition:prelim)*
Title 26, United States Code, section 9505	*http://uscode.house.gov/view.xhtml?req=(title:26%20section:9505%20edition:prelim)*
Title 26, United States Code, section 9506	*http://uscode.house.gov/view.xhtml?req=(title%3A26%20section%3A9506%20edition%3Aprelim)*
Title 28, United States Code, section 2461, note	*http://uscode.house.gov/view.xhtml?req=(title:28%20section:2461%20edition:prelim)%20*
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Title 31, United States Code, section 1351	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title31-section1351&num=0&edition=prelim*
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Title 33, United States Code, section 2326	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title33-section2326&num=0&edition=prelim*
Title 33, United States Code, section 560	*http://uscode.house.gov/view.xhtml?req=(title:33%20section:560%20edition:prelim)*
Title 33, United States Code, section 683	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title33-section683&num=0&edition=prelim*
Title 33, United States Code, section 701c-3	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title33-section701c-3&num=0&edition=prelim*
Title 33, United States Code, section 701h	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title33-section701h&num=0&edition=prelim*

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Title 33, United States Code, section 702f	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title33-section701h&num=0&edition=prelim*
Title 33, United States Code, section 703	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title33-section703&num=0&edition=prelim*
Title 40, United States Code, section 485(h)	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title40-section572&num=0&edition=prelim*
Title 40, United States Code, section 572(b)(5)(A)	*http://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title40-section572&num=0&edition=prelim*
Title 42, United States Code, section 3374(d)	*http://uscode.house.gov/view.xhtml?req=(title:42%20section:3374%20edition:prelim)*
Travel Policy Compliance Tool	*https://www.defensetravel.dod.mil/site/compliance.cfm*
Treasury Current Value of Funds Rate	*https://www.fiscal.treasury.gov/fsreports/rpt/cvfr/cvfr_home.htm*
Treasury Financial Manual, Volume I, Part 2, Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government"	*https://tfm.fiscal.treasury.gov/v1/p2/c470.pdf*
Treasury Judgment Fund	*https://www.fiscal.treasury.gov/fsservices/gov/pmt/jdgFund/judgementFund_home.htm*
Treasury Offset Program	*https://fiscal.treasury.gov/fsservices/gov/debtColl/dms/top/debt_top.htm*
Treasury's Yield Curve for Treasury Nominal Coupon Issues (TNC Yield Curve)	*https://www.treasury.gov/resource-center/economic-policy/corp-bond-yield/Pages/TNC-YC.aspx*
TRICARE	*https://www.tricare.mil/*
TRICARE Encounter Data (TED) System	*https://www.health.mil/Military-Health-Topics/Technology/Claims-Processing/TRICARE-Encounter-Data*
U.S. Army Corps of Engineers (USACE)	*https://www.usace.army.mil/*
U.S. Army Corps of Engineers (USACE) Civil Works	*https://www.usace.army.mil/Missions/Civil-Works/*
U.S. Cyber Command (USCYBERCOM)	*https://www.cybercom.mil/*
U.S. Special Operations Command (USSOCOM)	*https://www.socom.mil/*
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U.S. Transportation Command (USTRANSCOM)	*https://www.ustranscom.mil/*
Under Secretary of Defense (Comptroller)/Chief Financial Officer (USD(C)/CFO)	*https://comptroller.defense.gov/About-OUSD-C/comptroller_Bio.aspx*
Under Secretary of Defense for Acquisition Technology and Logistics Policy Memorandum, "Standardizing Facility Condition Assessments"	*https://www.acq.osd.mil/eie/Downloads/FIM/DoD%20Facility%20Inspection%20Policy.pdf*
Under Secretary of Defense for Personnel and Readiness (USD(P&R))	*https://prhome.defense.gov/*
United States Coast Guard	*https://www.uscg.mil/*
United States Government Standard General Ledger (USSGL)	*https://www.fiscal.treasury.gov/fsreports/ref/ussgl/ussgl_home.htm*
United States Marine Corps	*https://www.marines.mil/*
United States Government Standard General Ledger (USSGL)	*https://www.fiscal.treasury.gov/fsreports/ref/ussgl/ussgl_home.htm*
United States Marine Corps	*https://www.marines.mil/*
United States Statutes at Large, Volume 100, page 4003, section 1367	*https://www.govinfo.gov/content/pkg/STATUTE-100/pdf/STATUTE-100.pdf#page=5393*
United States Statutes at Large, Volume 122, page 141, section 598	*https://www.govinfo.gov/content/pkg/STATUTE-122/pdf/STATUTE-122.pdf#page=164*

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USASpending.gov	*https://www.usaspending.gov/*
USS Paul Hamilton (DDG 60)	*https://www.public.navy.mil/surfor/ddg60/Pages/default.aspx*
Vice Chairman of the Joint Chiefs of Staff (VCJCS)	*http://www.jcs.mil/About/The-Joint-Staff/Vice-Chairman/*
Voluntary Separation Incentive (VSI) Program	*https://www.dfas.mil/retiredmilitary/plan/separation-payments/voluntary-separation-incentive.html*
Water Resources Development Act of 1986	*https://www.gpo.gov/fdsys/pkg/STATUTE-100/pdf/STATUTE-100-Pg4082.pdf*
White Sands Missile Range	*http://www.wsmr.army.mil/Pages/home.aspx*

U.S. Air Force Academy Cadets 3rd Class Shawn Weathersby, left, and James Barney, both falconers with the academy's falconry program, prepare to release their raptors at the academy in Colorado Springs, Colo., Oct. 12, 2017. The team comprises nine cadets.

Air Force photo by Senior Airman Clayton Cupit

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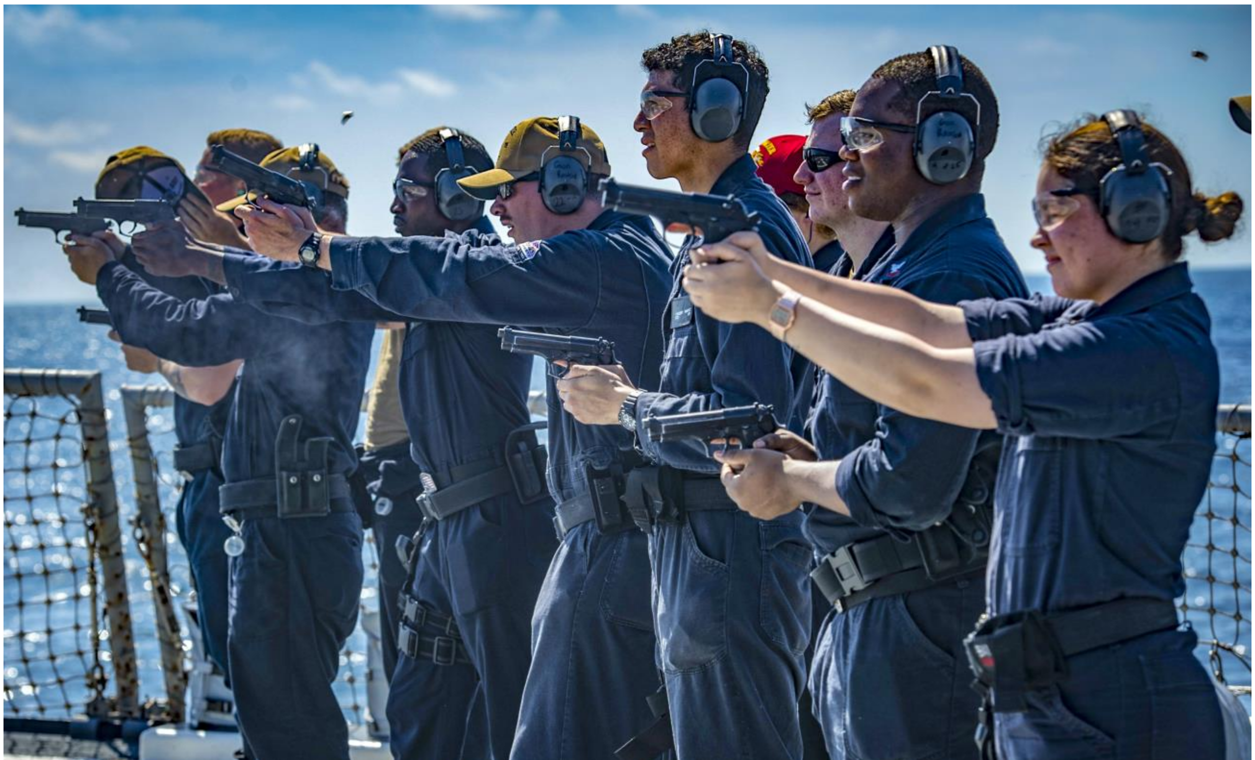
Appendix C – Index of Figures, Tables, and Exhibits

Note: The title "Table 22" is not used, as the table titles in the Financial Section are aligned to the related Note to the Financial Statements and Note 22 does not contain a table.



Sailors participate in an M9 qualification course aboard the USS Porter in the Black Sea, July 7, 2018.

Navy photo by Petty Officer 2nd Class Ford Williams

Acknowledgements

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Ms. Meron Laiketsion

Ms. Kim Laurance

Mr. Marlon Moreira

Mr. Charles Morse

Ms. Glenda Scheiner

Ms. Anna Smith

Mr. Christopher Smith

Mr. Ned Torson

Mrs. Nancy Valeski

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