



DEFENSE FINANCE AND ACCOUNTING SERVICE WORKING CAPITAL FUND



AGENCY FINANCIAL REPORT

ADAPTING TO CHANGE



INTEGRITY



SERVICE



INNOVATION



ABOUT THIS DOCUMENT

Defense Finance and Accounting Service (DFAS) is pleased to present the Fiscal Year (FY) 2020 Agency Financial Report (AFR). This report provides high-level financial information for the FY related to our mission and stewardship of resources.

The purpose of the DFAS FY 2020 AFR is to inform the President, Congress, and the American people about how DFAS used Federal resources entrusted to the Agency to reliably deliver first-class accounting and finance services to the Department of Defense (DoD).

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

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

HOW THIS REPORT IS ORGANIZED

SECTION I

Management's Discussion and Analysis (unaudited)

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

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

SECTION II

Financials

SECTION III

Additional Information (Unaudited)

This section contains a glossary of acronyms.

OUR SEAL



The DFAS organizational seal was designed by James C. Manubay of DFAS Indianapolis Center. The design was selected from among 85 designs entered in a DFAS-wide competition to create the organizational seal. It became the official symbol of the agency on May 30, 1991.

The various components of the DFAS seal reflect the Agency's mission, functions, and organizational relationships. The eagle clutching three arrows, crowned by 13 stars is the Department of Defense eagle depicted on the DoD seal. The 13 stars represent the original 13 states. The arrows represent the Departments of the Army, Navy and Air Force, which stand ready to defend the freedoms won by those 13 states.

The "key to the treasury" clutched in the eagle's left claw is the traditional symbol of money and public trust. The ledger book, quill pen, and inkwell represent the Agency's financial management and accounting functions. The branches of laurel (left) and olive (right) supporting the ledger are taken from the DoD seal and serve as a reminder that the ultimate purpose of the armed forces is to support the peace.



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DIRECTOR'S MESSAGE



Service members assigned to Javits New York Medical Station take photos as the hospital ship USNS Comfort (T-AH 20) travels down the Hudson River, New York City, in support of the Department of Defense COVID-19 response, April 30, 2020. (U.S. Army Photo by Spc. Nathan Hammack)



AUDREY Y. DAVIS

Hello, and thank you for taking a moment to review the DFAS FY 2020 Agency Financial Report. This report is far more than just a presentation of our financial statements; it provides a snapshot of our dedication to proudly serving America's heroes day after day.

This past fiscal year has been a very different one for all of us. Faced with the challenge of the pandemic, I am proud of the way the DFAS workforce has risen to meet and, in many cases, exceed goals and expectations. Through the agile mindset of our DFAS culture, we successfully completed the fourth year of our five-year plan. Even while the majority of our employees worked from home, the DFAS team of diverse talent, skill, and perspectives continued to execute our mission and our four strategic priorities of People, Audit Steadiness, Business Environment Modernization (BEM), and Agency Operational Health (AOH).

We also continued to provide value for the Department and achieve further results for our customers. This defined focus is a key reason we are a recognized leader in financial management. The alignment of our efforts with the National Defense Strategy continue to support enhancing readiness, strengthening alliances and partnerships, driving reform in DoD business practices, and taking care of our people. In addition, our partnerships with our customers and their financial management teams help us ensure alignment of their priorities into our execution of the Comptroller's priorities.

In this document, you will learn about various projects we have underway or have completed throughout the fiscal year. For example, we have increased our Robotics capability in an effort to reduce the amount of manual work our workforce completes, freeing them for more analytical and value enhancing projects. Also, our teams have embraced further electronic improvements to create more user-friendly platforms and tools for our customers, such as the DFAS Mobile Payment App and the electronic Centrally Billed Account (CBA) invoice submission. Work behind the digital curtain helped us increase efficiencies and further reduce costs, such as upgrading the 1099 Professional Corporate Suite (PRO) to interface with MyInvoice and our continued efforts toward the retirement of legacy systems. In addition, we continue to lead in audit, earning our 21st unmodified DFAS Working Capital Fund audit opinion with no new material weaknesses or significant deficiencies identified.

As we enter FY 2021, we remain focused toward the accomplishment of our mission and goals of our customers and the Department. Our people perform and produce results with unwavering dedication, and they are the backbone of our proven record of success. It is our collective knowledge, skill, and determination, which allows the DFAS Team of Teams to be the shared service provider you can count on year after year. At DFAS, it is in our DNA to continuously make things better, and I am grateful to lead the dedicated DFAS workforce who support the men and women of our armed forces and the Nation every day.

A handwritten signature in black ink that reads "Audrey Y. Davis".

SECTION I

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DFAS at a Glance

Introduction

Contingency Operations

Innovative Work Environment

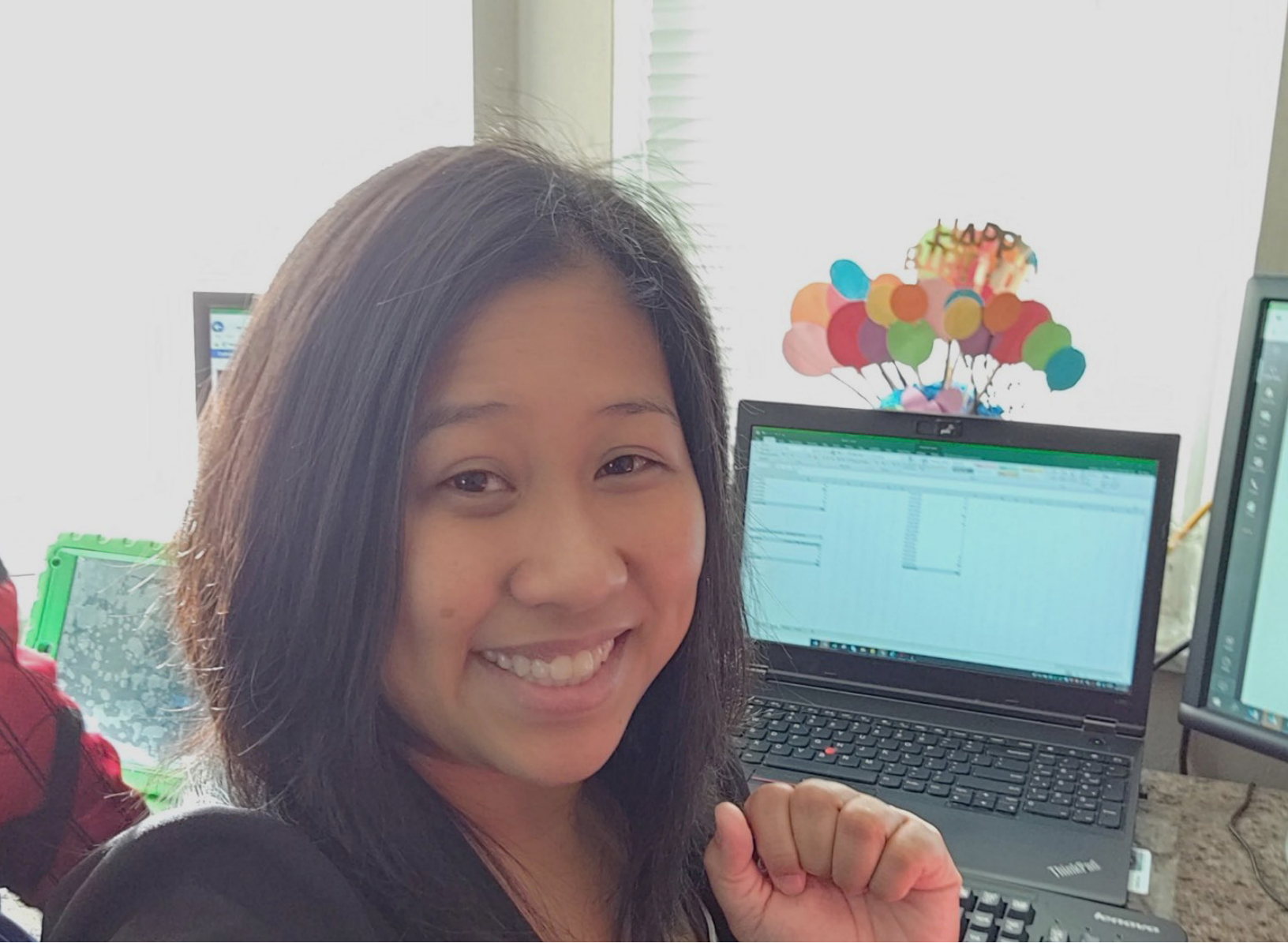
Audit Support

Mission Success

Management Assurances

Compliance and Regulation

Financial Discussion and Analysis



Tahnee Gourgue, DFAS Indianapolis Audit Support, works to get audit samples for the IPA to review. These samples are reviewed by the IPA to assist them in determining the opinion they issue for DFAS customers. (Courtesy photo)

DFAS AT A GLANCE



U.S. Army Soldiers assigned to Joint Task Force New York are thanked by medical staff during a farewell ceremony at Elmhurst Medical Center in Brooklyn, N.Y., June 3, 2020. (U.S. Navy photo by Mass Communication Specialist 3rd Class Omar Rubi)



OUR AGENCY

The DoD established DFAS in 1991 to provide finance and accounting services for DoD components during times of peace and conflict.

Today, we support military and civilian customers throughout the world. Our mission emphasizes the importance of DFAS' leadership role in standardizing and improving finance and accounting activities across the federal government.

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

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

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

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



OUR MISSION

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



OUR VISION

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



OUR CORE VALUES

INTEGRITY

Doing what is right

SERVICE

Remain a trusted financial partner

INNOVATION

Creating better ways to do business

OUR REVENUE STREAMS

**\$206.8
MILLION**

IT
and
Other



15.1%

**\$197.9
MILLION**

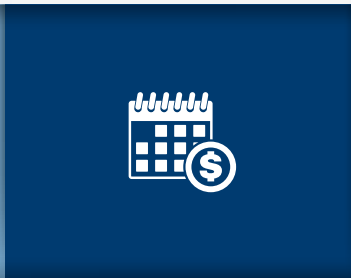
Debt
Management
and Payment
Services



14.4%

**\$432.3
MILLION**

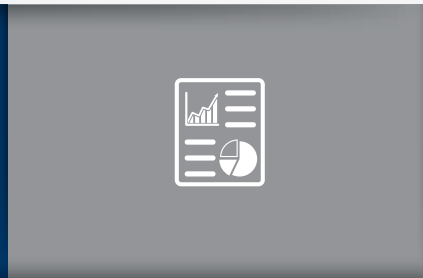
Payroll



31.4%

**\$537.9
MILLION**

Accounting
and
Reporting



39.1%

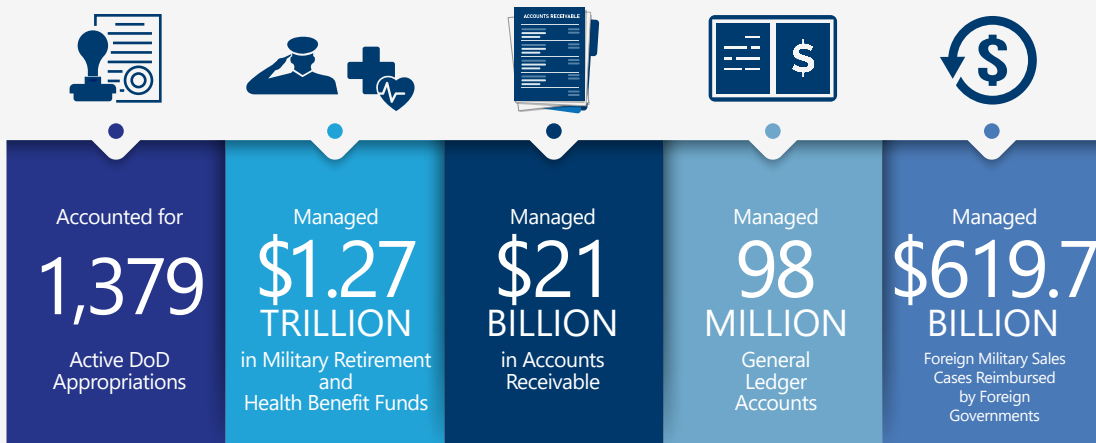
Total Revenue \$1.4 Billion



WHAT WE DO

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

FINANCE AND ACCOUNTING SERVICES



PAY PEOPLE AND VENDORS



OUR CUSTOMERS WITHIN THE DoD

All DoD military personnel, retirees, annuitants, and civilian personnel



**Defense Agencies and the
Office of the Secretary of Defense**

**Major DoD
contractors and vendors**

OUR CUSTOMERS OUTSIDE OF THE DoD

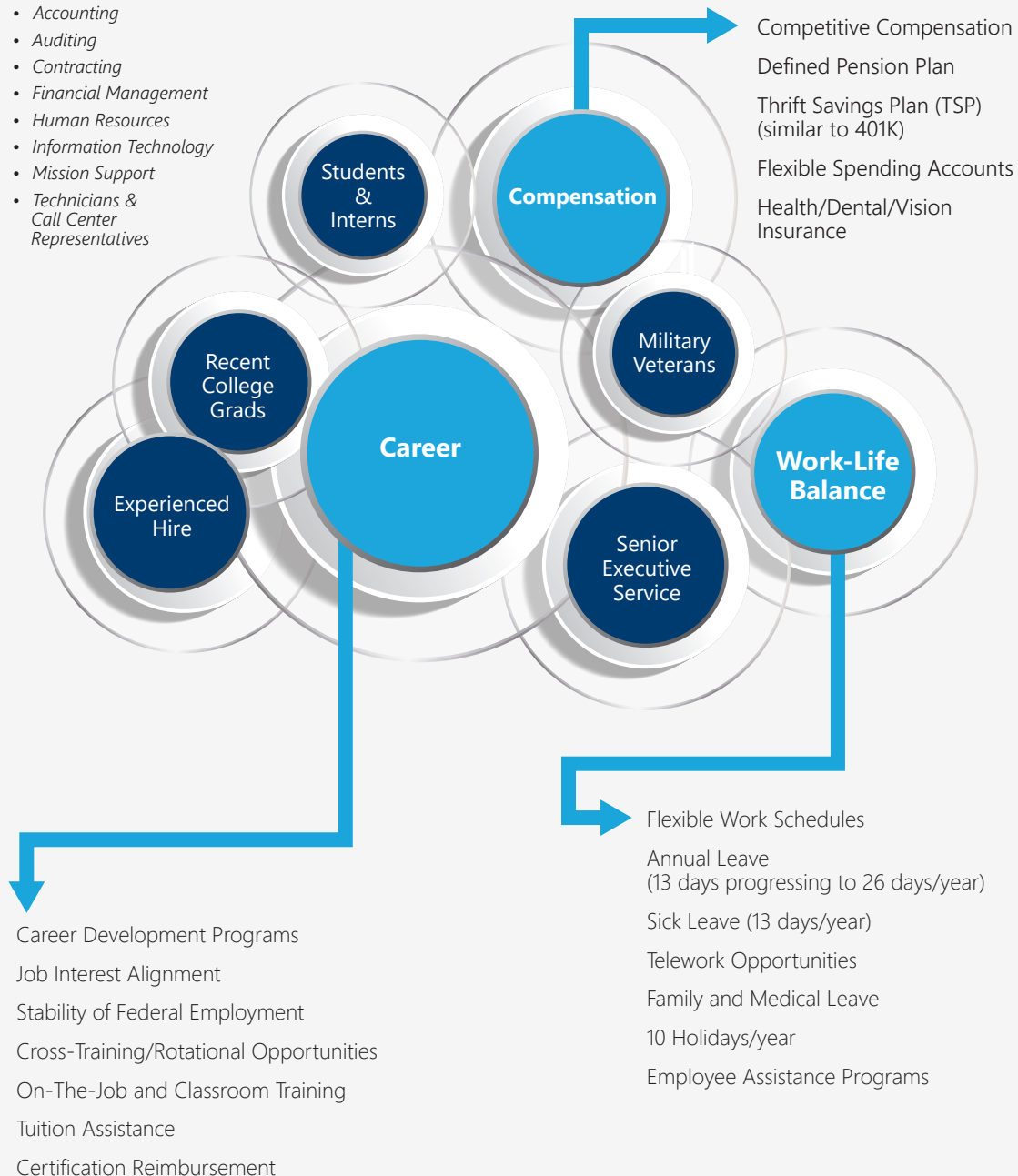


U.S. AGENCY FOR
GLOBAL MEDIA

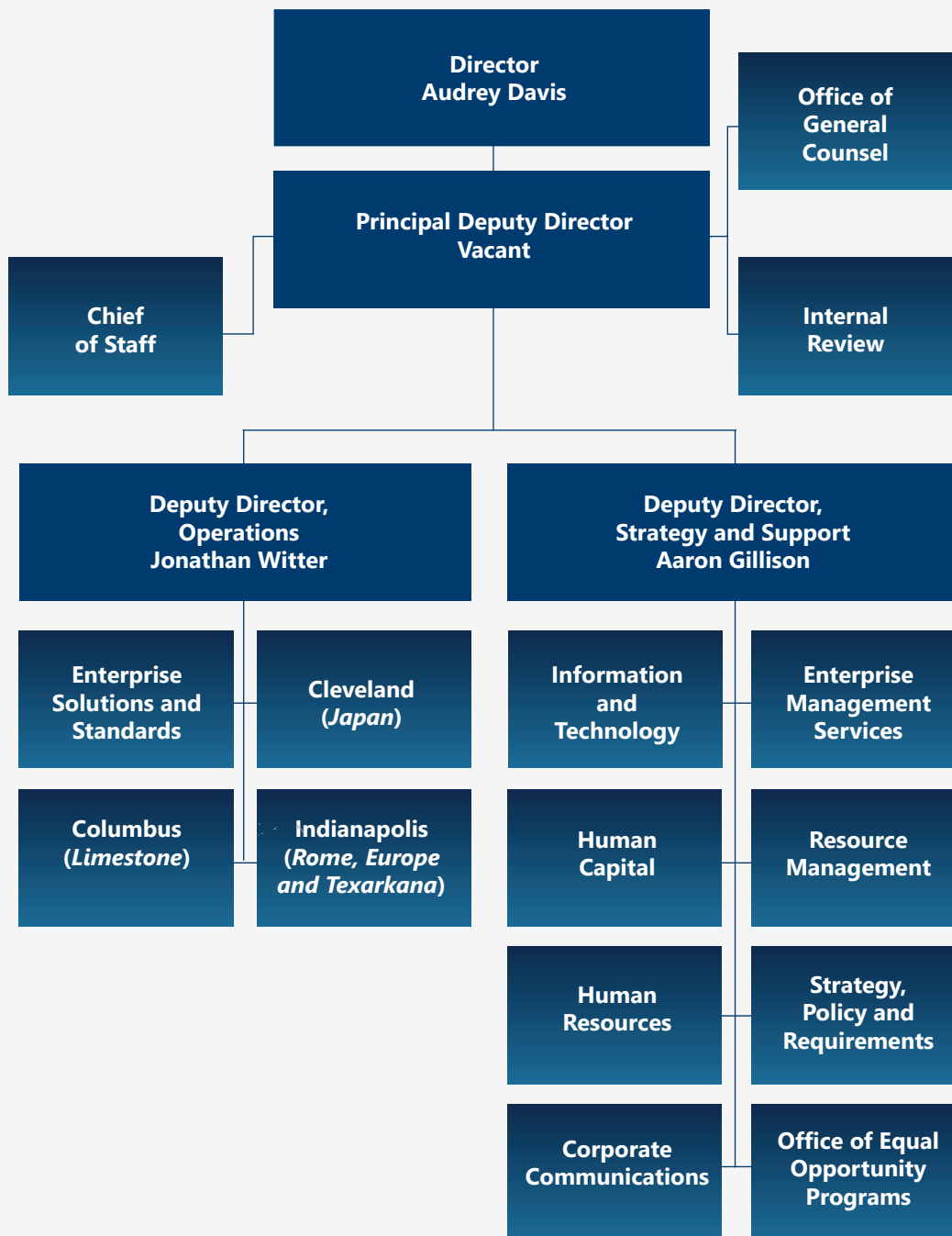
EMPLOYER OF CHOICE

CAREER OPPORTUNITIES

- Accounting
- Auditing
- Contracting
- Financial Management
- Human Resources
- Information Technology
- Mission Support
- Technicians & Call Center Representatives



ORGANIZATIONAL CHART



EXECUTIVE BOARDS

BOARD OF DIRECTORS

Approves DFAS' strategy, oversees the budget formulation and execution, approves recommendations from the Enterprise Business Council, and acts as the Agency's Internal Audit Committee

Members: Director, Chair; Principal Deputy Director; Deputy Director, Operations; and Deputy Director, Strategy and Support

STRATEGIC COUNCIL

Evaluates content and structure of the DFAS strategy, corporate operational dashboard, and other Agency priorities to successfully execute strategy

Members: Director, Chair; Principal Deputy Director; Deputy Director, Operations; Deputy Director, Strategy and Support; DFAS senior executives and key GS-15s

ENTERPRISE BUSINESS COUNCIL

Serves as the DFAS governance body chartered to fulfill a number of statutory/regulatory requirements and provides a forum for discussion and vetting of business case analyses and requirements for enterprise-wide programs

Members: Principal Deputy Director, Chair; and appointed members

OUR LOCATIONS



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

INTRODUCTION



Pam Franceschi, DFAS Columbus site director, hosts a virtual awards show from her home to celebrate employee accomplishments and years of service. Franceschi thanked the employees for continuing to support customers in a totally virtual environment. “We are the model demonstrating that we are really good at what we do,” Franceschi told the employees. “Thank you for all the work that you do.”

Fiscal Year (FY) 2020 marks the fourth year of the FY 17-21 Strategic Plan. This plan has four pillars: People, Business Environment Modernization, Agency Operational Health, and Audit Steadiness. As we’ve gained momentum and seen success throughout all four of these pillars in the past handful of years, each year has presented its own challenges. FY 2020 was no exception as we were faced with the reality of a global pandemic. In this new environment, DFAS swiftly shifted to nearly 100% telework while maintaining accountable business practices and world-class customer service. This year, we implemented timely contingency operational solutions, innovative work environment technologies, audit steadiness initiatives, and other strategically aligned programs that we are proud to share with our customers and fellow DoD partners.



CONTINGENCY OPERATIONS

When the COVID-19 pandemic struck in March 2020, DFAS quickly executed Contingency Operations plans, which had been developed for numerous hypothetical disaster situations over the years. DFAS, like all other Defense Agencies, found itself in unfamiliar territory when it suddenly had to place a strong focus on protecting the livelihood and safety of its employees without sacrificing any support to its customers. DFAS proved that its commitment to innovation and adaptation could help an entire agency seamlessly transition day-to-day business from an office setting to a work-from-home environment without a break in quality of service.



INNOVATIVE WORK ENVIRONMENT

Innovative Work Environment refers to new technologies that are being implemented within DFAS to make efficiency strides in future years. Robotic Process Automation (RPA) is a crucial component to continued Agency success. With ever-changing external pressures, DFAS must adapt to expand the automation of repetitive, manual processes, which will positively impact customers. Our customers will always be our first priority, and DFAS will leverage the latest software applications to ensure the customer is getting the best service from the Agency.



AUDIT SUPPORT

The DFAS Audit Steadiness approach adopts audit strategies, accounting principles, and internal control toolsets into daily business practices to achieve and sustain DoD audit goals. DFAS Working Capital Fund is celebrating its 21st consecutive unmodified opinion while continuing to ensure that best practices are followed and an accurate financial depiction of the organization is presented to the users of the financial statements. DFAS has also remained a valued partner for its customers as they work and achieve their own individual audit goals.



MISSION SUCCESS

DFAS' Mission Success highlights the myriad of growth made during FY 2020 to bring past and present leaders concepts to fruition. With People, Agency Operational Health, Audit Steadiness, and Business Environment Modernization as the four critical areas in the DFAS Strategic Plan, we highlight some of the tactical and strategic success stories that DFAS accomplished to meet these goals.

CONTINGENCY OPERATIONS



**ADAPTING
TO
CHANGE**

DFAS understands the challenges faced by our customers and vendors during the COVID-19 pandemic.

Our employees are working each day to ensure payments are made and the mission is accomplished. Customer care center representatives are available to assist you as well as our online tools such as myPay and AskDFAS.

DFAS.mil homepage banner to communicate to our customers and vendors that our mission still continues despite the COVID-19 pandemic. DFAS Corporate Communications worked quickly to develop a robust communication plan that kept our external audience of 6.5 million customers and vendors informed of the status of DFAS operations. The plan also addressed our internal audience comprised of over 12,000 employees to provide information they needed to continue to perform their jobs in a COVID-19 safe environment. (DoD photo illustration by Eileen Hernandez)

COVID-19 Response: An Agency Prepared to Succeed

In March of this year, the threat of COVID-19 was looming heavy, and DFAS was put in a position to truly test its preparedness for a fully remote work environment. The Agency's strong focus on telework over the past decade, compounded with its adaptable and innovative workforce, allowed DFAS to thrive in this dynamic and unparalleled situation.

Positioning Personnel for Telework

Over the past ten years, DFAS has slowly ramped up its focus on telework. What began as a solution for inclement weather developed into a full-fledged program that supports a healthy work-life balance for employees with some personnel regularly working up to four days per week from home. On a regular basis, employees are required to test their Virtual Private Network (VPN) connection to maintain a constant state of preparedness for unexpected, widespread remote work. This groundwork was a huge driving force for DFAS' relatively stress-free success during the majority of FY 2020 when faced with this exact situation due to COVID-19.

It would be naïve to assume that simply equipping personnel with laptops and VPN connections is all that is needed to ensure a seamless transition to full-time telework. There is much

more that goes on behind the scenes to keep employees informed, educated, and motivated, and that is rooted heavily in the work of DFAS' Disaster Management Group (DMG). The DMG has always been a part of DFAS' culture, but they are rarely put to the test quite as fully as they were in FY 2020. During the pandemic, the DMG has met regularly to address health and safety issues of the DFAS workforce, continuity of operations, personnel issues, and communication needs. A DMG sub-group including DFAS leadership was also formed (the Pandemic Response Team). Meeting daily, this specialized team has kept all employees and DFAS leadership abreast of the various issues being faced during the pandemic—from communicating information regarding positive COVID cases to working through concerns with IT/VPN support. To the average employee, this group's tireless, surreptitious efforts foster an attitude that this transition really wasn't difficult at all—a true testament of their organization and efficiency.

Preparedness of Facilities and Equipment

When DFAS shifted to large-scale telework, DFAS achieved its goal of having the majority of its workforce (approximately 12,000 personnel) operating from home. Of course, the nature of some employees' work (specialized IT support, work that is sensitive in nature, etc.) cannot be performed outside DFAS walls. This accounts for roughly 5% of the Agency's total workforce. For offices where appointments could be made, employees were instructed to do so to limit the number of personnel in any given space.

For those required to work on site, face masks and social distancing were required per CDC guidelines. DFAS also established protocols and procedures to report incidents of employees who were confirmed infected with COVID-19 via tests or physician determination. Actions were taken to clean areas in which employees were known to have been within the building. Contact tracing for employees in close contact with infected employees was

established to quarantine others for prevention of further spread of the virus within the workforce. Additionally, we established enhanced cleaning measures within public areas of the building to maintain sanitization of high-touch areas such as door handles, elevator controls, and restroom areas. Sanitizer bottles were purchased and provided to work areas in order to provide employees with the ability to maintain cleaning of hands while on site. Plexiglas panels were also installed for public-facing employees such as Customer Service Representatives and those in the Common Access Card (CAC) offices.

Customer call centers experienced challenges when full-time telework was initially expanded. Until then, the software necessary to allow calls to be received and worked efficiently from home was not widely available to our roughly 500 agents; however, the needs of customers were only increasing as the nation's environment changed. To alleviate this pressure, DFAS collaborated with its vendors to quickly double its license capacity for the software necessary to allow calls to be received and worked efficiently from home. DFAS' vendor also devised a method for supervisors to share live calls with their agents (for quality assurance purposes) while all parties were in different locations. This was previously done onsite via physical phone line connection. This quick action ensured the ability of our customers to get the help and answers they needed throughout the pandemic and demonstrates DFAS' commitment to the Warfighter. From the months of April 2020 to September 2020, 97.2% of 935,335 calls were answered remotely. Even more impressively, our average speed of answer was reduced by 40% from FY 2019 to FY 2020.

Another obvious call for change came in the form of IT/VPN support. Until this year, DFAS was only ever working fully remote across all sites in a test environment. These tests didn't last for long periods of time or put anywhere near the amount of strain on the Agency's bandwidth as would be faced in a stay-at-home order scenario. In March, DFAS

partnered with the Defense Information Systems Agency (DISA) to increase the VPN capacity from roughly 8,000 users to 16,000 users. Daily VPN usage has typically settled around 10,000 users, with the maximum being almost 11,000 users logged in simultaneously.

Not only did our virtual networks need to support our primary mission, they also had to allow for shifts in how we conduct service internally and with our DoD customers. As all of our meetings suddenly became teleconferences, we quickly realized that former bridge-line capacities were insufficient. To mitigate this, we took a more active role in setting up Skype sessions and utilizing the Defense Collaboration Services (DCS) and All Partners Access Network (APAN) to assemble. These platforms also allow for a visual component where slides can be shared and multiple presenters can participate to facilitate discussion simultaneously. In other words, it makes a virtual meeting feel as intimate as possible without sacrificing safety or increasing costs for the Agency.

Changing Workload Adaptation

In response to the Coronavirus Relief Fund (CARES Act), and other legislation affecting payroll and travel pay services, DFAS quickly adapted and made the changes necessary to systems and processes to ensure there was no break in service or delay in payment to military members, civilians, or vendors. This required intense collaboration between IT services, legal review experts, and pay office experts.

As a part of new legislation, military members became entitled to Hardship Duty Pay (Restriction of Movement) to minimize their out of pocket lodging expenses associated with the government's response to COVID-19. Service



Workforce communication to ensure the VPN network would run smoothly and not have any connectivity issues.
(DoD photo illustration by Eileen Hernandez)

members also became eligible for Special Leave Accrual, which provided leave protection to those who performed specialized support of departmental objectives during the pandemic.

In the civilian world, the Families First Coronavirus Response Act allowed for a new type of leave that allows for paid sick leave in a situation

where an employee is unable to work due to COVID-related illness of themselves or their dependents. All of these required fast action by DFAS to ensure employees were paid timely and accurately. While these changes are typically known well in advance and are rolled out over a period of six months, DFAS was able to complete these transitions in just four pay periods.

The Show Must Go On

While the pandemic placed a unique set of pressures on the Agency, the needs of our customers and our mission have not subsided. Our call to meet our mission is as important as ever, and we have found innovative ways to do so. The resilience of our workforce has proven that we can withstand any storm with the proper preparation and leadership support.



Wisconsin Air National Guard members Tech. Sgt. Elizabeth Strassman, aerospace medical technician with the 115th Fighter Wing Medical Group, and Master Sgt. Peter Sodini, chapel superintendent with the 128th Air Refueling Wing, train to incorporate the Dynamic Testing and Registration Application into the Guard's ongoing COVID-19 specimen collection operations at the Alliant Energy Center in Madison, Wis., July 8. Introduction of the digital registration platform has significantly increased the accuracy and efficiency of public COVID-19 testing. (U.S. Air National Guard photo by Master Sgt. Paul Gorman)

INNOVATIVE WORK ENVIRONMENT



Robotic Process Automation (RPA) is the technology that allows anyone today to configure computer software, or a “robot” to emulate and integrate the actions of a human interacting within digital systems to execute a business process. RPA robots utilize the user interface to capture data and manipulate applications just like humans do. They interpret, trigger responses, and communicate with other systems in order to perform on a vast variety of repetitive tasks. (DoD photo illustration by Eileen Hernandez)

In FY 2020, DFAS continued to seek innovative methods to leverage technology as a way to streamline processes and provide added value to our customers. During the year, DFAS leadership targeted specific processes to automate which provided added value to the customer.

Innovative Work Environment

Robotic Process Automation (RPA) is an emerging technology that has the ability to completely reshape the way the Department of Defense conducts business. During the Association of Government Accountants (AGA) and American Society of Military Comptrollers (ASMC) national conferences in 2018, DFAS representatives had the opportunity to gather information on these capabilities. The Agency representatives brought this information back to DFAS and quickly presented this opportunity to our senior leadership. With some of our best financial analysts and IT specialists in place, and our customers willing to assist, DFAS embarked on a journey in January 2019 to implement RPA during Fiscal Year (FY) 2020.

Our journey continued when DFAS entered into a bailment agreement with a commercial software service. During this bailment agreement, DFAS was allowed to utilize specialized commercial RPA software as part of a 90-day free trial period. Our financial analysts and IT specialists were hard at work making sure that this product would fit into our technical infrastructure and operate safely in our environment. Upon completing a rigorous security assessment, the software was approved by our Chief Information Officer (CIO) in May 2019.

What is Robotic Process Automation?

RPA is a software program that can perform simple, consistent, and stable processes. Unlike an actual mechanical robot, this is a software robot, which can be programmed to do things like macro scripting, custom coding, auto login, auto review, and other simple activities. When the Agency embarked on this journey, our key leaders brainstormed ideas and came up with directives on requesting a software robot. Our workforce developed submissions for the RPA initiative team to review and rank. After seeing all of the submissions, 12 Use Cases or bots were approved for implementation during FY 2020.

RPA Goal

A mature robotics program that compliments DFAS employee efforts in driving greater efficiency.

RPA Vision

To deliver robotic process automation that eliminates manual, repetitive tasks in support of performance.

These bots were created using the specialized commercial RPA software that was utilized during the bailment agreement. Once developed, the bots ran on Orchestrator, which is the software that manages and controls the bots. The priority set by the RPA team was to focus first on simple automations, which allowed time for the developers to learn the new software before moving on to more complex automations. It is also important to note that these bots are attended, meaning a DFAS employee utilizes their credentials and the system roles they have to execute what the bot is programmed to do.

The pilot bot was executed using the Corporate Electronic Document Management System (CEDMS). The bot logged into CEDMS, read the inactivity log of all employees who had access to the system, and then sent an automatic email to employees reminding them to log in before losing system access. This pilot test fell under the simple category and ended up eliminating 85% of rework, as well as systems administrators having to monitor users. After the CEDMS team validated the bot's success, they replicated the action of the bot into CEDMS, so DFAS could retire the bot and utilize the license for another automation.

Robotic Process Automation in Action

One of the most successful bots thus far is the Electronic Funds Transfer (EFT) Verification bot. Travel Pay fully implemented a bot to systematically validate customer banking information prior to issuing travel claim payments. The bot automatically logs into the payroll system, extracts the proper banking information, and posts it to the travel pay system; thereby eliminating the manual steps performed by technicians on over 400K claims annually. Since implementation, the EFT Verification bot has validated over 45,000 travel claims and automatically updated over 16,000 of those records in the travel system. In addition, the automation maintains the current control, which protects DFAS and our certifiers from processing thousands of payments to incorrect bank accounts each year. This helps prevent payment delays and also avoids potential hardships to our civilians and soldiers, who may have had to locate funds from improper payments. The highlight of the EFT bot is the estimated 13,000 hours that will be redirected to new initiatives in support of the customer, which is a great example of working smarter.

Another bot developed for the DFAS Indianapolis Reporting Army General Fund Execution/Audited Financial Statements Office (Army BE/AFS) is the DDRS-B Monthly Report Bot. During the reporting cycle, the bot generates hundreds of customer reports. This

workload previously amounted to over 2,000 reports generated each day by approximately 30 users, taking up to four hours for each accountant to complete. Annually, the bot will free up over 19,000 hours and allow our accountants to focus on more pressing initiatives for our customers. With Army BE/AFS as the pilot, the plan is for other sites to eventually come on board with the bot, which will support Notice of Findings and Recommendations (NFR) Reduction for the Army Audit, and standardization and efficiencies across the enterprise.

Finally, one of the benefits of constantly improving workload and accessing bot proposals is the cross-collaboration that happens before the bot is awarded, developed, and implemented. One example of this is the DFAS Military Pay Operations use of the Defense Joint Military Pay System (DJMS) Transaction Research Bot. This bot proposal was reviewed by the Robotics Team who noticed that the process flow was trying to retrieve information

from potentially 120 historical databases. The team reached out to the DJMS System Manager to see if there was an alternative way of accessing the historical data. This led to a system change request (SCR) to maintain historical data in COGNOS, resulting in the elimination of all the historical databases. Once this SCR is implemented, the bot will be put into place. This bot will pull an estimated 500 audit samples per quarter that are currently being pulled manually. It will save our Indianapolis Military Pay team over 400 hours annually that can be reallocated to streamline processes, work initiatives, and provide customer service.

The Future is Bright

In FY 2021, DFAS will be seeking to implement additional bots focusing on value, and not just simplicity. This value will allow for the hours that the bot saves the Agency to be redirected to other critical missions, initiatives, and collaboration with our customers.



Perry Parmly executes the Corporate Electronic Document Management System (CEDMS) Audit Bot. CEDMS stores financial information which can be retrieved for evidentiary audit support, and certification on payments and collections. (Courtesy photo)



Army Sgt. Maj. Robert Jenks, assigned to the 53rd Headquarters Detachment, consolidates medical equipment from the intensive care unit at the Javits Center in New York City, May 19, 2020. Armed forces personnel collaborate as an integrated system in support of the New York City medical system, as part of the Department of Defense COVID-19 response. U.S. Northern Command, through U.S. Army North, remains committed to providing flexible Department of Defense support to the Federal Emergency Management Agency for the whole-of-nation COVID-19 response. (U.S. Army Photo by Cpl. Rachel Thicklin)

AUDIT SUPPORT

Results of DFAS SSAEs						
Accessible Unit	FY15	FY16	FY17	FY18	FY19	FY20
Civilian Pay Service Inaugural Year FY05	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Military Pay Service Inaugural Year FY13	Modified, Qualified	Modified, Qualified	Unmodified	Unmodified	Unmodified	Unmodified
Standard Disbursing Service Inaugural Year FY13	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Contract Pay Service Inaugural Year FY14	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified	Unmodified
Financial Reporting Service Inaugural Year FY14	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified
Defense Cash Accountability System (DCAS) Inaugural Year FY16		Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified
Vendor Pay Service	CAPS-W		Modified, Qualified	Modified, Qualified	Modified, Qualified	Modified, Qualified
	One Pay			Modified, Qualified	Modified, Qualified	Modified, Qualified
	DAI				Modified, Qualified	Modified, Qualified
	IAPS					
ELAN Hosting Service				Modified, Qualified	Unmodified	Modified, Qualified

Figure 1— Statement on Standards for Attestation Engagements (SSAE)18 Results, FY 2015-2020. Overseen by the American Institute of Certified Public Accountants (AICPA), SSAE18 governs the way organizations report on their various compliance controls. These SSAE18 audits were performed by a variety of firms, including Williams Adley, who also performed the 2020 & 2019 financial statement audits.

Audit Success: A Positive Trend

In the past year, DFAS has continued its positive trend toward audit success in both the service provider and entity realms. Sustaining our own 21st unmodified financial statement audit opinion, DFAS WCF remained a trailblazer for the Department. This financial statement audit was performed by Williams Adley & Company and their audit report is included in this document. We were also able to lead our customers toward their audit achievements through unmodified SSAE18 opinions performed by a variety of audit firms, including Williams Adley & Company, by delivery of thousands of supporting documents, insightful process walkthroughs, and dedication to DoD-wide goals such as Fund Balance with Treasury (FBWT) reconciliation.

DFAS WCF’s Journey to the 21st Unmodified Opinion

This year, DFAS WCF proudly celebrated its 21st consecutive unmodified audit opinion. While the year posed a set of unique challenges, the dedication of all organizations across DFAS ensured success that went above and beyond previous years.

In the midst of the COVID-19 pandemic, DFAS WCF found innovative alternatives for processes typically performed in person with our Independent Public Auditor (IPA). This was our fifth year working with this audit team, and a history of positive rapport enabled us to quickly work around physical barriers. During the internal control phase, the DFAS Resource Management

Policy and Audit Oversight Office (P&AO) hosted twelve financial process walkthroughs and six IT walkthroughs via Defense Collaboration Services (DCS). Similarly, physical testing of assets (property existence testing) had to be reengineered to perform remotely. To achieve this, DFAS property managers worked with IT to set up a solution where assets could be “pinged” to prove both tangible presence of the asset as well as its working condition.

As in years past, we also continued to host daily calls between all DFAS organizations involved in audit testing/sampling and the IPA to ensure quick turnaround on sample documentation and explanations of DFAS processes and policies. Williams Adley Management Team provided a weekly summary of the information gathered during sampling to DFAS leadership to hold all parties accountable for due outs, maintain a positive relationship, and sustain an open flow of communication.

During FY 2020, 300 requests were fulfilled, totaling roughly 3,000 documentation packages. We had a timeliness rate of 93% on all requests, which is consistent with prior years.

During the pandemic, this communication was increased to guarantee there was no delay or break in service. During FY 2020, nearly 300 requests were fulfilled, totaling roughly 3,000 documentation packages. We had a timeliness rate of 93% on all requests, which is consistent with prior years. This is of exceptional note, because annual audit testing begins in April and runs through September 30th. DFAS was under state and local stay at home orders for the entirety of the audit—something that had never been achieved to date!

Another program that continued to thrive and was instrumental to our audit success this fiscal year was our Audit Ready Every Day (ARED) program. This program exists to track progress

on prior year notices of findings (NFRs) from issuance to remediation. Regular progress updates are provided to DFAS leadership to ensure key milestones are met with the goal of closing out the prior year’s NFRs by year-end and preventing their reissuance.

The ARED program for FY 2020 consisted solely of one NFR issued in FY 2019 for the clearing of aged (90+days) uncleared transactions causing variances to DFAS’ FBWT. At the time the NFR was issued, DFAS had a total balance of nearly \$7M (net) undistributed for the years 2013-2019. A significant portion of this was attributed to the Agency’s turnaround time in clearing variances with Treasury through the use of the Department 97 Reconciliation and Reporting Tool (DRRT). A working group was established to perform root cause analysis and process corrections to draw these DRRT variances down. As of September 30, 2020, significant progress had been made to reduce aged non-payroll related variances by 53%. For aged payroll transactions, the team was able to utilize ACL to decrease balances by 82%. Our actions have paved the way for substantial process improvements and further strengthened the Agency’s FBWT position.

It is not uncommon during audit testing for auditors to find exceptions as part of their review of detailed transactions. While these potential control gaps may not present themselves in the form of NFRs, they are areas for which DFAS could make a change to current policies or procedures to better hedge against future financial misstatements. During FY 2020, DFAS WCF took a proactive approach to these improvement opportunities by putting corrective actions in place as soon as the IPA identified them. For example, as a result of multiple exceptions being reported for Prior Year Recoveries, our Financial Management community was able to identify a process gap between their office and Human Resources regarding individuals being reimbursed for a Permanent Change of Stations (PCS). With our old processes, accounting for the PCS was not occurring timely which led to minor misstatements on our financials. A new process was

quickly implemented to allow for better tracking and reporting of these situations so that all accounting could be performed in the proper accounting period. By providing to the IPA with a response that included acknowledgement/concurrence of the exception(s) while simultaneously informing them what we would do to prevent it in the future, we helped maintain their confidence level in our expertise and continuous drive to mitigate risk as financial managers.

Service Provider Accomplishments and Milestones

While DFAS was working diligently to achieve the goals set for ourselves, we were also working just as intently to help our customers do the same.

Audit goals and priorities are assessed annually by the Department to align focus and remediation efforts toward processes and issues that have resulted in past audit findings/material weaknesses. DFAS actively supports the following Department audit priorities: Real Property, Information Technology, Basic Financial Reporting Internal Controls, Audit Opinion Progress, and FBWT. In fact, DFAS is the lead for the DoD's FBWT initiatives.

In support of our customers, DFAS the service provider had to perform FY 2020 walkthroughs virtually, and they did so on a very large scale, hosting more than 250 unique sessions. At the beginning of the year, a comprehensive FBWT walkthrough to communicate key initiatives and share accomplishments was conducted for roughly 275 auditor and customer participants. One of the many accomplishments shared in this forum was our success in building repeatable, sustainable Universe of Transactions and Management Analyses for Statement of Differences, Suspense Accounts, the Cash Management Report, and Deposits, all of which impact a customer's FBWT. By focusing on these areas (and other aged transactions in general), DFAS was able to reduce the FBWT audit risk by more than

\$40.2 Billion—a major step in removing FBWT from the Department of Defense Inspector General's (DoDIG) list of most significant material weaknesses in FY 2019. DFAS continued to partner with our customers in FY 2020 and focus on FBWT improvement initiatives to minimize and resolve this previously identified material weakness.

In FY 2020, DFAS continued to ramp up its support of DoD customer standalone audits. In pursuit of this support, we fulfilled more than 10,000 auditor requests, resulting in submission of over 60,000 pieces of supporting documentation. This thorough, timely support allowed our customers to come closer to their audit goals. We also celebrated the sustainment of the 26th consecutive unmodified opinion for the Military Retirement Fund (MRF) and the 18th consecutive modified opinion for the Medicare-Eligible Retiree Health Care Fund (MERHCF).

Another example of how we provided high-level support with one over-arching venture was through our achievement of favorable audit opinions for all of our Statements on Standards for Attestation Engagements (SSAE18s) (Figure 1). These SSAE18s are performed by an IPA and are examinations of key processes or systems that are common across multiple customers. The results of the SSAE18 examinations can assist component auditors in gaining assurance over DFAS services provided to our customers. In turn, this also reduces duplicative workload for DFAS.



U.S. Navy Reserve Capt. Patricia Klimkewicz deployed from Expeditionary Medical Facility Bethesda, Maryland in support of the Department of Defense COVID-19 response is promoted during a ceremony in Times Square. U.S. Northern Command, through U.S. Army North, is providing military support to the Federal Emergency Management Agency to help communities in need. (U.S. Navy photo by Mass Communication Specialist 3rd Class Keia Randall)

MISSION SUCCESS



During the year, DFAS reached its objectives to retire legacy systems, streamline processes to add value to our customers, and develop paperless processes. (DoD photo illustration by Eileen Hernandez)

Mission Success

DFAS maintains its vision of being a recognized leader in DoD's financial management services by continuing to bring its strategic plan to fruition. During the year, DFAS reached its objectives to retire legacy systems, streamline processes to add value to our customers, and develop paperless processes.

Adapting to Change

When our DFAS leadership came together and constructed the DFAS FY 2017-2021 strategic plan, there was not one leader who predicted a pandemic would hit in FY 2020. However, with our leadership's vision, DFAS was able to adapt to change and continue reaching our strategic goals. Our success is primarily due to our IT department anticipating all needs.

The success of our IT department was due to several IT accomplishments. DFAS increased our remote capability tools with video presentation and sharing to assist in operating in the COVID-19 telework environment. Cameras were enabled for users to use, should they choose to do so on all appropriate computers. DFAS partnered with multiple agencies to successfully get Commercial Virtual Remote (CVR) (Microsoft Teams) accounts set up for all DFAS employees. Adobe Connect has been utilized to host large agency events, Defense Collaboration Services-Unclassified (DCS-U) has been utilized for smaller agency collaboration events, and Skype video is

utilized by targeted employees to support 1:1 calls. DFAS also procured 1 x 1,500 person, 1 x 1,000 person and 60 named x 100 person Adobe Connect Rooms and has started working to train DFAS POCs on hosting and assigning the smaller named rooms to assist with training, onboarding and other virtual meetings.

Anticipating the need, IT led the deployment of an increase in network capacity to seamlessly transition all of DFAS to a maximum remote work environment as part of the pandemic response within 72 hours resulting in the ability to support the entire agency, its 80+ systems, and its full mission profile without fail. After this transition, IT rapidly partnered with the Army NETCOM commander to prioritize installation pay office remote connectivity support – Mil-Pay Offices had prioritized VPN profiles within 36 hours across all sites to ensure mission success.

Enhancing Customer Service

While FY 2020 presented a new dynamic and change to the normal environment due to the effect of COVID-19, the dedication from DFAS to deliver first-class service and products to all customers did not. While keeping the need to work in a remote environment at the forefront, DFAS targeted initiatives that would not only result in cost reductions, but also provide a more streamlined experience to the customer.

For 23 years, DFAS Rome Accounts Payable used an antiquated paper process to pay Active Army Centrally Billed Accounts (CBA). The CBA process is used to pay transportation costs for retired service members and service members who are relocating or separating from service. In order to process the payment, DFAS requires the vendor's invoice, a Standard Form 1034 (payment voucher), and individual travel authorizations. The paper process required DoD Transportation Offices

(TO) to package and mail approximately 300,000 documents to DFAS Rome annually. Once received, DFAS unpacked, paid, and repacked the documents. After two years, the documents were submitted to the National Archives and Records Administration (NARA) for storage. DFAS knew there had to be a

more efficient way and began market research to identify alternative delivery options. In 2017, DFAS partnered with Air Force transportation offices and piloted an electronic CBA process. The pilot enabled TO's to scan documents into a central document repository (Corporate Electronic Document Management System). Electronic

submission at the source eliminated shipping and storage costs, reduced delivery of documents by days, and replaced labor intensive document retrieval with electronic capabilities.

After an extremely successful pilot, DFAS partnered with other DOD TOs to expand the electronic capability. To date, 20 of the 51 serviced TOs have implemented the paperless process. In FY 2021, the capability will expand to ten additional sites. Full implementation, for sites serviced by DFAS Rome is targeted for FY 2023.

Implementing the new process enhances the customer experience. Mailing delays and lost packages are eliminated, TOs are immediately notified of electronic package receipt, research is completed using simple key strokes vice searching through boxes of paper or sending a request to NARA, and manual paper processing is reduced by 85%. COVID-19 validated the importance of implementing the electronic capability. At the peak of the pandemic, without this capability, personnel would have been required to be on-site to send and receive and process paper. The capability enabled processors to make the payments in a telework environment. NARA offered limited support, so document requests



were delayed. Electronically stored documents are accessible 24/7. Finally, this new process prepares us for the future when in FY 2022, NARA will no longer accept paper documents. DFAS is completing the actions required to expand capability across the DFAS network so efficiencies experienced by DFAS Rome and its customers can occur throughout DoD.

Strategic Success Stories

DFAS continued to pursue its vision to be a recognized leader in financial management with a continued focus on strategic initiatives and goals. The following examples are just a few highlights of success stories that demonstrate the Agency's focus on being a first-class service provider.

Annually, DFAS delivers bill briefs to its customers. In 2020, DFAS streamlined its briefing materials to develop a more targeted delivery of information to enhance the customers' experience. Jeff Witherbee, Director of Financial Management, stated "The updated approach we took with the billing briefs this year was very well received from the customers. For the President's Budget Review FY 2022 (PBR22) update to customers, DFAS built a standard template that highlighted the critical cost drivers influencing each customer's bill. The upgrades to the materials ensured customers understood their budgeted FY 2022 bills, provided maximum transparency in the DFAS budget, and effectively delivered 20 briefings with 79 customer breakouts in a work from home environment."

In addition, DFAS successfully retired the System Inventory Database (SID), used to track DFAS systems, yielding an annualized cost savings of \$230K. SID functionality was subsumed by the Defense Enterprise Architecture Toolset (DEAT) within the Enterprise Local Area Network (ELAN) system. DFAS established a Systems Reductions and Investments initiative as part of their Business Environment Modernization strategic priority to reduce DFAS legacy systems and invest in modernized systems to optimize the operating environment and achieve cost savings. To date, DFAS has retired

13 of 20 legacy systems in its FY 2017-2021 strategic portfolio, saving 72% of systems costs and achieving \$2.7M in annualized cost savings. DFAS is slated to eliminate seven legacy systems in FY 2021 and is on track to succeed. In addition, plans for a FY 2022-2026 strategic legacy systems retirement portfolio are underway.

DFAS was also able to save approximately \$1.5M on printing and mailing Affordable Care Act (ACA) 1095-B forms this year. In 2019, DFAS printed and mailed over 2.7M 1095-B forms on behalf of Tricare. This effort was led by Enterprise Solutions and Standards (ESS) Finance Standards and Customer Service led effort, partnering with Information and Technology, Corporate Communications, DFAS Rome, and the Office of General Counsel, to ensure conditions required by IRS guidance to reduce printing and mailing 1095-B forms were established. A 1095-B customer requested print functionality, appropriate public messaging, updated customer service call scripts, and updated interactive voice response system messaging were all key actions accomplished to permit DFAS to recognize the savings.

Finally, ESS Tax and Disbursing partnered with DFAS IT to implement delivery of tax statements electronically through Wide Area Workflow (WAWF). Previously, all statements arrived by mail. DFAS upgraded its 1099 Professional Corporate Suite (PRO) to interface with WAWF to provide current and prior year tax statements to all registered merchants paid by DFAS. In the future, DFAS plans to partner with OSD acquisition on a mandate that requires vendors to obtain tax statements in this manner. The expansion of this electronic process would result in realized savings of \$15,000 annually in printing and postage costs for DFAS.



A U.S. Marine with Marine Heavy Helicopter Squadron 462, Marine Air Group 16, 3rd Marine Aircraft Wing takes precautionary measures by cleaning and disinfecting his protective head gear on Marine Corps Air Station Miramar, Cali., March 23, 2020. The purpose of these measures is to mitigate the spread of COVID-19 while continuing to perform mission-essential tasks. (U.S. Marine Corps photo by Lance Cpl. Victor Mackson)

MANAGEMENT ASSURANCES



Members of the Illinois Air National Guard assemble medical equipment at the McCormick Place Convention Center in response to the COVID-19 pandemic in Chicago, Ill., March 30, 2020. Approximately 30 members of the Illinois Air National Guard were activated to support the US Army Corps of Engineers and the Federal Emergency Management Agency (FEMA). (U.S. Air Force Photo by Senior Airman Jay Grabiec)



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

MEMORANDUM FOR THE SECRETARY OF DEFENSE
 DEPUTY SECRETARY OF DEFENSE

THROUGH: Thomas W. Harker, Performing the Duties of the Under Secretary of Defense
 (Comptroller)/Chief Financial Officer

SUBJECT: Annual Statement of Assurance (SoA) Required Under the Federal Managers'
 Financial Integrity Act (FMFIA) for Fiscal Year (FY) 2020

As the Director of the Defense Finance and Accounting Service (DFAS), I recognize DFAS is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the FMFIA of 1982. Our SoA provides specific information on how the assessment of internal controls was conducted in accordance with the Office of Management and Budget Circular No. A-123 (OMB Circular No. A-123), Management's Responsibility for Enterprise Risk Management and Internal Control; and the Green Book, GAO-14-704G, Standards for Internal Control in Federal Government. Based on the results of the assessment, DFAS can provide reasonable assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2020.

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

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

DFAS conducted an internal review of the effectiveness of internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The "*Internal Control Evaluation (TAB A)*" section provides specific information on how DFAS conducted this assessment. Based on the results of this evaluation, I am able to provide reasonable assurance that internal controls over financial systems are in compliance with FMFIA, Section 4; Federal Financial Management Improvement Act (FFMIA), Section 803; and OMB Circular No. A-123, Appendix D.

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

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Audrey Y. Davis
Director

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

Note: The SSAE18 chart on page 22 is to be read in conjunction with this memorandum.

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

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COMPLIANCE AND REGULATIONS



Sgt. Thalia Santos from Yonkers, N.Y., a member of the New York Army National Guard, loads boxed, packaged food, into a waiting vehicle at a food distribution site in The Bronx, N.Y., August 5, 2020. New York National Guard members are supporting the multi-agency response to COVID-19. (U.S. Air National Guard photo by Senior Airman Sean Madden)

DFAS management is responsible for compliance with existing laws and regulations related to financial reporting. DFAS did not identify any instances of non-compliance during FY 2020. The following describes specific compliance assertions and efforts taken by DFAS management to maintain compliance applicable to DFAS Financial Reporting.

Federal Financial Management Improvement Act of 1996

DFAS conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Based on the results of this assessment, as of June 30, 2020, the internal controls over the integrated financial management systems utilized in the compilation of the DFAS financial statements, were in compliance with OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996.

Digital Accountability and Transparency Act

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

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

Antideficiency Act

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

priation is made available for that contract or obligation unless otherwise authorized by law.

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

The DoD FMR, 7000.14-R, Volume 14, provides department policy for investigating and reporting ADA violations. During FY 2020, DFAS had no ADA violations to report.

Debt Collection Improvement Act of 1996

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

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

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

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

Government Charge Card Abuse Prevention Act

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

Prompt Payment Act

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

\$50,000 of Prompt Payment Interest penalties during FY 2020.

Improper Payments Elimination and Recovery Improvement Act of 2012

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

Fraud Reduction and Data Analytics Act of 2015

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

Audit Disclosures

During FY 2020, auditor-identified findings were classified as control deficiencies and did not have a material impact to the DFAS WCF financial statements. The IPA did not identify any deficiencies that were considered to be material weaknesses or significant deficiencies. However, the IPA identified four internal control deficiencies that did not rise to the level of a material weakness or significant deficiency, but still warrants management attention.

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FINANCIAL DISCUSSION AND ANALYSIS



Oklahoma Air National Guard Airman 1st Class Mckaylynn Stephens, 138th Fighter Wing aerospace medical services technician, prepares to conduct a COVID-19 test at the Expo Center in Tulsa, Oklahoma, June 23, 2020. Activated by the Governor and in conjunction with the Oklahoma State Department of Health, Guardsmen are working to conduct COVID-19 tests for local communities. (Oklahoma Air National Guard photo by Tech. Sgt. Rebecca Imwalle)

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

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

Fiscal Years Ended September 30	2020	2019
Net Cost of Operations	\$ 149,078,245	\$ 111,342,366
Net Position	\$ 198,528,493	\$ 317,772,426

Significant Events

In accordance with revised guidance found in DoD FMR Volume 4, Chapter 24 "Real Property," DoD Components (to include Defense Working Capital Funds) are required to transfer real property assets to the host installation once the assets are placed in service. For FY 2020, DFAS removed \$45.2 million of General PP&E, net, from their general ledger reporting. This removal included real property transfers for \$43.8 million to the military services. In addition, DFAS reclassified \$1.4 million of building, improvements and other structures as leasehold improvements on their trial balance. Finally, DFAS recorded a Navy disposal loss for \$15.0 thousand.

Financial Statement Analysis

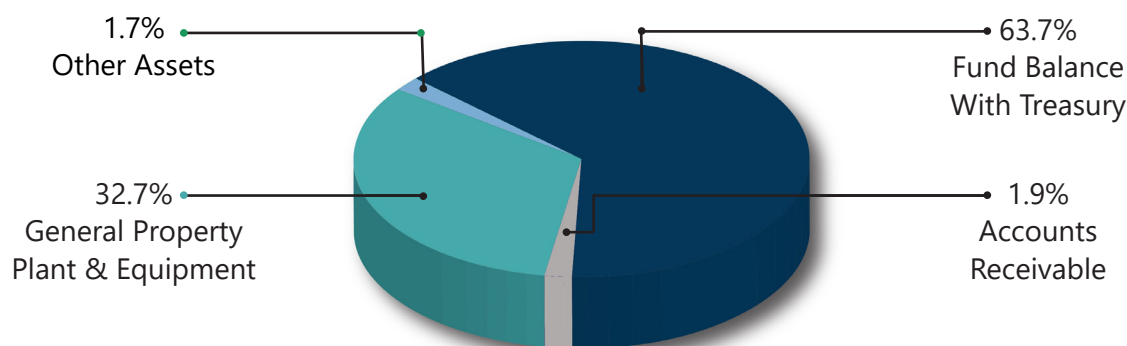
DFAS WCF continues a thorough monthly review process and robust execution reporting to senior leadership in order to outline the status of its financial position and available budgetary resources. Consequently, DFAS leadership is armed with proprietary and budgetary information to make informed business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

Balance Sheet

The Balance Sheet reflects DFAS' financial position as of September 30, 2020 and 2019, and details amounts available to provide future economic benefits (assets), owned or available for use by DFAS, compared to the amounts owed (liabilities), requiring the use of available assets, and the difference between them (net position). The table below summarizes the fluctuations in the Balance Sheets from FY 2019 to FY 2020.

As of September 30	2020	2019	Change	% Change
Assets	\$ 403,087,961	\$ 511,981,800	\$ (108,893,839)	(21.3%)
Liabilities	204,559,468	194,209,374	10,350,094	5.3%
Net Position	\$ 198,528,493	\$ 317,772,426	\$ (119,243,933)	(37.5%)

Composition of Assets

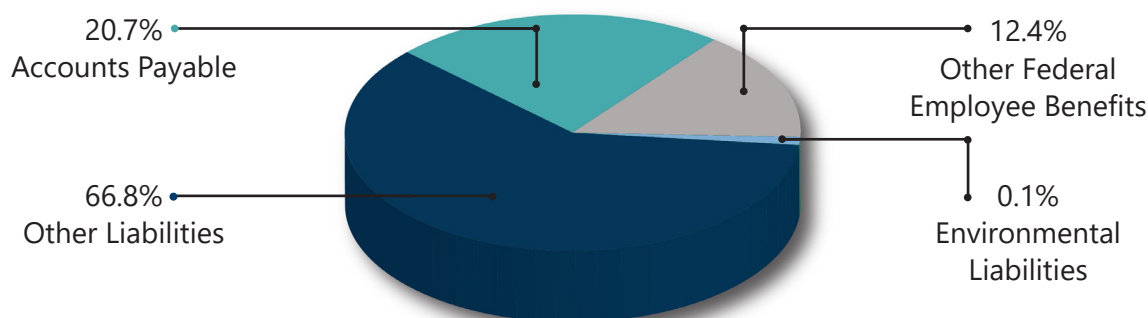


Total WCF Assets of \$403.1 million on September 30, 2020 consisted primarily of \$256.8 million in FBWT, and \$131.8 million in General Property, Plant, and Equipment (PP&E).

FBWT decreased by \$43.8 million (14.6%) due to operating losses from unfunded pay inflation for 2019 and 2020 of \$32.3 million, in addition to the \$16.7 million increase of

the Agency's Federal Employees Retirement System (FERS) contributions. General PP&E, net, decreased by \$55.7 million (29.7%) primarily due to the transfer of real property assets to their respective military host installation.

Composition of Liabilities



Total Liabilities of \$204.6 million as of September 30, 2020 primarily consists of Other Liabilities for \$136.7 million, Accounts Payable for \$42.3 million, Other Federal Employment Benefits for \$25.3 million, and Environmental Liabilities for \$260 thousand.

Other Liabilities consists of \$111.9 million for the accrual of funded payroll and benefits, \$14.9 million for employer contribution and

payroll taxes payable, \$5.8 million for Federal Employees' Compensation Act (FECA) reimbursements to the Department of Labor, and \$4.1 million for accrued unfunded leave.

Other Liabilities increased by \$18.2 million (15.4%) primarily due to increased liabilities associated with retirement and health benefits, as well as decreased usage of accrued annual leave during the pandemic period.

Statement of Budgetary Resources

The WCF Statement of Budgetary Resources presents the total budgetary resources available to DFAS for use in FY 2020, their status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. It is the only financial statement exclusively derived from the budgetary general ledger in accordance with budgetary accounting rules. As part of the Defense-wide WCF, DFAS' budgetary resources are generated by collecting funds from customers in exchange for providing accounting and financial services.

Fiscal Years Ended September 30	2020	2019	Change	% Change
Gross Outlays	\$ 1,427,762,154	\$ 1,428,008,216	\$ (246,062)	0.0
Less Actual Offsetting Collections	(1,383,989,428)	(1,438,873,891)	(54,884,463)	(3.8%)
Net Outlays	\$ 43,772,726	\$ (10,865,675)	\$ 54,638,401	(502.9%)

Net Outlays increased by \$54.6 million (502.9%) primarily due to operating losses from unfunded pay inflation. Billing rates and collections do not fully recuperate current expenses and disbursements because these costs were unfunded in the fiscal budget year.

Statement of Changes in Net Position

The Statement of Changes in Net Position presents the cumulative results of operations since inception. The statement focuses on how the net cost of operations is financed; as well as, other items financing the Agency's operations. The resulting financial position represents the difference between assets and liabilities as shown on the Balance Sheets. Various financing sources can increase the net position, including transfers of cash, property, and imputed financing costs absorbed by other Federal agencies on DFAS' behalf.

Total Financing Sources decreased by \$57.2 million (65.7%) due to a large increase in retirement and health benefits costs for the DFAS workforce.

Fiscal Years Ended September 30	2020	2019	Change	% Change
Beginning Balances	\$ 317,772,426	\$ 342,067,490	\$ (24,295,064)	(7.1%)
Total Financing Sources	29,834,312	87,047,302	(57,212,990)	(65.7%)
Less Net Cost of Operations	(149,078,245)	(111,342,366)	37,735,879	33.9%
Cumulative Results of Operations	\$ 198,528,493	\$ 317,772,426	\$ (119,243,933)	(37.5%)

Statement of Net Cost

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

Fiscal Years Ended September 30	2020	2019	Change	% Change
Gross Costs	\$ 1,519,444,802	\$ 1,531,646,260	\$ (12,201,458)	(0.8%)
Less Earned Revenue	(1,370,366,557)	(1,420,303,894)	(49,937,337)	(3.5%)
Net Cost of Operations (Note 12)	\$ 149,078,245	\$ 111,342,366	\$ 37,735,879	33.9%

Gross Costs decreased by \$12.2 million (0.8%) primarily due to lower personnel workforce, as well as a decrease in the imputed cost factors for retirement. Earned Revenue decreased by

\$49.9 million (3.5%) due to reduction of the DFAS budget to incorporate efficiencies in past budget projections.

Gross Costs by Category	2020	2019	Change	% Change
Payroll Expense	\$ 821,496,330	\$ 812,352,089	\$ 9,144,241	1.1%
Employee Benefits Expense	298,822,949	279,931,765	18,891,184	6.7%
Contractor Services	178,057,089	209,957,248	(31,900,159)	(15.2%)
Imputed Costs	73,701,759	87,047,302	(13,345,543)	(15.3%)
Equipment Expense	70,921,941	56,583,257	14,338,684	25.3%
Lease & Office Expenses	41,826,067	45,026,219	(3,200,152)	(7.1%)
Depreciation & Amortization	16,847,723	18,695,769	(1,848,046)	(9.9%)
Non-Recoverable Depreciation/ Amortization	13,021,852	13,230,445	(208,593)	(1.6%)
Miscellaneous Supplies and Materials	2,251,622	2,229,473	22,149	1.0%
Travel Expense	2,143,553	6,650,646	(4,507,093)	(67.8%)
Other Expense	288,905	(107,955)	396,860	(367.6%)
PPA Interest Expense	50,000	50,000	0	0.0%
Losses on Disposition of Assets	15,012	0	15,012	0.0%
Total	\$ 1,519,444,802	\$ 1,531,646,258	(12,201,456)	(0.8%)

Financial Statement Preface

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

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

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

SECTION II

FINANCIALS

Message from the Chief Financial Officer

Independent Auditor's Report
on the Financial Statements

Management's Response to the
Independent Auditor's Report

Comparative Financial Statements

Notes to the Financial Statements



Virtually collaborating with the Strategy, Policy and Requirements (SPR) Directors, Melinda Vernon, SPR Executive Officer, provides critical administrative support to team members enabling timely and accurate DoD Financial Management policy updates and effective planning and execution of the Agency's Strategy, including the integration of relevant DoD strategic priorities, human capital strategies, and Director's priorities. (Courtesy photo)

CHIEF FINANCIAL OFFICER'S MESSAGE



A Soldier passes by Neuschwanstein Castle while transporting COVID-19 tests to Landstuhl Regional Medical Center at Hohenfels Training Area in Hohenfels, Germany, Sept. 15, 2020. (U.S. Army photo by Army Sgt. 1st Class Garrick W. Morgenweck)



ROSIE TINSLEY

I am pleased to share the Fiscal Year (FY) 2020 Agency Financial Report (AFR), and the results supporting the 21st consecutive unmodified audit opinion for the Defense Finance and Accounting Service (DFAS) Working Capital Fund (WCF), achieved in accordance with United States Generally Accepted Accounting Principles.

DFAS continues to identify opportunities and implement efficiencies in alignment with the National Defense Strategy and the Department's Reform efforts. These improvements help to offset financial requirements associated with new and expanded mission needs, and are achieved through customer partnerships, innovative solutions, and financial management services aligned to stakeholder outcomes. To further enhance mission results, this year DFAS also augmented its customer transparency dialogue through additional outreach with its WCF customers at multiple levels, discussing customer bill drivers, supplier changes, and cash management efforts. These interactions proved to be informative and value-added as we worked together to focus, align, and execute DFAS' mission efforts with customer outcomes.

DFAS focused on audit support and agency performance during this unique pandemic environment while ensuring people remained a priority, especially their safety, and business modernization efforts stayed on track. DFAS also demonstrated sound financial management practices achieving key audit results for FY 2020, including the reconciliation of 72 assets valued at \$54.4 million for the Department's Real Property Transfer Initiative. The Agency also accomplished significant progress in reducing audit exceptions associated with Fund Balance with Treasury, general ledger reconciliation, and aged account balances. Where applicable, DFAS sustained and introduced updated internal controls and automated solutions to mitigate potential audit risk.

In 2020 we applied Robotic Process Automation and Data Analytics in a series of pilots and use cases to streamline and optimize end-to-end financial management processes. These technologies increase data integrity, accelerate the availability of real-time information, and strengthen funds management capabilities for DFAS customers. Early results of the pilots are favorable, and offer good opportunities to utilize and expand these capabilities in the future. Through continued engagement with customers, DFAS enabled reform projects contributing to multi-year cost reductions and efficiencies across several product lines. For example, between FY 2017-2021 DFAS will retire 21 legacy systems and transition the workload and archived data to the target systems environment. Supporting pending workload migration, DFAS is currently partnering with customers in critical planning and preparation efforts for the transition of the Navy and Air Force Military Pay workload in FY 2022, followed by Army Military Pay, which is targeted to move in FY 2025.

While this year began with traditional workload and workplace experiences, DFAS seamlessly evolved as a resilient, virtually-functioning shared service provider when the environment required this operational shift just before midyear. As we successfully navigate the present and prepare for a bright future, I look forward to sharing our FY 2021 financial successes with DFAS stakeholders.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS



U.S. Marines board the Spearhead-class USNS Burlington (T-EPF 10) at Joint Expeditionary Base Little Creek-Fort Story, Va., Sept. 26. (U.S. Marine Corps photo by Gunnery Sgt. Michael Cifuentes)



Independent Auditor's Report

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

In our audits of the fiscal years 2020 and 2019 financial statements of the Working Capital Fund (WCF) of the Defense Finance and Accounting Service (DFAS), a component of the United States Department of Defense (DoD), we found:

- the DFAS WCF's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed;¹ and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested

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

Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, we have audited the DFAS WCF's financial statements. The DFAS WCF's financial statements are comprised of the balance sheets as of September 30, 2020, and 2019; the related statements of net

¹A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

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

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

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

1030 15th Street, NW, Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161
www.williamsadley.com

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

We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements* (OMB Bulletin 19-03). We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

The DFAS WCF's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted auditing standards, U.S. generally accepted government auditing standards, and OMB 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

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

Opinion on Financial Statements

In our opinion, the DFAS WCF's financial statements present fairly, in all material respects, the DFAS WCF's financial position as of September 30, 2020, and 2019, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Other Information

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

Report on Internal Control over Financial Reporting

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

Management's Responsibility

The DFAS WCF's management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

In planning and performing our audit of the DFAS WCF's financial statements as of and for the year ended September 30, 2020, in accordance with U.S. generally accepted government auditing standards, we considered the DFAS WCF's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the

effectiveness of the DFAS WCF's internal control over financial reporting. Accordingly, we do not express an opinion on the DFAS WCF's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies⁴ or material weaknesses. We did not consider all internal controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

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

Results of Our Consideration of Internal Control over Financial Reporting

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

During our 2020 audit, we identified deficiencies in the DFAS WCF's internal control over financial reporting that we do not consider to be significant deficiencies or material weaknesses. Nonetheless, these deficiencies warrant the DFAS WCF's management's attention. We have communicated these matters to the DFAS WCF's management and, where appropriate, have reported on them separately.

Intended Purpose of Report on Internal Control over Financial Reporting

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

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

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2020 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to the DFAS WCF. Accordingly, we do not express such an opinion.

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

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

Agency Comments

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

Williams, Arley & Company-DC, LLP

Washington, DC
November 4, 2020

MANAGEMENT'S RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT



Secretary of the Air Force Barbara Barrett receives a brief on the FalconSAT program during a visit to the U.S. Air Force Academy, Colorado Springs, Colo., Sept. 23, 2020. FalconSAT is the Academy's small satellite engineering program. Satellites are designed, built, tested and operated by Academy cadets. (U.S. Air Force photo by Joshua Armstrong)



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

November 4, 2020

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

Dear Mr. Isiaq:

I have reviewed the draft Independent Auditor's Report dated October 28, 2020, regarding the Fiscal Year 2020 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. I am satisfied by the outcome and accept this report on behalf of DFAS.

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

Thank you to the Williams Adley team for their professionalism while conducting this audit. If there are any additional requirements needed for completion, please contact my action officer, Mr. Jason Monday, at (317) 212-2674 or james.j.monday.civ@mail.mil.

Sincerely,

A handwritten signature in black ink, appearing to read "Audrey Y. Davis", is written over a faint, larger version of the same signature.

Audrey Y. Davis
Director

Proudly Serving America's Heroes
www.dfas.mil



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

OFFICE OF THE DIRECTOR

November 4, 2020

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

Dear Mr. Isiaq:

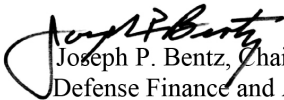
I have received and reviewed a copy of the draft Independent Auditor's Report for the Fiscal Year 2020 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. As the Chair of the Audit Committee, I thank you and your staff at Williams, Adley and Company for your careful and thorough audit.

DFAS has again demonstrated its commitment to maintaining an unmodified audit opinion. DFAS management continuously monitors their processes and controls and I am confident that DFAS will implement additional meaningful changes to further enhance those processes and controls based on your observations and the recommendations from your staff.

The continued collaborative working relationship between the DFAS team and the Williams, Adley and Company staff is sound, and has ensured the completion of another successful audit.

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

Sincerely,


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

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COMPARATIVE FINANCIAL STATEMENTS



Space Flag 20-3 participants stand in front of the U.S. Air Force Warfare Center at Schriever Air Force Base, Colorado. This was the first Space Flag exercise completed as part of the new Space Training and Readiness (STAR) Delta Provisional. (U.S. Air Force photo by Judi Tomich)

Balance Sheets

As of September 30	2020	2019
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 256,816,643	\$ 300,589,369
Accounts Receivable, Net (Note 3)	6,652,052	15,623,300
Other Assets (Note 5)	809,333	1,642,024
Total Intragovernmental Assets	\$ 264,278,028	\$ 317,854,693
Accounts Receivable, Net (Note 3)	\$ 991,658	\$ 1,234,917
General Property, Plant and Equipment, Net (Note 4)	131,795,392	187,538,255
Other Assets (Note 5)	6,022,883	5,353,935
Total Assets	\$ 403,087,961	\$ 511,981,800
Liabilities (Note 6)		
Intragovernmental		
Accounts Payable	\$ 17,981,834	\$ 23,045,899
Other Liabilities (Notes 9 & 11)	19,060,790	16,969,157
Total Intragovernmental Liabilities	\$ 37,042,624	\$ 40,015,056
Accounts Payable	\$ 24,334,834	\$ 23,038,154
Other Federal Employment Benefits (Note 7)	25,283,604	29,411,878
Environmental and Disposal Liabilities (Note 8)	260,000	260,000
Other Liabilities (Notes 9 & 11)	117,638,406	101,484,286
Total Liabilities	\$ 204,559,468	\$ 194,209,374
Net Position		
Cumulative Results of Operations	\$ 198,528,493	\$ 317,772,426
Total Net Position	\$ 198,528,493	\$ 317,772,426
Total Liabilities and Net Position	\$ 403,087,961	\$ 511,981,800

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

Statements of Net Cost

Fiscal Years Ended September 30	2020	2019
Program Costs		
Gross Costs	\$ 1,519,444,802	\$ 1,531,646,260
Less Earned Revenue	(1,370,366,557)	(1,420,303,894)
Net Cost of Operations (Note 12)	\$ 149,078,245	\$ 111,342,366

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

Statements of Changes in the Net Position

Fiscal Years Ended September 30	2020	2019
Cumulative Results of Operations		
Beginning Balances	\$ 317,772,426	\$ 342,067,490
Other Financing Sources:		
Transfers In/(Out) without Reimbursement	(43,867,447)	0
Imputed Financing Sources	73,701,759	87,047,302
Total Financing Sources	\$ 29,834,312	\$ 87,047,302
Net Cost of Operations (Note 12)	\$ 149,078,245	\$ 111,342,366
Net Change	\$ (119,243,933)	\$ (24,295,064)
Total Net Position	\$ 198,528,493	\$ 317,772,426

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

Statements of Budgetary Resources

Fiscal Years Ended September 30	2020	2019
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, net	\$ 233,589,124	\$ 253,962,476
Contract Authority	20,113,618	10,129,269
Spending Authority from Offsetting Collections	1,373,192,024	1,400,427,752
Total Budgetary Resources (Note 13)	\$ 1,626,894,766	\$ 1,664,519,497
Status of Budgetary Resources		
New obligations and upward adjustments (total)	\$ 1,442,870,568	\$ 1,434,806,619
Unobligated balance, end of year		
Apportioned, unexpired accounts	184,024,198	229,712,878
Total Budgetary Resources (Note 13)	\$ 1,626,894,766	\$ 1,664,519,497
Net Agency Outlays	\$ 43,772,726	\$ (10,865,675)

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

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NOTES TO THE FINANCIAL STATEMENTS



Space professionals from Space Delta 5 swear into the United States Space Force during the USSF Chief of Space Operations ceremonial transfer event, Sept. 15, 2020, at Vandenberg Air Force Base, Calif. Gen. Jay Raymond, U.S. Space Force Chief of Space Operations, officiated a ceremonial transfer during the Air Force Association's Virtual Air Space Cyber conference. (U.S. Air Force photo by Senior Airman Hanah Abercrombie)

Note 1: Summary of Significant Accounting Policies

1.A. Mission of the Reporting Entity

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

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

1.B. Basis of Presentation

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

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

1.C. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities, at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ materially from those estimates. Significant estimates and assumptions in these comparative financial statements require the exercise of judgment and are used for, but not limited to, allowance for doubtful accounts, environmental liabilities, pension and other post-retirement benefit expenses, and the Federal Employee Compensation Act (FECA) Liability.

1.D. Appropriations and Funds

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

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

1.E. Basis of Accounting

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

1.F. Revenues and Other Financing Sources

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

The goal of a WCF organization is to breakeven over an extended period of time. In accordance with the DoD FMR, Volume 3, Chapter 19, the Accumulated Operating Results (AOR) and Net Operating Results (NOR) serve as the primary points of reference for determining the need to adjust billing rates. Working Capital Fund organizations adjust future billing rates to counter the effects the fluctuations have on the AOR. The positive and negative adjustments are normal business practices occurring when the net cost of operations is not zero. Because of the nature of a WCF, the unanticipated impacts on workload and cost fluctuations will result in profits or losses during any given year. Accumulated Operating Results is tracked from inception and requires constant routine monitoring to account for the fluctuating costs of conducting business.

1.G. Recognition of Expenses

For financial reporting purposes, U.S. GAAP requires the recognition of operating expenses in the period incurred.

1.H. Accounting for Intragovernmental Activities

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal government. Costs and revenues with the public represent transactions made between the reporting entity and a nonfederal entity. The classification of revenue or cost as “intragovernmental” or “public” transactions is defined in the DoD FMR Volume 4, Chapter 1.

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

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

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

1.I. Funds with the Department of Treasury

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

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

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

1.J. Accounts Receivable

Accounts receivable represents transactions occurring in the normal course of business by providing financial services to our customers. Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Claims receivable are transactions where DFAS has a right to cash (debt) from an outstanding customer account. Refunds receivable occur when DFAS receives a refund for a previous paid expense.

On an annual basis, DFAS reviews all outstanding nonfederal customer accounts over 360 days to estimate the allowance for uncollectible accounts. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history. In addition, significant accounts receivable balances may be reviewed individually, regardless of age.

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

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

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

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

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

most benefit by virtue of space usage should capitalize the asset as General PP&E on their Balance Sheet.

1.L. Leases

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

1.M. Other Assets

Other assets include advances and prepayments permitted by law, legislative action, or presidential authorization as mandated by Title 31, U.S.C 3324. The Department of Defense has implemented the recognition criteria of SFFAS No. 1, "Accounting for Selected Assets and Liabilities," to report advances and prepayments. As implemented by DoD FMR Volume 4, Chapter 5, payments made in advance of the receipt of goods and services should be reported as an asset. They are shown on the Balance Sheet as Other Assets. Components of advances and prepayments include travel and labor advances, tuition assistance, subscriptions, postage; as well as, approved contractual and intragovernmental prepay agreements. DFAS policy is to expense and/or properly classify assets when the related goods and services are received.

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

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

1.N. Contingencies and Other Liabilities

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government", as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation", defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. DFAS recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility of incurring a loss or additional losses. DFAS' risk of loss and resultant contingent liabilities arise from various administrative proceedings, legal actions, and potential claims.

1.O. Accrued Leave

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

1.P. Net Position

Net Position consists of cumulative results of operations. Cumulative Results of Operations represent the net difference between expenses and losses and financing sources (including

revenue and gains), since inception. Cumulative Results of Operations also include the transfer in and out of assets that were not reimbursed.

1.Q. Undistributed Disbursements and Collections

Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 5100, requires agencies to reconcile their FBWT accounts on a regular and recurring basis to assure the integrity and accuracy of their financial reporting data. The DFAS WCF does not have a separate FBWT account. Instead, the Treasury maintains an account for DFAS' collection and disbursement activities.

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

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

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

Each employing Federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees, as stated in the SFFAS No. 5, "Accounting for Liabilities of the Federal Government." Factors used in the calculation of pension and post-retirement health and life insurance benefit expenses were provided by the Office of Personnel Management financial management letters regarding cost factors for pension and other retirement benefits expense.

The cost factor for computing the Federal Employees Health Benefits Program (FEHB) imputed cost was \$7,268 in FY 2019 and \$8,038 in FY 2020. The Federal Employees'

Group Life Insurance Program (FEGLI) the cost factor was .02% in both FY 2019 and FY 2020. The cost factor for employees covered by Civil Service Retirement System (CSRS) was 38.4% in FY 2019 and 38.5% in FY 2020. The cost factor for the Federal Employees Retirement System (FERS) was 16.9% in FY 2019 and 16.7% in FY 2020.

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

For employees participating in FERS, FERS-Revised Annuity Employee (FERS-RAE), and FERS-Further Revised Annuity Employees (FERS-FRAE), DFAS contributes an amount equal to 1% of the employee's basic pay to the tax deferred Thrift Savings Plan (TSP), and matches employee contributions up to an additional 4% of pay. DFAS contributions to the TSP was \$32.1 million for FY 2019 and \$33.4 million for FY 2020. Employees participating in CSRS receive no matching contributions from DFAS.

1.S. Interest on Late Payments

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

1.T. Contract Authority

As a WCF, DFAS must recover from customers, through revenue earned, all expenses necessary to operate. DFAS purchases assets using contract authority granted by the OUSD(C) and then recovers the cost over the useful life

of the asset through depreciation expense built into the billing rates. DoD FMR, Volume 11B, Chapter 3, Budgetary Resources, defines contract authority as the amount available for obligation and remains available through the end of the fiscal year. At year-end, this amount is reduced to match the amount of executed dollars through the normal year-end closing processes.

1.U. Contract Audit Backlog

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

The total cost adjustments from vendors cannot be reasonably estimated for FY 2020, but management believes the amount is immaterial.

1.V. Classified Activities

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

Note 2: Fund Balance with Treasury

As of September 30	2020	2019
Status of Fund Balance with Treasury		
Unobligated Balance - Available	\$ 184,024,198	\$ 229,712,878
Obligated Balance not yet Disbursed	230,276,370	219,044,203
Non-FBWT Budgetary Accounts		
Unfilled Customer Orders without Advance	(31,533,340)	(16,635,629)
Contract Authority	(119,224,971)	(115,950,231)
Receivables and Other	(6,725,614)	(15,581,852)
Total Non-FBWT Budgetary Accounts	\$ (157,483,925)	\$ (148,167,712)
Total FBWT	\$ 256,816,643	\$ 300,589,369

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

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

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

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

Non-FBWT budgetary includes the amount of Contract Authority DFAS has not liquidated to date, and the uncollected portion of service agreements with other Federal Agencies. Contract Authority is a specific statutory authority permitting DFAS to incur and liquidate obligations in advance of receiving cash. Non-FBWT Budgetary Accounts reduce the Status of FBWT.

For 4th Quarter FY 2020 reporting, DFAS' undistributed reconciling adjustment to Treasury was \$7,727,414 for FY 2020 and \$3,478,374 for FY 2019.

Note 3: Accounts Receivable, Net

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

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

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

Other Disclosures

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

Note 4: General PP&E, Net

Major General PP&E Asset Classes

As of September 30	2020				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	35, 40, or 45*	\$ 0	\$ 0	\$ 0
Leasehold Improvements	S/L	lease term	155,164,608	(121,538,135)	33,626,473
Software	S/L	2-5 or 10	227,304,852	(166,154,616)	61,150,236
General Equipment	S/L	Various	113,636,503	(92,086,758)	21,549,745
Construction-in-Progress	N/A	N/A	15,468,938	N/A	15,468,938
Total General PP&E			\$ 511,574,901	\$ (379,779,509)	\$ 131,795,392

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

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

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

DFAS reported net General Property, Plant & Equipment (PP&E) for \$187.5 million for FY 2019. As of September 30, 2020, DFAS reported a net General PP&E balance of \$175.0 million its property system. Based on new FY 2020 reporting guidance found in DoD FMR Volume 4, Chapter 24 "Real Property", DoD Components were required to transfer all real property assets to the host installations where those assets were placed in service. Based on this directive, DFAS transferred \$43.8 million net value for buildings and renovations to the military services. DFAS then reclassified the \$1.4 million net value of the remaining buildings and other structures to leasehold improvements. Lastly, DFAS disposed of Navy buildings and renovations of \$15.0 thousand net value. In total, DFAS transferred, reclassified and disposed of "real property" totaling \$45.2 million, leaving an ending net General PP&E balance of \$131.8 million for FY 2020 reporting.

Note 4: General PP&E, Net, continued

General PP&E, Net – Summary of Activity

As of September 30	2020	2019
General PP&E, Net beginning of the year	\$ 187,538,255	\$ 202,531,315
Capitalized acquisitions	18,009,171	16,341,006
Dispositions	(15,012)	0
Revaluations (+/-)	0	592,148
Depreciations expense	(29,869,575)	(31,926,214)
Transfers in/(out) without reimbursement	(43,867,447)	0
General PP&E, Net end of year	\$ 131,795,392	\$ 187,538,255

Real property of \$45.2 million was removed from DFAS accounting records for FY 2020 reporting, to include a \$43.8 million transfer to host installation and a \$15.0 thousand disposal loss.

Note 5: Other Assets

As of September 30	2020	2019
Intragovernmental Other Assets		
Advances and Prepayments	\$ 809,333	\$ 1,642,024
Total Intragovernmental Other Assets	\$ 809,333	\$ 1,642,024
Nonfederal Other Assets		
Outstanding Contract Financial Payments	\$ 0	0
Advances and Prepayments	\$ 6,022,883	\$ 5,353,935
Total Non-Federal Other Assets	\$ 6,022,883	\$ 5,353,935
Total Other Assets	\$ 6,832,216	\$ 6,995,959

Note 6: Liabilities Not Covered by Budgetary Resources

As of September 30	2020	2019
Intragovernmental Liabilities		
Other	5,806,963	\$ 6,678,863
Total Intragovernmental Liabilities	\$ 5,806,963	\$ 6,678,863
Nonfederal Liabilities		
Other Federal Employment Benefits	25,283,604	\$ 29,411,878
Environmental and Disposal Liabilities	260,000	260,000
Other Liabilities	4,054,786	3,525,764
Total Nonfederal Liabilities	\$ 29,598,390	\$ 33,197,642
Total Liabilities Not Covered by Budgetary Resources	\$ 35,405,353	\$ 39,876,505
Total Liabilities Covered by Budgetary Resources	\$ 169,154,115	\$ 154,332,869
Total Liabilities	\$ 204,559,468	\$ 194,209,374

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

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

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

Nonfederal Other Liabilities consists of unfunded compensatory and credit annual leave liability. Refer to Note 7, Other Federal Employment Benefits, for additional details.

Note 7: Other Federal Employment Benefits

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

workers' compensation benefits at the DoD Level only, and DFAS' reported FECA liability is based on the DoD Agency-wide allocation method using an average based on the last three annual chargeback bills for actual claims submitted and approved by the DOL. The allocated portion of the actuarial liability for future workers' compensation benefits for DFAS at September 30, 2020 is \$25,283,604 and \$29,411,878 in Fiscal Year 2019.

Note 8: Environmental and Disposable Liabilities

As of September 30	2020	2019
Environmental Liabilities — Nonfederal		
Other Accrued Environmental Liabilities — Non-BRAC		
Asbestos	260,000	\$ 260,000
Total Environmental Liabilities	\$ 260,000	\$ 260,000

Applicable Laws and Regulations for Cleanup Requirements

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

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

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

Accounting estimates for environmental liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a

different degree than anticipated when calculating the estimates. Liabilities can be further affected if the investigation of the environmental sites reveals contamination levels differing from estimate parameters.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

Engineering estimates and independently validated models are used by DFAS to project environmental costs. The models include the Remedial Action Cost Engineering Requirements application and the Normalization of Data System. The models are validated by DFAS in accordance with DoD Instruction 5000.61, DoD Modeling and Simulation Verification, Validation, and Accreditation, and estimates liabilities based on data received during preliminary assessment and site investigation. Engineering estimates are primarily used by DFAS after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

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

For General PP&E placed into service after September 30, 1997, DFAS expenses associ-

Note 8: Environmental and Disposable Liabilities, continued

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

In accordance with reporting requirements for asbestos, DFAS reports liabilities for buildings and facilities containing both friable and non-friable asbestos. At this time DFAS is unable to reasonably estimate an amount of the total cleanup costs related to friable and non-friable asbestos.

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

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

Note 9: Other Liabilities

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

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

Note 10: Operating Leases

As of September 30	2020		
	Asset Category		
	Land and Buildings	Equipment	Total
Federal			
Fiscal Year			
2021	\$ 26,286,948	\$ 1,261,972	\$ 27,548,920
2022	26,628,679	1,273,224	27,901,903
2023	26,974,851	1,284,617	28,259,468
2024	27,325,524	1,296,153	28,621,677
2025	27,171,935	1,307,073	28,479,008
After 5 Years	65,950,252	1,318,298	67,268,550
Total Future Lease Payments Due	\$ 200,338,189	\$ 7,741,337	\$ 208,079,526
Non-Federal			
Fiscal Year			
2021	\$ 216,672	\$ 0	\$ 216,672
2022	219,380	0	219,380
2023	225,881	0	225,881
2024	133,976	0	133,976
2025	0	0	0
After 5 Years	0	0	0
Total Non-Federal Future Lease Payment	\$ 795,909	\$ 0	\$ 795,909
Total Future Lease Payments	\$ 201,134,098	\$ 7,741,337	\$ 208,875,435

Other Disclosures

DFAS does not have any capitalized leases. In order to estimate the future years' payments due, DFAS used the current Consumer Price Index (CPI) rate of 1.3%.

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

Note 11: Commitments and Contingencies

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

The Defense Finance and Accounting Service reports one legal action with individual claims greater than the FY 2020 materiality threshold of \$530 thousand. The FY 2020 materiality threshold of \$530 thousand determined for individual legal claims is from the independent auditor's calculated legal letter materiality. This action totals approximately \$1 million. The OGC has classified this claim "reasonably possible."

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

Fiscal Years Ended September 30	2020	2019
Gross Cost	\$ 1,519,444,802	\$ 1,531,646,260
Less: Earned Revenue	(1,370,366,557)	(1,420,303,894)
Total Net Cost	149,078,245	\$ 111,342,366

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. DFAS captures its current processes and reports accumulated costs for major programs as required by the Government Performance and Results Act. Additionally, DFAS has fully implemented unit cost reporting and reports

these costs by responsibility segment on a monthly basis as required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 55, "Amending, Inter-entity Cost Provisions."

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

Note 13: Disclosures Related to the Statement of Budgetary Resources

Fiscal Years Ended September 30	2020		2019
Intragovernmental:			
Unpaid	24,831,833	\$	8,966,434
Prepaid/Advanced	809,333		1,642,024
Total Intragovernmental	25,641,166	\$	10,608,458
Nonfederal:			
Unpaid	36,216,860	\$	55,786,349
Prepaid/Advanced	6,022,883		5,353,935
Total Nonfederal	42,239,743	\$	61,140,284
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	67,880,909	\$	71,748,742

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget." Category A relates to appropriations for a specific period of time (e.g., Military Personnel appropriation), and category B relates to appropriations for a specific project (e.g., Military Construction appropriation). The total amount of DFAS' obligations incurred for \$1,442,870,568 is classified as Reimbursable Apportionment Category B.

Reconciliation Differences

Under OMB Circular A-11, Federal agencies are to report budgetary information in the Statement of Budgetary Resources (SBR) based on budget terminology, definitions, and guidance issued. OMB Circular A-11 also states that the information on the SBR should be consistent with budget execution information reported in the President's Budget. Additionally, per SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," agencies are to

provide a financial statement footnote disclosure to explain significant differences between amounts presented in the SBR and amounts described as actuals in the President's Budget. However, since DFAS is a component of the DoD rather than a separate Federal agency as envisioned by OMB requirements, an analysis of information reported in both the SBR and the Report on Budget Execution (SF-133) at September 30, 2020 is performed. There are no differences between the SBR and the SF-133, Report on Budget Execution and Budgetary Resources & Budget Program and Financing Schedule.

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

As of September 30	2020		
	Intragovernmental	With the public	Total
Net Cost of Operations (SNC)	\$ (859,144,202)	\$ 1,008,222,447	\$ 149,078,245
Components of the Net Cost That are Not Part of Net Outlays			
Property, plant, and equipment depreciation	\$ 0	\$ (29,869,575)	\$ (29,869,575)
Property, plant, and equipment disposal	0	(15,012)	(15,012)
Increase (decrease) in assets:			
Accounts Receivable	(8,856,237)	(243,259)	(9,099,496)
Other assets	(832,691)	668,949	(163,742)
(Increase)/decrease in liabilities:			
Accounts payable	4,949,055	(1,296,680)	3,652,375
Salaries and benefits	(2,963,533)	(15,625,099)	(18,588,632)
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	871,900	3,599,251	4,471,151
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and imputed to the agency	(73,701,759)	0	(73,701,759)
Total Components of Net Costs That Are Not Part of Net Outlay	\$ (80,533,265)	\$ (42,781,425)	\$ (123,314,690)
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of capital assets	2,922,117	15,087,054	18,009,171
Total Components of Net Outlays That Are Not Part of Net Costs	\$ 2,922,117	\$ 15,087,054	\$ 18,009,171
Net Outlays	\$ (936,755,350)	\$ 980,528,076	\$ 43,772,726
Agency Outlays, Net, Statement of Budgetary Resources			\$ 43,772,726
Reconciling Differences			\$ 0

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SECTION III

ADDITIONAL INFORMATION (UNAUDITED)

Glossary of Acronyms and Abbreviations

Notes Pages



Jacob Wolfe, Financial Analyst for DFAS, works in the Corporate Budget Office on the Data Analytics Team. One of the primary reporting metrics he provides are the cost allocation and unit cost reports which aggregate all costs for the customer. (Courtesy photo)

GLOSSARY OF ACRONYMS AND ABBREVIATIONS



U.S. Army Reserve Sgt. Heath Hanuska (left) and Master Sgt. Art Villasenor, both with the 86th Training Division, place a chest seal on a simulated casualty during Operation Ready Warrior - Mission Rehearsal Exercise at Fort McCoy, Wis., Aug. 4, 2020. The exercise included 200 Soldiers attending virtually and in person to test systems and procedures to ensure the ability to provide training in a COVID-19 environment. (U.S. Army Reserve photo by Spc. John Russell/86th Training Division)

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

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

SA	Statement of Assurance
SBR	Statement of Budgetary Resources
SF-133	Report on Budget Execution and Budgetary Resources
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLOA	Standard Line of Accounting
SNC	Statement of Net Cost
SSAE-18	Standards for Attestation Engagements No. 18
SSN	Social Security Number
TFM	Treasury Financial Manual
TI	Treasury Index
Treasury	U.S. Department of Treasury
TSP	Thrift Savings Plan
U.S.C.	United States Code
US GAAP	U.S. Generally Accepted Accounting Principles
WCF	Working Capital Fund

NOTES PAGES



Fire Controlman 3rd Class Bismark Diaw assigned to the combat systems department aboard the Nimitz-class aircraft carrier USS George Washington (CVN 73), stands on the flight deck of the ship. George Washington is undergoing refueling complex overhaul (RCOH) at Newport News Shipyard. RCOH is a multi-year project performed only once during a carrier's 50-year service life that includes refueling the ship's two nuclear reactors, as well as significant repairs, upgrades, and modernization. (U.S. Navy photo by Mass Communication Specialist Seaman Bonnie Lindsay)

Notes Pages

Notes Pages

