Defense Information Systems Agency
General Fund
Agency Financial Report
Fiscal Year 2023

Message From the Defense Information Systems Agency

As the Defense Information Systems Agency (DISA) Director, I am presenting the Agency Financial Report (AFR) for the DISA General Fund (GF), as of Sept. 30, 2023. These statements and accompanying footnotes incorporate management discussion and analysis, performance, and financial sections that include the auditor's signed report. The AFR is prepared as directed by the Office of Management and Budget Circular A-136, Financial Reporting Requirements, to incorporate necessary operational and financial reporting process changes that validate our financial statements are complete, accurate, and reliable.

Among DISA's FY23 highlights, we continued to lead the Department's transition to a cloud environment and enhanced cybersecurity architecture, including deployment of a classified DoD365 tenant for consistent communication, collaboration, and productivity capabilities across networks; investing in enhanced MS365 licensing for improved zero trust; and implementation o the Joint Warfighting Cloud Capability. DISA plays a role in nearly every combat engagement and aids humanitarian assistance, disaster relief, and intelligence and special operations activities, including support in Ukraine's conflict.

DISA's actions in support of our Strategic Plan FY 2024-2026 will continue to implement, sustain, and evolve the global network infrastructure and unified capabilities to provide information superiority to the President; the Secretary of Defense; combatant commanders; senior leadership; military services; defense agencies; and the warfighter. Key focus areas throughout these LOEs include delivering the right capability at the right time, improving efficiency and effectiveness; reducing time to deliver solutions; standardizing services; and delivering best value capabilities both internally and for our mission partners. Sound financial processes and practices and reliable data are foundational to meeting our strategic objectives.

This year, we have continued to make improvements in our financial processes based on feedback by our independent public accounting firm Kearney & Company. DISA can provide reasonable assurance that internal controls over financial reporting, operations, and compliance are operating effectively as of Sept. 30, 2023. We continued progress addressing significant deficiencies and material weaknesses on DISA's GF financial statements. Information obtained through this year's report and continued improvements leverage our ongoing efforts to improve all aspects of DISA's GF. DISA continues to evolve our financial processes, improving accuracy and efficiency for better decision making. DISA will continue to gain efficiencies by expanding our usage of robotic process automation. The agency continues to improve its posture with a sound internal control environment to execute our strategy effectively while prioritizing command and control, driving force readiness through innovation, and improving cost management.

Robert J. Skinner
Lieutenant General, USAF
Director

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DISA General Fund Fiscal Year 2023

Management's Discussion and Analysis

The Defense Information Systems Agency (DISA) is pleased to present a Management Discussion and Analysis (MD&A) to accompany its fiscal year (FY) 2023 financial statements and footnotes. The key sections within this MD&A include the following:

1. **Context for the Financial Information in the MD&A**
2. **Analysis of Financial Statements**
3. **Analysis of Systems, Controls, and Legal Compliance**
4. **Forward-Looking Information**

1. Context for the Financial Information in the MD&A

History and Enabling Legislation

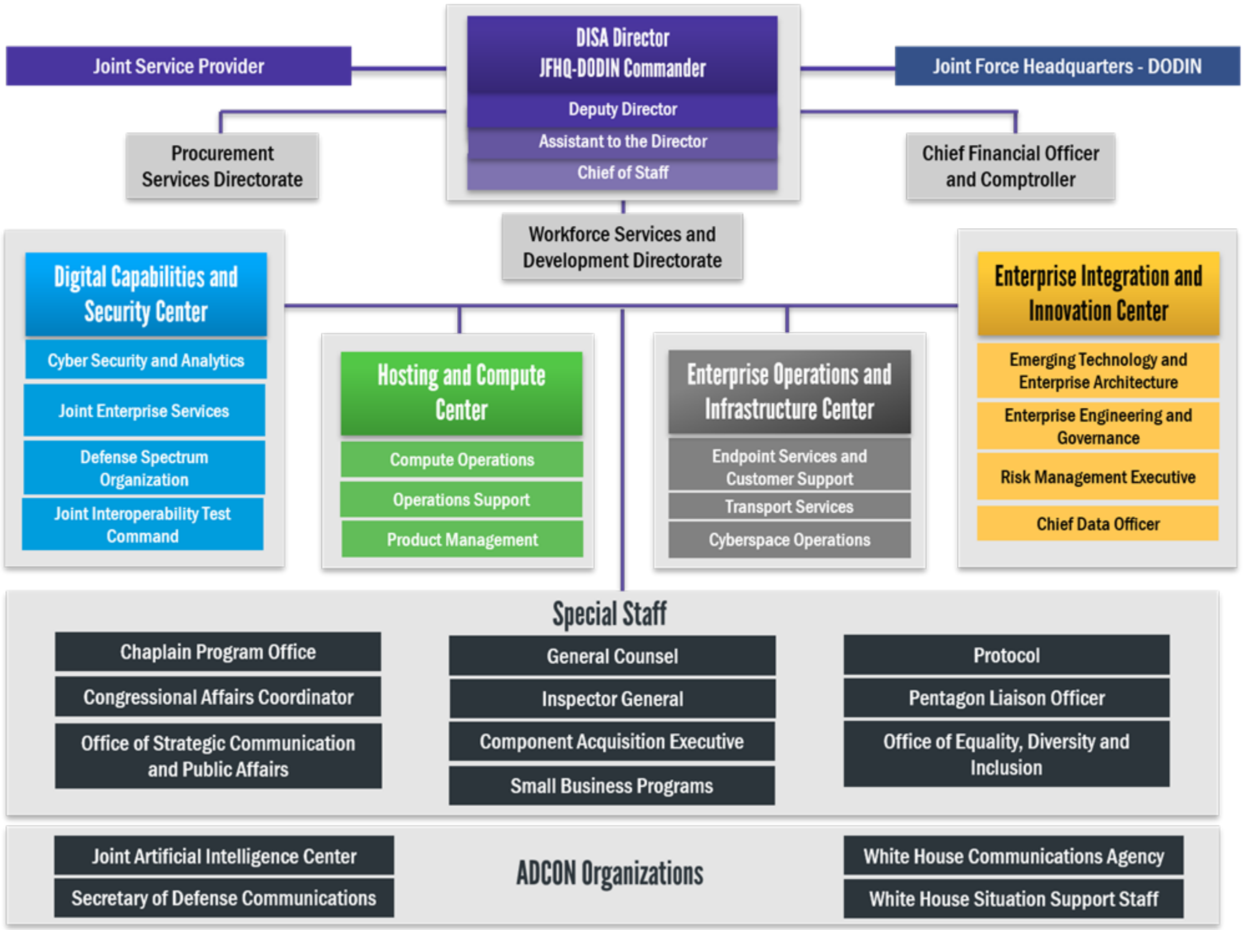
DISA, a combat support agency, provides, operates, and assures command and control, information sharing capabilities, and a globally accessible enterprise information infrastructure in direct support to joint warfighters, national level leaders, and other mission and coalition partners across the full spectrum of operations. DISA implements the Secretary of Defense's Defense Strategic Guidance and reflects the Department of Defense (DOD) Chief Information Officer's (CIO) Capability Planning Guidance. The DOD CIO vision is "to be the trusted provider to connect and protect the warfighter in cyberspace."

DISA serves the needs of the president, vice president, secretary of defense, Joint Chiefs of Staff (JCS), combatant commands, and other DOD components during peace and war. In short, DISA provides global net-centric solutions in the form of networks, computing infrastructure, and enterprise services to support information sharing and decision-making for the nation's warfighters and those who support them in defense of the nation. DISA is charged with connecting the force by linking processes, systems, and infrastructure to people.

In FY 2018, the organization that came to be known as the Joint Service Provider (JSP) declared full operational capability and moved into its new place in the Defense Department's organizational chart as a subcomponent of DISA. It marked a major expansion of mission and budget authority for DISA, which now controls the funding and personnel that provide most information technology (IT) services for the Pentagon and other DOD headquarters functions in the National Capital Region. DISA continues to offer DOD information systems support, taking data services to the forward deployed warfighter.

Organization

To fulfill its mission and meet strategic plan objectives, DISA operates under the direction of the DOD CIO, who reports directly to the secretary of defense. The organizational structure for DISA as of July 2023 is depicted below:



The agency is budgeted to support the IT needs and requirements of the entire Defense Department, including the offices of the secretary of defense and of the chairman and vice chairman of the Joint Chiefs of Staff, the Joint Staff, military services, combatant commands, and defense agencies. DISA also provides support to the White House and many federal agencies through a number of capabilities and initiatives.

DISA's Appropriated Budget

Through its appropriated budget, DISA is funded by Congress through the National Defense Authorization Act, the U.S. federal law specifying the budget and expenditures for DOD, and defense appropriations bills authorizing DOD to spend money. This budget enables the agency to implement the White House's national security strategy, the secretary's planning and programming guidance, and the initiatives of the DOD CIO. DISA receives four categories of appropriations: Operations and Maintenance (O&M); Procurement; Research, Development, Test, and Evaluation (RDT&E); and Military Construction (MILCON). Refer to the Combining Statement of Budgetary Resources (SBR) and Consolidating Statement of Net Cost charts in the Required Supplemental Information section of this document for a breakout of DISA GF's budgetary resources and costs for each appropriation category. These appropriations fund DISA's six mission areas, which reflect DOD's goals and allow DISA to execute its core missions and functions.

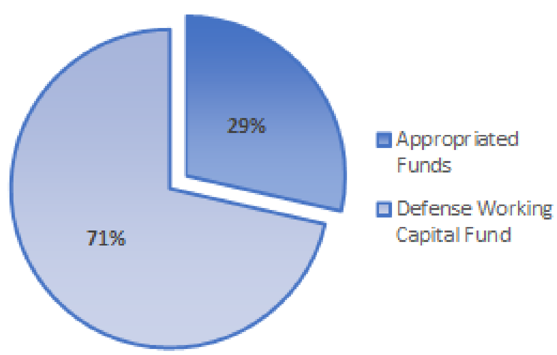
1. "Transition to the Net-Centric Environment" funds capabilities and services that transform the way that DOD shares information by making data continuously available in a trusted environment. This mission area includes enterprise services, engineering services, and technical strategies developed by DISA's chief technology officer.

2. "Eliminate Bandwidth Constraints" focuses on capabilities and services that build and sustain the Global Information Grid (GIG) transport infrastructure, while eliminating bandwidth constraints and rapidly surging to meet demands. Capabilities funded in this category include the Pathways program, DOD teleport program, Defense Spectrum Organization activities, and Defense Information Systems Network (DISN) enterprise activities, such as non-recurring costs for commercial circuits, commercial satellites, and special communications requirements.
3. "GIG Network Operations and Defense" funds the operation, protection, defense, and sustainment of the enterprise infrastructure and information-sharing services, as well as enabling command and control. This mission area includes funding for network operations; the information assurance/public key infrastructure program; cybersecurity initiatives; and budgets for DISA's field offices, which support the Combatant Commands, and for the Joint Staff Support Center, which supports the chairman, vice chairman, and Joint Chiefs of Staff in the Pentagon.
4. "Exploit the GIG for Improved Decision-Making" focuses on transitioning to DOD enterprise-wide capabilities for communities of interest, such as command and control, and combat support that exploit the GIG for improved decision-making. This mission area funds the Global Command and Control System-Joint program, Global Combat Support System-Joint program, and senior leader and coalition information-sharing activities.
5. "Deliver Capabilities Effectively/Efficiently" finances the means by which the agency effectively, efficiently, and economically delivers capabilities based on established requirements. This area funds the command staff and the personnel costs for DISA's shared service units.
6. "Special Mission Areas" enables the agency to execute special missions to provide the communications support required by the president as commander-in-chief, including day-to-day management, fielding, operation, and maintenance of communications and information technology. The White House Communications Agency (WHCA) and the Communications Management Control Activity in the Network Services Directorate are budgeted out of this mission area.

Resources: DISA is a combat support agency of the DOD with a $11.9 billion annual budget.

BUDGET

Appropriated	$3.4 Billion
Defense Working Capital Funds	$8.5 Billion
Total DISA Budget	**$11.9 Billion**



Global Presence

DISA is a global organization of approximately 7,500 civilian employees; 1,700 active-duty military personnel from the Army, Air Force, Navy, and Marine Corps; and over 11,000 defense contractors. This data is as of Sept. 2023. DISA's headquarters is at Fort Meade, Maryland, and has a presence in 25 states and the District of Columbia within the United States, and in seven countries, and Guam (U.S. territory), with 53 percent of its people based at Fort Meade and the National Capital Region, and 47 percent based in field locations.

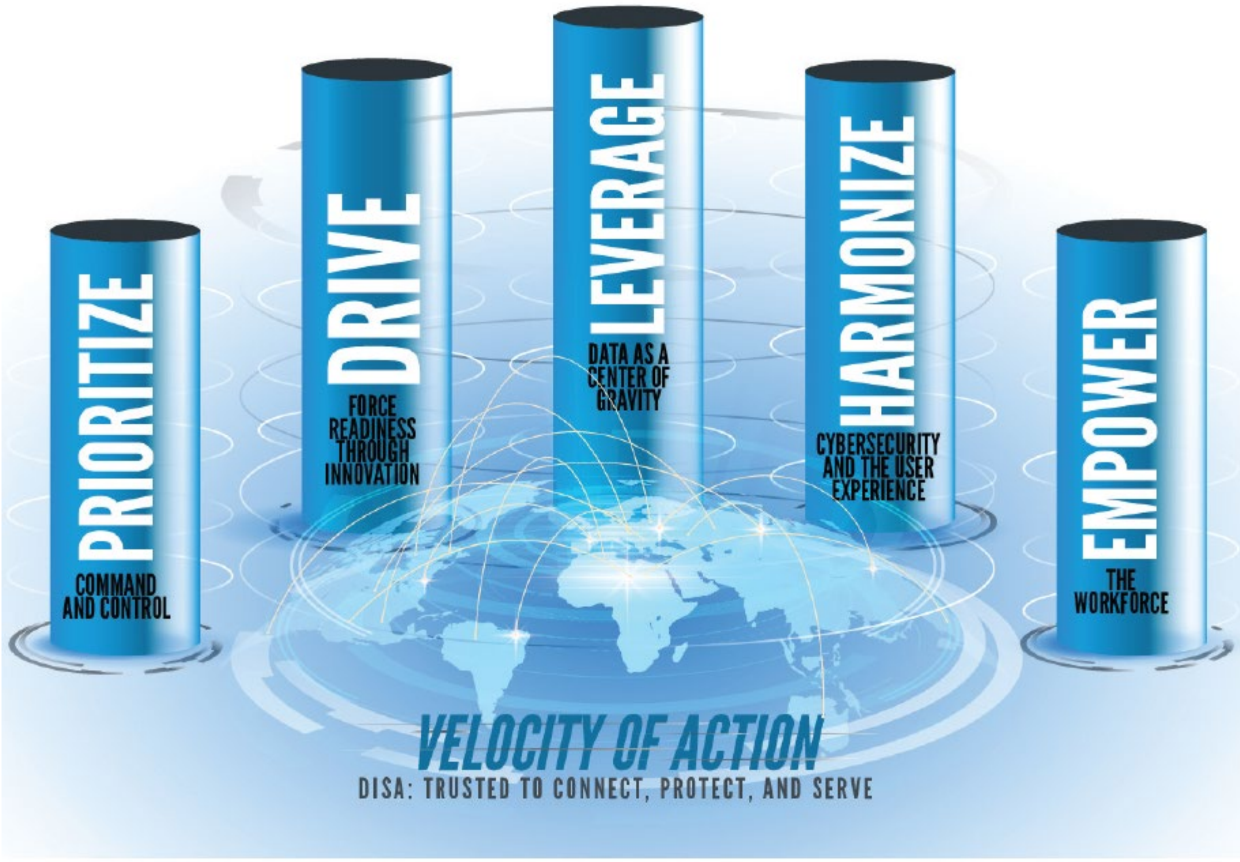
In addition, the following organizations are a part of DISA: Office of the Chief Financial Officer, Component and Acquisition Executive, Chief of Staff, Inspector General, Joint Force Headquarters-Department of Defense Information Network, Operations and Infrastructure Center, Procurement Services Directorate, Risk Management Executive, White House Communications Agency, and Workforce Services and Development Directorate. DISA provides a core enterprise infrastructure of networks, computing centers, and enterprise services (internet-like information services) that connect 4,300 locations, reaching 90 nations supporting DOD and national interests.

DISA is charged with the responsibility for planning, engineering, acquiring, testing, fielding, and supporting global net-centric information and communications solutions to serve the needs of the president, the vice president, the secretary of defense, and the DOD components under all conditions of peace and war.

Through actions in support of our lines of effort (LOEs), DISA will implement, sustain, and evolve the global network infrastructure and unified capabilities to provide information superiority to the president, the secretary of defense, combatant commanders, senior leadership, military services, defense agencies, and the warfighter.

The challenges posed in DISA's strategic objectives are addressed through our LOEs: prioritize command and control, drive force readiness through innovation, leverage data as a center of gravity, harmonize cybersecurity and the user experience, and empower the workforce. Key focus areas throughout these LOEs include improving efficiency and effectiveness, reducing time to deliver solutions, cutting costs, standardizing services, and implementing capability both internally and for our mission partners. New LOEs or actions may be added when necessary to support an agile approach and to achieve our shared vision.

DISA Lines of Effort as outlined in the FY 2022-2024 Strategic Plan include:



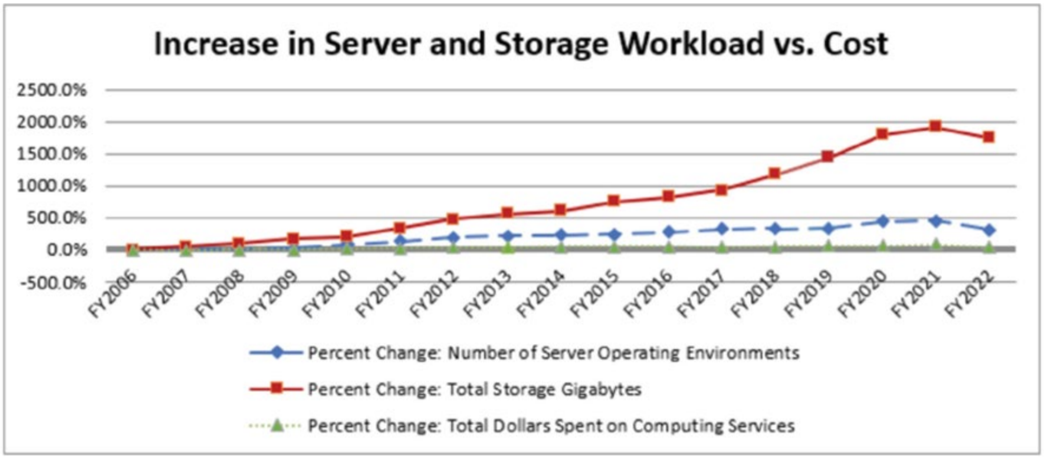
The framework addressed through our LOEs — prioritize command and control, drive force readiness through innovation, leverage data as a center of gravity, harmonize cybersecurity and the user experience, and empower the workforce — articulates our vision of a combat support agency that is the nation's trusted provider to connect and protect the warfighter in cyberspace. We look forward to working with our mission partners, industry, and academia as we continue to strengthen our capabilities and achieve *velocity of action to win*.

Program Performance

DISA's information services play a key role in supporting the DOD's operating forces. As a result, DISA is held to high performance standards. In many cases, performance measures are detailed in service-level agreements with individual customers that exceed the general performance measures discussed in the following paragraphs.

DISA Working Capital Fund (WCF) Performance Measures

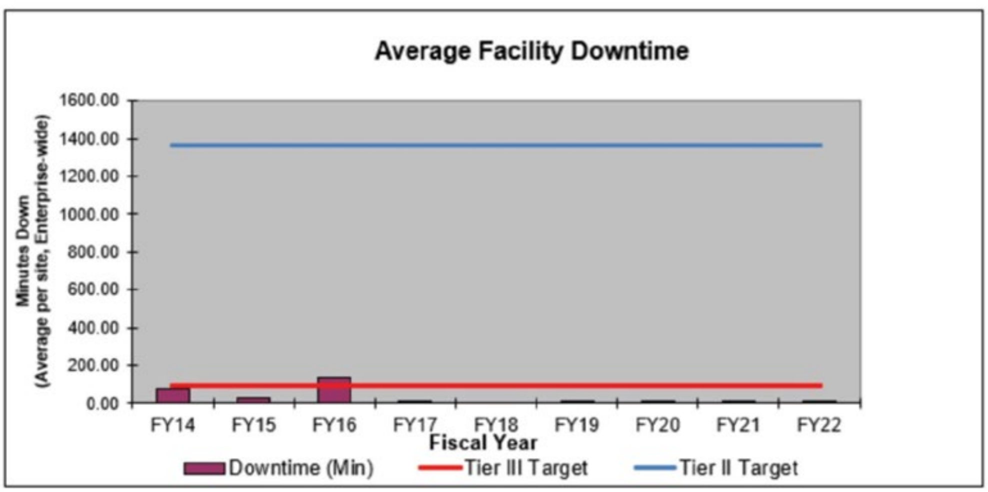
The table below represents the increased demand for DISA's server and storage computing services, which has grown significantly since FY 2006. Since that year, the number of customer-driven server operating environments has increased by 327 percent, and total storage gigabytes have increased by 1,789 percent. Over the same timeframe, the cost to deliver all computing services has increased by only 36 percent. In short, customers are demanding considerably more services and are at the same time benefiting from DISA's unique ability to leverage robust computing capacity at DISA data centers.



The Computing Services business area tracks its performance and results through the agency director's Quarterly Performance Reviews. There are two key operational metrics that are presented to the DISA director in conjunction with regular, recurring Quarterly Program Reviews. These two metrics depicted in the following tables reflect the availability of critical applications in the Core Data Centers.

The first metric, "Core Data Center Availability," expressed in minutes per year, represents application availability from the end user's perspective and includes all outages or downtime regardless of root cause or problem ownership. Tier II requires achieving 99.75 percent availability, which limits downtime to approximately 1,361 minutes per year. Tier III, the standard for all DOD-designated Core Data Centers, requires achieving 99.98 percent availability, which limits downtime to approximately 95 minutes per year.

Core Data Center Availability

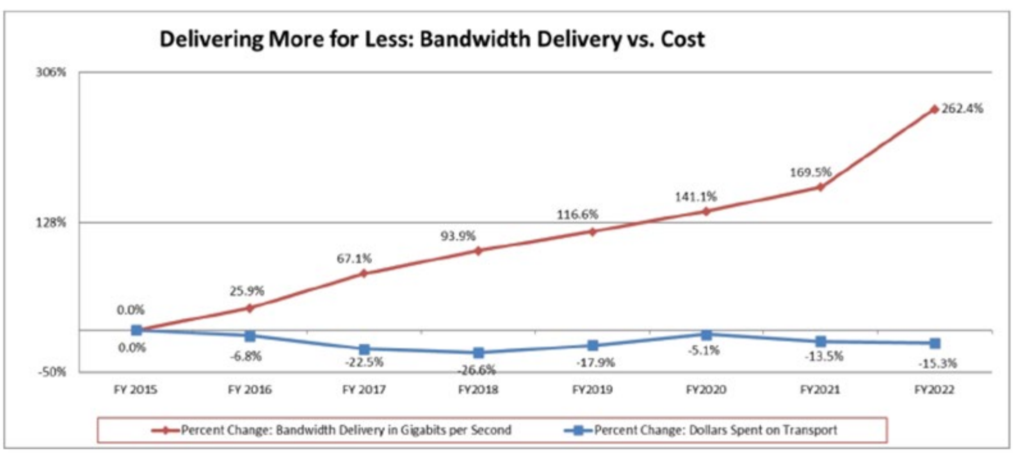


The second metric, "Capacity Service Contract Equipment Availability," represents DISA's equipment availability by technology, i.e., how well DISA is executing its responsibilities exclusive of factors outside the agency's control such as last-mile communications issues, base power outages, or the like. The "threshold" refers to system uptime and capacity availability for intended use; this is the level required by contract. The "objective" is the value agreed on by the vendor and the government to be an ideal target, and the vendor reports the actual value on a monthly basis.

Figure 1- Capacity Service Contract Equipment Availability

	Threshold	Objective	Actual
IBM System z Mainframe	99.95%	99.99%	100%
Unisys Mainframe	99.95%	99.99%	100%
P Series Server	99.95%	99.99%	100%
SPARC Server	99.95%	99.99%	100%
X86 Server	99.95%	99.99%	99.999%
Itanium	99.95%	>99.95%	99.999%
Storage	99.95%	>99.95%	99.999%
Communications Devices	99.95%	>99.95%	99.999%

The Telecommunications Services business area provides a set of high quality, reliable, survivable, and secure telecommunications services to meet the department's command and control requirements. The major component of Telecommunications Services is the DISN, a critical element of the DODIN that provides the warfighter with essential access to timely, secure, and operationally relevant information to ensure the success of military operations. The DISN is a collection of robust, interrelated telecommunications networks that provide assured, secure, and interoperable connectivity for the DOD, coalition partners, national senior leaders, combatant commands, and other federal agencies. Specifically, the DISN provides dynamic routing of voice, data, text, imagery (both still and full motion), and bandwidth services. The robustness of this telecommunications infrastructure has been demonstrated by DISA's repeated ability to meet terrestrial and satellite surge requirements in southwest Asia while supporting disaster relief and recovery efforts throughout the world. Overall, the DISN provides a lower customer price through bulk quantity purchases, economies of scale, and reengineering of current communication services. In spite of this continuing upward trend in demand, DISA has delivered transport services at an overall cost decrease to mission partners, as shown in the subsequent chart:



The previous chart compares the bandwidth delivery, including multiprotocol label switching connections, with transport costs. Since FY 2015, DISA has increased transport bandwidth delivery capacity 262.4 percent to meet customer demand. The increase is driven by internet traffic, DOD Enterprise Services, full motion video collaboration, and intelligence, surveillance, and reconnaissance requirements. Over the same timeframe, transport costs associated with the physical connections between sites have decreased by 15.3 percent. Additionally, DISA has been able to keep these costs down without any degradation in service. The DISN continues to meet or exceed network performance goals for circuit availability and latency, two key performance metrics.

The DISN has operating metrics tied to the department's strategic goal of information dominance. These operational metrics include the cycle time for delivery of data and satellite services as well as service performance objectives, such as availability, quality of service, and security measures. These categories of metrics have guided the development of the Telecommunication Services budget submission.

Figure 2- Major Performance and Performance Improvement Measures

SERVICE OBJECTIVE	FY 2022 ACTUAL	FY 2023 Operational Goal	FY 2024 Operational Goal
Non-Secure Internet Protocol Router Network access circuit availability	99.78%	98.50%	98.50%
Secure Internet Protocol Router Network latency (measurement of network delay) in the continental United States	40.31 Milliseconds	<= 100 milliseconds	<= 100 milliseconds
Optical Transport network availability	99.66%	99.50%	99.50%

The Enterprise Acquisition Services (EAS) business area is the department's ideal source for procurement of best-value and commercially competitive IT. EAS provides contracting services for IT and telecommunications acquisitions from the commercial sector and contracting support to the DISN programs, as well as to other DISA, DOD, and authorized non-defense customers. These contracting services are provided through DISA's Defense Information Technology Contracting Organization (DITCO) and include acquisition planning, procurement, tariff surveillance, cost and price analyses, and contract administration. These services provide end-to-end support for the mission partner.

Figure 3-EAS Performance Measures

SERVICE OBJECTIVE	FY 2022 ACTUAL	FY 2023 Operational Goal	FY 2024 Operational Goal
Percent of total eligible contract dollars completed	85.60%	73.00%	73.00%
Percent of total eligible contract dollars awarded to small businesses	25.29%	25.00%	25.00%

*FY 2023 and FY 2024 goals for percent of total eligible contract dollars competed are estimates based on the released FY 2022 goal. The goals have not yet been released by the Defense Procurement Acquisition Policy (DPAP).

In addition to the program performance measures outlined above, DISA has increased accountability of its assets by linking performance standards to internal control standards. Each Senior Executive Service member at DISA has included in their performance appraisal a standard to achieve accountability of property. This standard has filtered down to managers across the agency. This increased focus on accountability for managers has had a significant impact on the critical area of safeguarding assets.

DISA's AFR will be published at https://comptroller.defense.gov/ODCFO/afr/ by Dec. 21, 2023.

2. Analysis of Financial Statements

Background

Defense Information Systems Agency (DISA) prepares annual financial statements in conformity with accounting principles generally accepted in the United States. The accompanying financial statements and footnotes are prepared in accordance with Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements.* DISA records accounting transactions on both an accrual and budgetary basis of accounting. Under the accrual method, revenue is recognized when earned and costs/expenses are recognized and incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

Since FY 2005, DISA has had an established audit committee to oversee progress towards financial management reform and audit readiness. DISA leadership participates in audit committee meetings to fully support the audit and maintain senior leader tone-at-the-top. The DISA Audit Committee is composed of three members who are not part of DISA. The current mission of the DISA Audit Committee is to serve in an advisory role to DISA senior managers. The committee is tasked with developing, raising, and resolving matters of financial compliance and internal controls with the purpose of ensuring DISA's consistent demonstration of accurate and supportable financial reports. The committee develops and enforces guidance established for this purpose.

DISA General Fund (GF) did not receive a significant amount of COVID related budgetary resources in fiscal year (FY) 2023. DISA GF does not have any existing indefinite resources associated with COVID requirements. In FY 2023, there was no additional impact to financial reporting for DISA GF assets, liabilities, cost, revenue, or net position. See FY 2022 Note 13 for information related to FY 2022 COVID activity.

Defense General Fund Financial Highlights

The following section provides an executive summary and brief description of the nature of each General Fund (GF) financial statement, significant fluctuations, and significant balances to help clarify their link to DISA operations.

Executive Summary

The DISA GF financial statements for the quarter ended Sept. 30, 2023, reflect a fund that had an increase in overall appropriations in FY 2023 compared with FY 2022. See the table below for comparative data for appropriations received between these two fiscal years.

Figure 4-Executive Summary

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)	$ 2,950,595	$ 2,665,112	$ 285,483	11%
PROC (0300)	517,416	447,299	70,117	16%
RD&E (0400)	286,328	375,042	(88,714)	-24%
Consolidated Balance	$ 3,754,339	$ 3,487,453	$ 266,886	8%

All general ledger subsidiary details have been reconciled to the field level accounting system trial balances, and all journal vouchers posted to the Defense Departmental Reporting System-Budgetary (DDRS-B) and Defense Departmental Reporting System-Audited Financial Statements (DDRS-AFS) have been reconciled to ensure that the DDRS-AFS trial balance is 100 percent supported by transaction details. All journal vouchers posted in DDRS-B and DDRS-AFS by the Defense Finance and Accounting Service (DFAS) have been reviewed and approved by DISA staff.

The following financial statement highlights an explanation of amounts reported in significant financial statement line items and/or financial notes, and variances between the fourth quarter of FY 2023 reported balances and those in the fourth quarter of FY 2022. Additionally, as required by the recent Office of the Secretary of Defense (OSD) guidance for variance analysis, the comparison of the balance sheet between current period and prior year-end will also be addressed. Balances that have the same underlying explanation between budgetary and proprietary accounts are explained from the proprietary perspective and referenced from the budgetary perspective. Due to rounding, tables in this document may not add to overall totals.

CONSOLIDATED BALANCE SHEET

Assets

Fund Balance with Treasury - The following chart displays fiscal year-to-date net cash flow from current year operations (collections less disbursements) reported to the Department of the Treasury for FY 2023 and FY 2022 by appropriation presented in a comparative manner:

Figure 5- Fund Balance with Treasury

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)	$ 1,479,505	$ 1,369,840	$ 109,665	8%
PROC (0300)	871,569	849,384	22,185	3%
RD&E (0400)	292,216	399,173	(106,957)	-27%
MILCON (0500)	25,336	39,700	(14,364)	-36%
Consolidated Balance	$ 2,668,626	$ 2,658,097	$ 10,528	0%

Amounts recorded in the general ledger for Fund Balance with Treasury (FBWT) have been 100 percent reconciled to amounts reported in the DFAS Cash Management Report, representing DISA GF's portion of the TI97 appropriated account balances reported by the Treasury. All reconciling differences (i.e., undistributed) have been identified at the voucher level. The consolidated undistributed balance as of Sept. 30, 2023, is $6.9 million, compared with $22.1 million on Sept. 30, 2022.

Accounts Receivables, Net - Accounts receivables balances by appropriation as of Sept. 30, 2023, and Sept. 30, 2022, are as follows:

Figure 6-Accounts Receivable, Net

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 25,859	$ 32,448	$ (6,589)	-20%
Public	1,039	591	448	76%
PROC (0300)				
Intragov.	1,942	1,589	353	22%
Public	31	33	(2)	-6%
RDT&E (0400)				
Intragov.	3,337	5,392	(2,055)	-38%
Public	374	123	251	204%
Consolidated				
Intragov.	31,138	39,429	(8,291)	-21%
Public	1,444	747	697	93%
Total Consolidated	$ 32,582	$ 40,176	$ (7,594)	-19%

- The decrease in Operations & Maintenance (O&M) (0100) intragovernmental accounts receivable is attributable to the net of a $7 million decrease in overall accounts receivable, and a $0.5 million decrease in undistributed collections, which increases the total AR balance.

- The increase in Procurement (PROC) (0300) intragovernmental accounts receivable is attributable to a $0.3 million increase in overall accounts receivable.

- The decrease in Research, Development, Test, and Evaluation (RDT&E) (0400) intragovernmental accounts receivable is attributable to the net of a $2.2 million decrease in overall accounts receivable, and a $0.2 million decrease in undistributed collections, which increases the total AR balance.

General Property, Plant, and Equipment, Net - General property, plant, and equipment (PP&E) balances by appropriation as of Sept. 30, 2023, and Sept. 30, 2022, are as follows:

Figure 7-General PP&E, Net

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)	$ 38,197	$ 12,007	$ 26,190	218%
PROC (0300)	261,417	289,465	(28,048)	-10%
RDT&E (0400)	4,756	4,265	491	12%
MILCON (0500)	20,775	20,627	148	1%
Consolidated	$ 325,145	$ 326,364	$ (1,219)	0%

- The 218 percent increase in O&M (0100) general PP&E was driven by:
  - A $7.9 million increase in equipment purchases from DISA WCF for the DISA IT Transport Services Branch and a $2.6 million increase in accumulated depreciation on equipment, which draws down O&M PP&E
  - A $23.1 million increase to Construction In Progress (CIP) for new funded capital projects.

- A $1.7 million increase in accumulated amortization of internal-use software, which draws down O&M PP&E.
- The 10 percent decrease in PROC (0300) general PP&E was driven by:
  - A $9.4 million decrease to CIP related to equipment received and not placed into use.
  - A $38.7 million increase in equipment placed in service and a $35 million increase in accumulated depreciation on equipment, which draws down PROC PP&E.
  - A $61.9 million decrease in leasehold improvements and a $40 million decrease in accumulated amortization on leasehold improvements, which increases PROC PP&E. These decreases are due to a policy change for which leasehold improvements are to be transferred to the hosting installation.
- The 1 percent increase in Military Construction (MILCON) (0500) general PP&E was driven by:
  - A $13.5 million increase in CIP to construct an RDT&E facility for the Joint Interoperability Test Command at Fort Huachuca, Arizona.
  - A $13.6 million decrease in leasehold improvements and a $9 million decrease in accumulated amortization on leasehold improvements, which increases MILCON PP&E. These decreases are due to a policy change for which leasehold improvements are to be transferred to the hosting installation.
  - A $10 million decrease in buildings, improvements, and renovations and a $1.2 million decrease in accumulated depreciation on buildings, improvements and renovations, which increases MILCON PP&E. These decreases are due to the transfer out of the Geraldton building to the Navy.

Liabilities

Total Liabilities Not Covered by Budgetary Resources - Total liabilities not covered by budgetary resources are primarily composed of two types of liabilities: accounts payable balances associated with cancelled appropriations and unfunded annual leave and Federal Employees' Compensation Act (FECA) balances. If an accounts payable balance remains when an appropriation is cancelled, it is re-established. This would primarily occur if there were an accrual recorded that is still anticipated or invoiced or the contract closeout has not occurred. If the amount is ever invoiced, it would be paid from current year appropriations. Unfunded annual leave and FECA balances accrue in the current period and will be funded when they come due in future years.

Figure 8-Total Liabilities Not Covered by Budgetary Resources

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 771	$ 854	$ (83)	-10%
Public	48,321	45,928	2,393	5%
PROC (0300)				
Public	1	1	0	0%
Consolidated				
Intragov.	771	854	(83)	-10%
Public	48,322	45,929	2,393	5%
Consolidated	$ 49,093	$ 46,783	$ 2,310	5%

- Non-federal liabilities O&M increased by 5 percent driven by:
  - A $1.7 million increase in legal contingent liabilities for future funded expenses,
  - A $0.8 million increase in actuarial FECA liability, and

- A $0.2 million decrease in unfunded annual leave.

Total Liabilities Covered by Budgetary Resources - Total liabilities covered by budgetary resources are made up of four types of liabilities:

1. Accounts payable balances are recorded in various ways based on the underlying transaction. DISA staff evaluate purchases recorded, accrued cost, and accounts payable for service-based orders as applicable. Accounts payable for goods is based on receipt of invoice. DISA continues to refine the accrual methodology processes to match the recording of cost more accurately with the period of performance or estimated delivery date.
2. Accrued funded payroll and leave.
3. Employer contributions and payroll taxes.
4. Liabilities of advances and prepayments.

Balances reported as of Sept. 30, 2023, and Sept. 30, 2022, consist of the following:

Figure 9-Total Liabilities Covered by Budgetary Resources

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 256,644	$ 222,514	$ 34,130	15%
Public	17,033	31,882	(14,849)	-47%
PROC (0300)				
Intragov.	57,419	42,999	14,420	34%
Public	3,040	2,609	431	17%
RDT&E (0400)				
Intragov.	38,878	51,372	(12,494)	-24%
Public	3,885	3,266	619	19%
MILCON (0500)				
Intragov.	856	881	(25)	-3%
Public	63	63	0	0%
Consolidated				
Intragov.	353,797	317,766	36,031	11%
Public	24,021	37,820	(13,799)	-36%
Consolidated	$ 377,818	$ 355,586	$ 22,232	6%

- The O&M (0100) intragovernmental increase was driven by a $18.1 million increase in normal accounts payable, and a $15.9 million decrease in abnormal undistributed accounts payable disbursements which increases overall accounts payable. The public decrease was driven by a $3.8 million decrease in normal accounts payable, a $9 million increase undistributed accounts payable disbursements, $0.4 million increase in accrued funded payroll and leave-salaries and wages, a $2.4 million decrease in liability for advances and prepayments, a $0.2 million increase in employer contributions and payroll taxes payable.
- The PROC (0300) intragovernmental increase was driven by a $9.3 million increase in normal accounts payable, and a $5 million increase in abnormal undistributed accounts payable disbursements which increases overall accounts payable. The public increase is due to a $2 million increase in normal accounts payable, and a $1.6 million increase in abnormal undistributed accounts payable disbursements which draws down accounts payable.

- The RDT&E (0400) intragovernmental decrease was driven by a $12.8 million decrease in normal accounts payable, and a $0.3 million decrease in normal undistributed accounts payable disbursements which increases overall accounts payable. The public increase was driven by a $1.4 million increase in normal accounts payable, a $1.1 million increase in normal undistributed accounts payable disbursements, a $0.2 million increase in liability for advances and prepayments, and a $0.1 million increase in accrued funded payroll and leave-salaries and wages.

Other Liabilities - Other liabilities primarily comprise five types of liabilities:

1. Unfunded FECA balances. These liabilities are accrued in the current period and will be funded when they come due in future years.
2. Accrued funded payroll and leave.
3. Employer contribution and payroll taxes payable (health benefits, life insurance, and retirement).
4. Liability for advances and prepayments.
5. Other post-employment benefits due and payable.

Figure 10-Other Liabilities

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)				
Intragov.	$ 2,646	$ 2,655	$ (9)	0%
Public	7,104	4,992	2,112	42%
RDT&E (0400)				
Public	637	539	98	18%
Consolidated				
Intragov.	2,646	2,655	(9)	0%
Public	7,741	5,531	2,210	40%
Consolidated	$ 10,387	$ 8,186	$ 2,201	27%

Figure 11-Other Liabilities: Advances from Others and Deferred Revenue

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)				
Public	$ 2,782	$ 5,274	$ (2,492)	-47%
RDT&E (0400)				
Public	2,611	2,380	231	10%
Consolidated	$ 5,393	$ 7,654	$ (2,261)	-30%

- Other liabilities had no change overall attributed to a $1.7 million increase in non-federal contingent liabilities (0100), a $0.4 million increase in non-federal accrued funded payroll and leave-salaries and wages (0100), a $2.4 million decrease in non-federal liability for advances and prepayments (0100), and a $0.2 million increase in non-federal liability for advances and prepayments (0300).

CONSOLIDATED STATEMENT OF NET COST

Net cost of operations increased by $85.5 million, or 2 percent, between the fourth quarter of FY 2022 and the fourth quarter of FY 2023. The change in net cost of operations comprises of an increase in gross costs of $76.3 million and a decrease in earned revenue of $9.2 million.

Figure 12-Consolidated Statement of Net Cost

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)	$ 2,852,585	$ 2,656,831	$ 195,754	7%
PROC (0300)	372,183	459,698	(87,515)	-19%
RDT&E (0400)	358,607	379,295	(20,688)	-5%
MILCON (0500)	1,175	3,208	(2,033)	-63%
Consolidated	$ 3,584,550	$ 3,499,032	$ 85,518	2%

- The increase in O&M (0100) is attributable to
    - A $185.7 million increase in operating expenses/program costs.
        - $115.3 million increase in other contractual services, including $63.1 million for advisory and assistance services and $40.1 million for O&M of equipment.
        - $49.2 million increase in equipment.
    - A $10.1 million increase in imputed costs for retirement.
    - A $5.7 million decrease in revenue from services provided.
    - A $2.2 million decrease in imputed costs for real property not executed under WCF budget authority.

- The decrease in PROC (0300) is attributable to
    - A $102.5 million increase in operating expenses/program costs.
        - $40.8 million increase in equipment.
        - $56.4 million increase in contractual services for O&M of equipment.
        - $6.4 million increase in rent, communications, utilities, and miscellaneous charges.
    - A $184.1 million decrease in cost capitalization offset-general PP&E
    - A $2.3 million increase in revenue from services provided.

- The decrease in RDT&E (0400) is attributable to
    - A $25.9 million decrease in operating expenses/program costs.
        - $27.9 million increase in contractual services for research and development.
        - $51.7 million decrease in contractual services for O&M of equipment.
        - $3.5 million decrease in contractual services for advisory and assistance services.
        - $3 million increase in equipment.
    - A $5.8 million decrease in revenue from services provided.

- The decrease in MILCON (0500) is attributable to
    - A $11.9 million increase in operating expenses/program costs.
        - $2.2 million decrease in contractual services for O&M of facilities.
        - $14 million increase in equipment.
    - A $14 million decrease in cost capitalization offset-general PP&E.

STATEMENT OF CHANGES IN NET POSITION

- Other financing sources: Transfers-in/out without reimbursement decreased $41 million (20 percent) overall. The change is attributed to a decrease of $35.1 million in 0300 related to projects completed and moved from GF CIP and transferred to WCF, a $28 million decrease in 0400 driven by an on-the-top Journal Voucher (JV) posted in FY 2022 to correct an FY 2021 posting (increase of $28.5 million from 0300 to 0400), an increase of $12.7 million related to CIP for construction of a RDT&E facility at Fort Huachuca (0500), and an increase of $9.1 million related to equipment purchased and not yet placed in service (0100).

- Other financing sources: Imputed financing from costs absorbed by others increased by $9.5 million (13 percent) overall. This is attributable to an increase of $10.1 million in the imputed cost for retirement, a decrease of $2.2 million in the imputed costs of real property not executed under WCF budget authority, and an increase of $1.4 million in the imputed cost for health.

STATEMENT OF BUDGETARY RESOURCES

Statement of Budgetary Resources (SBR) net outlays, reimbursements earned (receivable and delivered orders), and delivered orders unpaid[1] (obligations) are reconciled with their proprietary account counterparts (FBWT, account receivable, and account payable) respectively, and those variances are consistent with the variances described above. The results and variances of other key amounts reported in the SBR are as follows:

Figure 13-Statement of Budgetary Resources

(thousands)

DISA GF	9/30/2023	9/30/2022	Inc/Dec	% Chg.
O&M (0100)				
Obligations Incurred	$ 3,354,090	$ 3,023,848	$ 330,242	11%
Unobligated Balances	265,420	270,336	(4,916)	-2%
Undelivered Orders	1,030,565	949,368	81,197	9%
Unfilled Customer Orders	(63,731)	(71,561)	7,830	-11%
PROC (0300)				
Obligations Incurred	650,399	516,978	133,421	26%
Unobligated Balances	214,721	296,692	(81,971)	-28%
Undelivered Orders	600,897	520,480	80,417	15%
Unfilled Customer Orders	(2,566)	(11,807)	9,241	-78%
RD&E (0400)				
Obligations Incurred	287,006	495,516	(208,510)	-42%
Unobligated Balances	157,498	97,918	59,580	61%
Undelivered Orders	138,455	284,099	(145,644)	-51%
Unfilled Customer Orders	(43,724)	(32,321)	(11,403)	35%
MILCON (0500)				
Obligations Incurred	1,467	371	1,096	295%
Unobligated Balances	15,940	17,042	(1,102)	-6%
Undelivered Orders	8,478	21,714	(13,236)	-61%
Consolidated				
Obligations Incurred	$ 4,292,962	$ 4,036,713	$ 256,249	6%
Unobligated Balances	$ 653,579	$ 681,988	$ (28,409)	-4%
Undelivered Orders	$ 1,778,395	$ 1,775,661	$ 2,734	0%
Unfilled Customer Orders	$ (110,021)	$ (115,689)	$ 5,668	-5%

**Totals represent unfilled customer orders with and without advance*

[1] Net outlays will impact the following lines on the SBR: 1890 – Spending Authority from Offsetting Collections, 3020 – Outlays, Gross; 3090, Uncollected Payments End of Year; 4178 – Change in Uncollected Payments; 4185 – Outlays, Gross; 4187 – Offsetting Collections; and 4190/4210 – Net Outlays. Reimbursements Earned – Receivable will impact the following lines on the SBR: 3060 – Uncollected Payments Brought Forward and 3072 – Change in Uncollected Payments. Delivered Orders – Unpaid impacts the following lines on the SBR: 3050 – Unpaid Obligations End of Year.

Obligations Incurred

- O&M (0100) increase in obligations was driven by
    - A $190.6 million increase in contractual services for O&M of equipment.
    - A $60.8 million increase in total obligations, including a $48.2 million increase in unpaid delivered orders.
    - A $46.9 million increase in contractual advisory and assistance services.
    - A $18.9 million increase for contractual services for O&M of facilities.
    - A $12.1 million increase in travel and transportation of persons.
- PROC (0300) increase in obligations was driven by
    - A $115.6 million increase in equipment.
    - A $62.8 million increase in contractual advisory and assistance services.
    - A $55 million decrease in contractual services for O&M of equipment.
    - A $22 million increase in total obligations, including a $30.5 million increase in unpaid delivered orders and a $7.2 million decrease in paid delivered orders.
    - A $9.2 million decrease in rent, communications, utilities and miscellaneous charges.
    - A $4.5 million decrease in contractual services from non-federal sources.
- RDT&E (0400) decrease in obligations was driven by
    - A $109.9 million decrease in contractual services for O&M of equipment.
    - A $91.7 million decrease in contractual services for research and development.
    - A $6.9 million decrease in contractual advisory and assistance services.
    - A $1.3 million increase in total obligations, including a $1.1 million increase in paid delivered orders.
- MILCON (0500) increase in obligations was driven by
    - A $0.6 million increase in contractual services of O&M facilities
    - A $0.3 million increase in total obligations, including a $1.1 million increase in unpaid undelivered orders, and a $0.9 million decrease to unpaid delivered orders.

Unobligated Balances

- O&M (0100) unobligated balance decrease is driven by an $14.9 million decrease in allotments – expired authority, and a $9.9 million increase in allotments-realized resources.
- PROC (0300) unobligated balance decrease is driven by a $60.5 million decrease in allotments-realized resources, a $27.3 million decrease in allotments-expired authority, and a $5.9 million increase in commitments-programs subject to apportionment.
- RDT&E (0400) unobligated balance increase is driven by a $60.2 million increase in allotments-realized resources, a $5.7 million decrease in commitments-programs subject to apportionment, and a $5 million increase in allotments – expired authority.
- MILCON (0500) unobligated balance decrease is driven by a $0.8 million decrease in allotments – realized resources, and a $0.2 million decrease in allotments- expired authority.

RECONCILIATION OF NET COST TO NET OUTLAYS

The reconciliation of net cost to net outlays demonstrates the relationship between the DISA GF's net cost of operations, reported on an accrual basis of the statement of net cost (SNC) and net outlays, reported on a budgetary basis of the SBR. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period.

The accrual basis of financial accounting is intended to provide a picture of the DISA GF's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by the DISA GF. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

Figure 14-Reconciliation of Net Cost to Net Budgetary Outlays

(thousands)

DISA GF	Intragov.	Public	Total
Net Cost of Operations	$ 2,896,620	$ 687,931	$ 3,584,551
Property, Plant, and Equipment, net changes	0	(1,220)	(1,220)
Increase/(Decrease) in Assets:			
Accounts and taxes receivable, net	(8,347)	698	(7,649)
Other Assets	0	(12)	(12)
Increase/(Decrease) in liabilities:			
Accounts Payable	(35,898)	12,182	(23,716)
Federal employee and veteran benefits payable	0	(829)	(829)
Other liabilities	9	52	61
Other Financing Sources:			
Imputed cost	(81,529)	$0	(81,529)
Total Components of Net Cost That Are Not Part of Net Outlays	$ (125,765)	$ 10,871	$ (114,894)
Miscellaneous Reconciling Items			
Transfers (in)/out without reimbursements	159,335	0	159,335
Other	0	9,589	9,589
Total Other Reconciling items	159,335	9,589	168,924
Total Net Outlays	2,930,190	708,391	3,638,581
Agency Outlays, Net, Statement of Budgetary Resources			$ 3,638,463
Unreconciled difference			$118

The unreconciled difference of $118 thousand is related to Line R1C2, not including Standard General Ledger (SGL) 711000.9000, which is included in SNC net cost of operations, but not in the SBR net outlays. The fluctuation is due to adjusting entries made for equipment sent to the Defense Logistics Agency (DLA) that was no longer in use.

LIMITATIONS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of federal entities in accordance with federal Generally Accepted Accounting Principles (GAAP) and the formats prescribed by DDRS-B. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. government.

The statements should be read with the realization that they are for a defense agency of the U.S. government, a sovereign entity.

3. Analysis of Systems, Controls, and Legal Compliance

Management Assurances

DISA Office of the Chief Financial Officer (OCFO)/Comptroller has oversight of DISA's Risk Management and Internal Control (RMIC) Program. Agency assessable unit managers (AUMs) perform testing and report results for Internal Controls Over Reporting - Operations (ICOR-O) Non-Financial. Tests and reports of results are conducted for the Internal Controls Over Reporting - Financial Systems (ICOR-FS) for the agency. In addition, the OCFO conducts testing and reports on the overall Internal Controls Over Reporting - Financial Reporting (ICOR-FR) for the agency.

Reviews, testing, and evaluations are conducted to assess if the internal control structure is compliant with the components of the Government Accountability Office (GAO) Green Book objectives of operations, reporting, and compliance. DISA's senior management has reviewed and evaluated the system of internal controls in effect during the fiscal year as of the date of this memorandum, according to the guidance in OMB Circular No. A-123 and the GAO Green Book. Included is our evaluation of whether the system of internal controls for DISA is compliant with standards prescribed by the Comptroller General.

The objectives of the system of internal controls are to provide reasonable assurance for

- Operations: effectiveness and efficiency of operations.
- Reporting: reliability of financial and non-financial reporting for internal and external use.
- Compliance: adherence to applicable laws and regulations, including financial information systems compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208).

The evaluation of internal controls extends to every responsibility and activity undertaken by DISA and applies to program, administrative, and operational controls, making adherence of Risk Management and Internal Controls not only the responsibility of management, but also every DISA employee. The concept of reasonable assurance recognizes that DISA's mission objectives are achieved, and managers must carefully consider the appropriate balance among risk, controls, costs, and benefits in our mission-support operations.

Too many controls can result in inefficiencies, while too few controls might increase risk to an unacceptable level. In that premise, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate. Therefore, this statement of reasonable assurance is provided within the limits of the preceding description.

DISA management evaluated the system of internal controls in accordance with the guidelines identified above. The results indicate that the system of internal controls of DISA, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved for reporting, operations, and compliance.

Based upon this evaluation, establishing and integrating internal control into its operations in a risk-based and cost beneficial manner, DISA is providing reasonable assurance that our internal controls over reporting, operations, and compliance are operating effectively. Reasonable assurance has been achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

DEFENSE INFORMATION SYSTEMS AGENCY
P. 0. BOX 549
FORT MEADE, MARYLAND 20755-0549

NOV 0 6 2023

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER) (OUSD(C)) DEPUTY CHIEF FINANCIAL OFFICER (DFCO)

SUBJECT: Annual Statement of Assurance Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year (FY) 2023

As Director of the Defense Information Systems Agency (DISA), I recognize DISA is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. DISA conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Enterprise Risk Management and Internal Control" and the Green Book, GAO-14-704G, "Standards for Internal Control in the Federal Government." This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DISA can provide reasonable assurance that internal controls over operations, reporting, and compliance are operating effectively as of September 30, 2023. In FY 2023, there were six categories of material weaknesses (MWs) and Significant Deficiencies (SDs) that are in process of correction or have mitigating controls: Accounts Receivable/Revenue; Accounts Payable/Expense; Budgetary Resources; Fund Balance with Treasury; Financial Reporting; and Property, Plant and Equipment (PPE).

DISA 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 *"Summary of Management's Approach to Internal Control Evaluation (Appendix C)"* section provides specific information on how DISA conducted this assessment. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DISA can provide reasonable assurance that internal controls over operations and compliance are operating effectively as of September 30, 2023**.**

DISA 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 (Appendix C)"* section, provides specific information on how DISA conducted this assessment. This assessment also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DISA can provide assurance that internal controls over reporting (including internal and external reporting) as of September 30, 2023), and compliance are operating effectively as of September 30, 2023.

DISA also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with FMFIA and OMB Circular No. A-123, Appendix D. The *"Internal Control Evaluation (Appendix C)"* section provides specific information on how DISA conducted this assessment. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of this assessment, DISA can provide assurance, except for one non-conformance reported in the *"Significant Deficiencies and Material Weaknesses Template*" that the internal controls over the financial systems are in compliance with the FMFIA, Section 4; Federal Financial Management Improvement Act (FFMIA), Section 803; and OMB Circular No. A-123, Appendix D, as of September 30, 2023.

DISA has conducted an assessment of entity-level controls including fraud controls in accordance with the Green Book, OMB Circular No. A-123, the Payment Integrity Information Act of 2019, and GAO Fraud Risk Management Framework. This internal review also included an evaluation of the internal controls around our Security Assistance Accounts (SAA) activities. Based on the results of the assessment, DISA can provide reasonable assurance that entity-level controls including fraud controls are operating effectively as of September 30, 2023**.**

DISA is hereby reporting that no Anti-Deficiency Act (ADA) violations have been discovered/identified during our assessments of the applicable processes <u>OR</u> Anti-Deficiency Act (ADA) violation(s) has (have) been discovered/identified during our assessments of the applicable processes.

If there are any questions regarding this Statement of Assurance for FY 2023, my point of contact is Mr. Alex Diaz, and he can be reached at alexis.diaz20.civ@mail.mil or (614) 692-9400.

ROBERT J. SKINNER
Lieutenant General, USAF
Director

Attachments:
As stated

FY 2023 Internal Control Program Initiatives and Execution

In addition to the foundational sources of guidance such as OMB Circular A-123 and the GAO Green Book, DISA also receives direction from and coordinates with the Office of Under Secretary of Defense Comptroller (OUSD [C]) to execute its Risk Management Internal Control (RMIC) Program. The OUSD Comptroller RMIC Team issues the FY 2023 DOD Statement of Assurance Handbook that requires deliverables throughout the reporting cycle. The handbook provides practical guidance to carry out the program. In FY 2022, there was an emphasis on Entity Level Controls (ELCs), auditor Notice of Findings and Recommendations (NFR), Corrective Action Plan (CAP) implementation and resolution, and testing to pave the way in support of CAP resolution or mitigation. This remains in FY 2023; however, there is more focus on integrating an agency Risk Profile that identifies risks and fraud that may potentially impact the agency's strategic objective.

Throughout the process, DISA has provided several templates and deliverables to support not only DISA, but the overall DOD RMIC Program. In the course of the year, DISA will have submitted an End-to-End Process Control Narrative Key Controls Memo, Agency Risk Assessment, Material Weakness (MW) and Deficiencies Reporting and Removal Template, Entity Level Control Testing Validation, Fraud Controls Matrix, Complementary User Control CAPs, Summary of Management's Approach to Internal Control Evaluation Template, and a DATA Act Data Quality Controls Matrix in support of the program.

***Correction of Prior Year Significant Deficiencies and Material Weaknesses*:**
One of the department's focus areas is to make progress towards resolution of prior year MWs and conditions impeding audit progress. DISA has made concentrated efforts to resolve and clear prior year issues. In FY 2023, at the time of this memorandum, DISA has a potential to close 9 NFRs upon final review and approval by the independent public accounting firm (IPA).

Entity Level Controls (ELCs):
ELCs include Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. Underlying these five control components, the Green Book states 17 control principles that represent fundamental elements associated with each component of control and emphasizes that there are significant interdependencies among the various control principles. ELCs represent the overarching management controls that create an environment of management oversight for the financial and non-financial activities of the department and DISA as an agency.

Enterprise Approach to Risk Management:
Each year, DISA kicks off its internal control program and begins by performing a risk assessment in which DISA has taken an enterprise approach that covers key business processes. Risk management has been aligned to the National Defense Strategy (NDS) and the National Defense Business Operations Plan (NDBOP). DISA supported NDS Strategic Goal 3 to "Reform the Department's Business Practices for Greater Performance and Affordability" through identifying associated control activities and evaluating risk and control effectiveness.

In addition, DISA adheres to the NDBOP goal of "undergo an audit and improve the quality of budgetary and financial information that is most valuable in managing the DOD," through its audit and environment of continuous improvement and process refinement. The RMIC Program is managed through a three-tiered approach, which provides a structure to identify risk at an enterprise level, as well as at a more granular level. DISA director provides a "tone-at-the-top" memo, which defines management's leadership and commitment towards an effective internal control structure.

The second tier is supported by the Internal Control team, consisting of subject matter experts providing guidance and execution of the program throughout the agency. The third tier is supported by the AUMs who manage at the program/directorate level within the organization. Each directorate's senior leadership, within each assessable unit, collaborates with AUMs to identify areas of risks in their respective area. The processes of coordinating and consolidating risk help identify the overall assessment of risk at the enterprise risk management level, while also reviewing DISA's detail transactions. This risk assessment results in reviews and letters of assurance from each area that are considered in the annual Statement of Assurance assessment.

Oversight and Monitoring:
DISA's internal control structure of training provides AUM assistance; ELCs; risk assessments; continuous testing in mandatory and high-risk areas; reviews, updates, and management approval of process narratives and cycle-memos; CAPs; and senior accountable officials (SOAs) letters of assurance. These elements are all core to an integral program of oversight and monitoring. In addition, the Senior Assessment Team (SAT) met on Sept. 27, 2023, and provided oversight to the internal control program through discussion of results and anticipated outcomes to be reported in the FY 2023 Statement of Assurance.

Payment Integrity/Improper Payment Recovery:
For compliance with the Payment Integrity Information Act of 2019 (Pub. L. No. 116-117, 31 U.S.C. § 3352 and § 3357), DISA has an internal control structure in place to mitigate improper payments that could result in payment recovery actions. Actions taken to prevent overpayments include testing and review of civilian time and attendance, travel payments, and purchase card transactions. Tests validate that internal controls are in place and functioning as preventative measures to mitigate risks in the execution, obligation, and liquidation of funding for transactions. Controls are in place through established policy and procedures, training, separation of duties, and data mining to identify risks and fraud vulnerabilities.

Additionally, DFAS, as DISA's accounting service provider, performs overpayment recapture functions on behalf of DISA. DFAS includes DISA transactions in its sampling populations for improper payment testing of civilian payroll and travel. There have been no issues arising to merit an anticipated negative impact regarding payment integrity and improper payment recovery.

Financial Risk Management (FRM):
One of the new recommendations for FY 2023 is the submission of the FRM or tone-at-the-top RMIC memorandum to the RMIC platform. This is a new submission item added in FY 2023 that is recommended, but not required. Components that do not have a tone-at-the top memorandum that includes a commitment to combatting fraud, are encouraged to begin development.

Risk Assessment Template:
One of the new recommendations for FY 2023. Components that utilize emerging technologies should leverage the GAO AI framework as described in Government Accountability Office report GAO-21-519SP, "Artificial Intelligence: An Accountability Framework for Federal Agencies and Other Entities". Components should consider risks around implementation of emerging technologies in their risk assessment.

Entity-Level Components (ELCs):
The use of Committee of Sponsoring Organizations (COSO) framework, to identify types of evidence to assess emerging technologies in the development of ELCs—including the Component's use of data and system design.

FRM Framework Assessment:
To further align the fraud risk management requirements to the GAO FRM Framework, the Fraud Controls Matrix Template has been renamed to the "GAO FRM Framework Assessment".

CARES Act/COVID-19:
The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed on March 2, 2020, (Public Law 116-136) and includes a military support response to the public health emergency domestically and internationally. The CARES Act provides the DOD flexibility in executing contract actions to expedite disbursement of these funds efficiently and effectively. In execution of this funding, the risk for fraud, waste and abuse is heightened when internal controls are relaxed. COVID19-related activity has been reviewed and tested using verification and validation (V&V) procedures. There have been no laws compromised or major issues identified leading to fraud, waste, or abuse as validated through testing results for FY 2023. Identified areas of improvements for CARES Act execution include ensuring requirements are aligned with spending plans and ensuring that transactions accurately reflect the Disaster Emergency Fund Code (DEFC).

Fraud Controls:
In FY 2023, DISA executed a fraud controls assessment on its environment. The review incorporated components of GAO Fraud Risk Management Framework 11 leading practices to detect gaps that require designing new or additional controls. These practices were employed in review of ICOR-O, ICOR-FR, and ICOR-FS for high-risk focus areas.

Data Act Data Quality Testing:
The OMB published memorandum 18-16, *Appendix A to OMB Circular A-123, Management of Reporting and Data Integrity Risk*, dated June 6, 2018, that outlines guidance for agencies to develop a Data Quality Plan (DQP) to achieve the objectives of the Data Accountability and Transparency Act (DATA) Act. DISA has established a DQP that provides an emphasis on a structure for data quality on financial data elements, procurement data reporting, data standardization, and data reporting. In FY 2023, in compliance with mandatory reviews, the internal control program has executed data quality testing to review data integrity. Testing results have documented that there are no major issues with the established attributes in both FYs 2022 and 2023.

Records Management:
While records management was not an OUSD focal area, DISA Records Management team and the Internal Control team coordinated together to incorporate a records management checklist into their processes. The results supported that DISA has established 100 percent coverage and accountability throughout the organization with appointments of Records Liaisons (RLs). As an agency, the Records Management Self-Assessment (RMSA) for the National Archives and Records Administration (NARA) and the Federal Electronic Records and Email Management Maturity Model Report (FEREM) for NARA are conducted.

Internal Control Structure

Using the following process, DISA evaluated its system of internal control and maintains a sufficient documentation/audit trail to support its evaluation and level of assurance. DISA manages the RMIC Program through a three-tiered approach. The first tier is supported by DISA SAT, which provides guidance and oversight to the RMIC Program. In FY 2023, DISA director signed a "tone-at-the-top" memo that defines management's leadership and commitment towards an effective RMIC: openness, honesty, integrity, and ethical behavior. The memo directed the agency to follow a risk-based and results-oriented program in alignment with the GAO Green Book and OMB A-123. The tone-at-the top is set throughout DISA by all levels of management and has a trickle-down effect on all employees.

The second tier is supported by a subject matter expert (SME) team. The team coordinates requirements with the OUSD comptroller regarding the RMIC Program, in addition to providing training, guidance, oversight, and review in accordance with directives to the AUMs. DISA provided internal control kick-off training for the AUMs in November 2022 and conducted three additional workshops in the FY 2023 reporting cycle to address risk assessments, testing grids, and letters of assurance. The RMIC team compiles assessable unit (AU) submissions for the agency's Statement of Assurance, facilitates information sharing between AUMs, consolidates results, and communicates outcomes to OUSD and agency leadership.

Identification of Material Assessable Units

The third tier is supported by the AUMs, who manage at the program/directorate level within the organization. For this reporting cycle, DISA identified 14 AUs:

- ✓ Chief Financial Officer/Comptroller (OCFO)
- ✓ Component and Acquisition Executive (CAE)
- ✓ Digital Capabilities and Security Center (DCSC)
- ✓ Chief of Staff (DDC)
- ✓ Inspector General (IG)
- ✓ Joint Force Headquarters DODIN (JFHQ-DODIN)
- ✓ Joint Service Provider (JSP)
- ✓ Hosting and Compute Center (HACC)
- ✓ White House Situation Room (WHSR)
- ✓ Procurement Services Directorate (PSD)
- ✓ Enterprise Integration and Innovation Center (EIIC)
- ✓ Operations & Infrastructure Center (OPIC)
- ✓ White House Communications Agency (WHCA)
- ✓ Workforce Services and Development Directorate (WSD)

Each AU is led by at least one member of the Senior Executive Service (SES) or military flag officer and carries a distinct mission within DISA, which in turn causes the AU to have unique operational risks that require evaluation.

Identifying Key Controls

Mandatory testing for all organizations is required to identify the functions performed within their area, in addition to the required testing areas of the Defense Travel System (DTS); Time and Attendance; and property, plant, and equipment (PP&E) to identify the level of process documentation available and determine the associated risk of those functions. Additionally, AUMs are responsible for identifying and documenting the key controls within their AUs in accordance with DOD Instruction 5010.40. The internal control team documents processes and key controls for all ICOR-FR functions through detailed cycle memoranda and narratives. Each AU documents its key processes and risks on the Risk Assessment Template. The OCFO RMIC team advises the AUMs to test, at a minimum, those key processes that were self-identified as high risk, as well as safety, security (if applicable), and the required testing areas. In addition, a checklist for records management was prepared by each AUM.

Each AU performs a risk assessment considering what is important to each area, such as those processes that may be high or medium risk and associated processes that are central to an area. It involves identifying the risk category (e.g., financial, compliance, operational, etc.); risk description (e.g., if policy is not implemented); overall impact, likelihood, risk rating, and control activities (such as review and documented policy); whether risks are mitigated or residual; overall likeliness; and residual risk rating, process documentation, and financial statement impact. At the AU level and across the agency, this process develops an overarching risk assessment, approved by senior leadership. From this process, tests are developed for those areas that are high risk or into which management should look further.

Developing the Test Plan/Executing the Test

Each AU completed a plan to test the controls in place for each process identified to be tested. The development of the plan includes consideration of the nature, extent (including sampling technique), and timing of the execution of the controls tested. Additionally, the risk magnitude (high, medium, or low), objective type, risk type, risk response, and tolerance rate are also identified. The test method (or type) is identified within the plan.

Test Results

After the tests are conducted and results are revealed, the test grid forms the basis to report the results in the letter of assurance (LoA). The LoA will reflect the data reported on the test grid.

Snapshot in Review

Internal Controls Over Reporting - Operations

Mandatory testing is required for all organizations. In coordination with senior management, AUMs identify the functions performed within their area, in addition to the required testing areas of DTS, time and attendance, and PP&E, to identify the level of process documentation available and determine the associated risk of those functions. Government Purchase Card and Records Management are tested by process owners, and the results of these tests are reported in each respective area's letters of assurance.

Internal Controls Over Reporting - Financial Systems

The implementation of Enterprise Resource Planning (ERP) approved systems as of FY 2019 resolved compliance issues associated with the legacy systems. Some key indicators for underlying sound internal controls include that DISA consistently provides timely and reliable financial statements to OMB within 21 calendar days at the end of the first through third quarters and unaudited financial statements to OMB, GAO, and Congress by Nov. 15 each year. DISA has not reported anti-deficiency violations in more than a decade, and it continues to demonstrate compliance with laws and regulations.

DISA's core financial management systems routinely provide reliable and timely information for managing day-to-day operations, as well as information used to prepare financial statements and maintain effective internal controls. These factors are key indicators of FFMIA compliance.

Additionally, DISA provides application hosting services for the department's service providers: the Defense Finance and Accounting Service (DFAS), the Defense Logistics Agency (DLA), the Defense Contract Management Agency (DCMA), the Defense Human Resource Activity (DHRA), military services, and other defense organizations. As a result, DISA is responsible for most of the general IT controls over the computing environment in which many financial, personnel, and logistics applications reside. For service providers and components to rely on automated controls and documentation within these applications, controls must be appropriately and effectively designed.

Internal Controls Over Reporting - Financial Reporting

The OCFO documented end-to-end business processes and identified key internal control activities supporting key business processes for ICOR-FR. DISA conducted an internal risk assessment that evaluated the results of prior year audits, internal analyses of the results of financial operations, and known upcoming business events. An internal control assessment was conducted within DISA for key mission-specific processes. The internal control team annually reviews and updates narratives and cycle memos of key processes. The internal control team maintains a Control Evaluation Matrix, which provides a detailed analysis, documents the Control Activities identified in the narratives, and includes mapping to a Financial Improvement and Audit Readiness (FIAR) Financial Reporting Objective; FIAR Risk of Material Misstatement, Test of Design and Implementation Effectiveness details; and test of Operating Effectiveness details.

Based on the results of the internal risk analysis, internal testing was conducted to evaluate the significance of potential deficiencies identified. Specific areas of testing included the following:

Figure 15-Areas of Testing

General Fund	Working Capital Fund	Other
Data Quality Plan	CS Trial Balance (Rollforward) Testing	Active Users
Dormant Reviews	TSEAS Trial Balance (Rollforward) Testing	Departed Users
Year End Obligations	TSEAS Revenue	PP&E White House Communications Agency (WHCA) Existence and Completeness Training
Trial Balance Rollforward Testing	TSEAS Expenditure	Continuity of Operations Plan (COOP) Testing
GF Revenue	System Interface Agreement (SIA)	
GF Expenditure	CS Revenue	
CARES Act Testing	CS Expenditure	

The OUSD FIAR Office led department-wide discussions regarding SSAE 18 reviews and the impact to component financial statements. DISA identified more than 199 Complementary User Entity Controls (CUECs) that impacted our financial statements. In addition to our continued participation in Service Provider CUEC discussions, at the time of the Statement of Assurance assessment, DISA is completing the process of reviewing more than 199 identified CUECs to determine our level of risk and identified control descriptions and attributes for each. For those CUECs determined to be common across all the identified systems, testing was conducted for areas of high risk. In addition, the internal control team has developed active and departed user segregation of duties and periodic access system reviews to a more granular level. Review of these areas further strengthens the internal control backbone for the agency.

The following tables provides a summary of DISA's approach to the FY 2023 internal control evaluation.

Summary of Management's Approach to Internal Control Evaluation

Reporting Entity/Component Name: Defense Information Systems Agency

Summary of Component Mission: To conduct Department of Defense Information Network (DODIN) operations for the joint warfighter to enable lethality across all warfighting domains in defense of our nation.

List of all Component Organizations:

- Chief Financial Officer/Comptroller (OCFO)
- Component and Acquisition Executive (CAE)
- Operations & Infrastructure Center (OPIC)
- Digital Capabilities and Security Center (DCSC)
- Chief of Staff (DDC)
- Inspector General (IG)

- Joint Force Headquarters DODIN (JFHQ-DODIN)
- Joint Service Provider (JSP)
- Hosting and Compute Center (HACC)
- White House Situation Room (WHSR)
- Procurement Services Directorate (PSD)
- Enterprise Integration and Innovation Center (EIIC)
- Operations & Infrastructure Center (OPIC)
- White House Communications Agency (WHCA)
- Workforce Services and Development Directorate (WSD)

List of all Component material AUs related to ICOR

- Chief Financial Officer/Comptroller (OCFO)
- Hosting and Compute Center (HACC)
- Procurement Services Directorate (PSD)

Summary of Internal Control Evaluation Approach: DISA's approach to internal controls extends to all responsibilities and activities undertaken within DISA. Adherence of RMIC Program internal controls is not only the responsibility of Management, but every DISA employee. In addition to compliance with applicable laws and regulations, internal controls are embedded in DISA's day to day processes. Internal controls have been evaluated in a top down and bottom-up approach resulting in reasonable assurance that financial reporting, operations, and systems are operating effectively.

Figure 16-Overall Assessment of a System of Internal Control

Internal Control Evaluation	Designed & Implemented (Yes/No)	Operating Effectively (Yes/No)
Control Environment	Yes	Yes
Risk Assessment	Yes	Yes
Control Activities	Yes	Yes
Information and Communication	Yes	Yes
Monitoring	Yes	Yes
Are all components above operating together in an integrated manner?	Yes	Yes

Figure 17-Overal Evaluation of a System of Internal Control

Overall Evaluation	Operating Effectively (Yes/No)
Is the overall system of internal control effective?	Yes

Financial Management Systems Framework, Goals, and Strategies

DISA's financial system implementations have been planned and designed within the framework of the Business Enterprise Architecture (BEA) established within DOD, which facilitates a more standardized framework for systems in the department. Financial system-related initiatives target implementation of a standardized financial information structure that will be compliant with FFMIA and BEA requirements and provide DISA with cost accounting data and timely accounting information that enable enhanced decision-making.

During FY 2023, DISA continued to operate, enhance, and sustain the Financial Accounting and Management Information System (FAMIS), which supports the full breadth of DISA's WCF lines of business. The FAMIS-WCF solution provided DISA with DOD Standard Line of Accounting and USSGL compliance in support of a clean audit opinion for the WCF. Additionally, FY 2023 activities/goals include performing a technology refresh of the FAMIS software; implementing a compliant G-invoicing solution; completing Phase II of Direct Treasury Disbursing; implementing SOA/Web Services capabilities; and laying the groundwork to migrate FAMIS to a commercial cloud environment. In addition to the accounting system, DISA's financial systems environment is complemented by a select group of integrated financial tools and capabilities. These include:

- The functionality to provide customer and internal users with the ability to view details behind their telecommunication and contract IT invoices.
- A WCF information/execution management tool that provides users with the ability to view financial and non-financial (workload) data/consumption at a detailed level and a standardized method for cost allocations, budget preparation, rate development, and execution tracking with on-demand reports, ad-hoc queries, and table proof listings for analysis and decision-making.
- A web-based WCF budgeting system and financial dashboard that allows program financial managers to formulate budgets, project future estimates, prepare required budget exhibits, and monitor budget execution.
- A financial dashboard on a web-based business intelligence platform that enables users across the enterprise to access financial information for DWCF funds through static reports, interactive data cubes, and customizable dashboards.

These capabilities, combined with key interfaces to acquisition, contracting, and ordering systems, underpin DISA’s automated framework of financial budgeting, execution, accounting, control, and reporting. Moving forward, DISA continues solution improvements to its suite of financial tools by leveraging new technologies, evaluating opportunities to eliminate functional duplication where it exists, and reducing the footprint (and associated costs) of business systems.

In that regard, DISA is driving standardization of the customer order provisioning process to include a single integrated order entry solution for all orders while validating the solutions that integrate with DISA’s financial and contracting systems and tools. DISA’s financial systems strategy is purpose driven to continually innovate and increase its use of technologies, such as robotic process automation and artificial intelligence, to improve and automate financial and contractual transactions. As a result of DISA’s experience using its newly modernized/compliant accounting systems for the previous three years, its accounting operations have stabilized, and it is taking advantage of its capabilities to improve accounting processes and audit readiness, and to set the course for further financial modernization efforts across its business ecosystem. This includes identifying and assessing opportunities to sunset older legacy supporting systems by consolidating and/or migrating functionality to more modern and flexible technologies and architectures.

These advancements will result in increased automation, transparency, access, and control of financial information to support financial managers, mission partners, and higher echelon leaders.

4. Forward-Looking Information

The DOD information environment is designed to optimize the use of the DOD IT assets, converging communications, computing, and enterprise services into a single joint platform that can be leveraged for all department missions. These efforts improve mission effectiveness, reduce total cost of ownership, reduce the attack surface of our networks, and enable DISA's mission partners to more efficiently access the information resources of the enterprise to perform their missions from any authorized IT device anywhere in the world. DISA continues its efforts towards realization of an integrated department-wide implementation of the DOD information environment through the development, integration, and synchronization of technical plans, programs, and capabilities.

DISA is uniquely positioned to provide the kind of streamlined, rationalized enterprise solutions the department is looking for to effect IT transformation. DISA owns/operates enterprise and cloud-capable DISA data centers, the worldwide Defense Information Systems Network (DISN), and the DITCO. DISA data centers routinely see workload increases — this trend will increase as major new initiatives begin to fully impact the department. As part of the department's transition to the Joint Information Environment, DISA data centers have been identified as continental United States Core Data Centers.

DISA also anticipates continuation of partnerships with other federal agencies. The DOD/Veterans Affairs Integrated Electronic Health Record agreement to host all medical records in DISA data centers and the requirement for DOD to provide Public Key Infrastructure services to other federal agencies on a reimbursable basis are examples. We continue to move forward on several new initiatives, including:

- The implementation of Defense Enterprise office Solutions, which is a commercially provided, cloud-based enterprise service for common communication, collaboration, and productivity services. There has been significant progress towards decommissioning legacy email, video, and audio-conferencing services.
- The Fourth Estate Network Optimization reform initiative includes the convergency of the DoD networks, service desks, and operations centers into a consolidated, secure, and effective environment.
- The delivery of an on-premises, cloud hosting capability and commercial cloud access infrastructure to enable the department's migration to cloud computing.
- The enterprise-wide roll-out of a Cloud-Based Internet Isolation capability that isolates malicious code and content from DOD networks.

DISA has implemented the Compute Operations (formerly Ecosystem) to support computing services for mission partners worldwide. This model aligned like-functions across a single computing enterprise and established a unified computing structure operating under a single command — one large virtual data center. The Compute Operations prioritizes excellence in service delivery, process efficiency, and standardization for tools and processes. Ultimately, the shift to the Compute Operations model is fulfilling the goal of providing excellence in IT service delivery to our mission partners through the provision of cutting-edge computing solutions and a flexible and adaptable infrastructure. These optimization efforts are projected to yield a savings of $695 million over 10 years.

Defense Information Systems Agency
General Fund

Principal Statements
Fourth Quarter of Fiscal Year 2023, Ending Sept. 30, 2023

Department of Defense
Defense Information Systems Agency General Fund
BALANCE SHEET
As of Sept. 30, 2023 and 2022
($ in thousands)

Figure 18-Balance Sheet

	Unaudited 2023	Unaudited 2022
Intragovernmental assets:		
Fund Balance with Treasury (Note 2)	$ 2,668,626	$ 2,658,098
Accounts receivable, Net (Note 3)	31,138	39,429
Total Intragovernmental assets	2,699,764	2,697,527
Other than intragovernmental assets:		
Accounts receivable, net (Note 3)	1,444	747
General property, plant and equipment, net (Note 4)	325,145	326,365
Advances and prepayments-Other Assets (Note 10)	7	19
Total other than intragovernmental assets	326,596	327,131
Total Assets	$ 3,026,360	$ 3,024,658
Stewardship PP&E, (Note 9)		
Liabilities (Note 7)		
Intragovernmental liabilities:		
Accounts payable	$ 351,921	$ 315,964
Other Liabilities (Notes 7 and 9)	2,646	2,655
Total intragovernmental liabilities	354,567	318,619
Other than intragovernmental liabilities:		
Accounts payable	9,929	22,112
Federal employee and veteran benefits payable (Note 6)	49,281	48,453
Advances from others and Deferred Revenue (Note 7)	5,393	7,654
Other Liabilities (Notes 7, 8 and 9)	7,740	5,531
Total other than intragovernmental liabilities	72,343	83,750
Total liabilities	426,910	402,369
Commitments and contingencies (Note 9)		
Net Position:		
Unexpended Appropriations – Funds from Other than Dedicated Collections	2,333,094	2,345,346
Total Unexpended Appropriations (consolidated)	2,333,094	2,345,346
Cumulative Results from Operations – Funds from Other than Dedicated Collections	266,356	276,943
Total Cumulative Results of Operations (Consolidated)	266,356	276,943
Total net position	2,599,450	2,622,289
Total liabilities and net position	$ 3,026,360	$ 3,024,658

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

Department of Defense
Defense Information Systems Agency General Fund
STATEMENT OF NET COST
As of Sept. 30, 2023 and 2022
($ in thousands)

Figure 19- Statement of Net Cost

Gross Program Costs	**Unaudited 2023**	**Unaudited 2022**
Gross Costs	$ 3,787,370	$ 3,711,059
Less: Earned Revenue	(202,819)	(212,027)
Net Cost of Operations	3,584,551	3,499,032
Operations & Maintenance	3,017,915	2,827,862
Procurement	382,136	467,272
Research, Development Test & Evaluation	386,145	412,717
Military Construction	1,175	3,208
Less: Earned Revenue	(202,819)	(212,027)
Net Appropriation Costs	$ 3,584,551	$ 3,499,032

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

Department of Defense
Defense Information Systems Agency General Fund
As of Sept. 30, 2023 and 2022
($ in thousands)

Figure 20- Consolidated Statement of Changes in Net Position

	Unaudited 2023	Unaudited 2022
Unexpended Appropriations:		
Beginning Balance	$ 2,345,346	$ 2,323,840
Appropriations received	3,693,211	3,418,243
Appropriations transferred-in/out	51,437	133,936
Other Adjustments (+/-)	(93,190)	(28,553)
Appropriations used	(3,663,710)	(3,502,120)
Net Change in Unexpended Appropriations	(12,252)	21,506
Total Unexpended Appropriations	2,333,094	2,345,346
CUMULATIVE RESULTS OF OPERATIONS		
Beginning balances, as adjusted	276,943	444,891
Other adjustments (+/-)	0	(34,230)
Appropriations used	3,663,710	3,502,120
Transfers in/out without reimbursement	(161,804)	(202,883)
Imputed financing	81,529	71,946
Other	(9,471)	(5,869)
Net Cost of Operations	3,584,551	3,499,032
Net Change in Cumulative Results of Operations	(10,587)	(167,948)
Total Cumulative Results of Operations	266,356	276,943
Net Position	$ 2,599,450	$ 2,622,289

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

Department of Defense
Defense Information Systems Agency GF
As of Sept. 30, 2023 and 2022
($ in thousands)

Figure 21- Statement of Budgetary Resources

	Unaudited 2023	Unaudited 2022
Budgetary Resources		
Unobligated balance from prior year budget authority, net	$ 978,149	$ 998,751
Appropriations (discretionary and mandatory)	3,754,339	3,487,453
Spending Authority from offsetting collections (discretionary and mandatory)	214,053	232,499
Total Budgetary Resources	4,946,541	4,718,703
Status of Budgetary Resources		
New obligations and upward adjustments (total) (Note 11)	4,292,962	4,036,714
Apportioned, unexpired accounts	311,778	302,700
Unapportioned, unexpired accounts	0	0
Unexpired unobligated balance, end of year	311,778	302,700
Expired unobligated balance, end of year	341,801	379,289
Unobligated balance, end of year (total)	653,579	681,989
Total Budgetary Resources	4,946,541	4,718,703
Outlays, Net (Note 38)		
Outlays, net (total) (discretionary and mandatory)	3,638,463	3,530,932
Agency outlays, net (discretionary and mandatory)	$ 3,638,463	$ 3,530,932

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

Defense Information Systems Agency
General Fund
Notes to the Principal Statements
Fourth Quarter of Fiscal Year 2023, Ending Sept. 30, 2023

DEFENSE INFORMATION SYSTEMS AGENCY
GENERAL FUND

Notes to the Principal Statements
Fourth Quarter of Fiscal Year 2023, Ending Sept. 30, 2023

Note 1. Summary of Significant Accounting Policies

1A. Reporting Entity

The Defense Information Systems Agency (DISA), a combat support agency within the DOD, is a "Component Reporting Entity," as defined by Statement of Federal Financial Accounting Standards (SFFAS) 47 of and consolidated into the financial statements of the Department of Defense (DOD).

The DOD includes the Office of the Secretary of Defense (OSD), Joint Chiefs of Staff, DOD Office of the Inspector General (OIG), military departments, defense agencies, DOD field activities, and combatant commands, which are considered, and may be referred to, as DOD components. The military departments consist of the Departments of the Army, the Navy (of which the Marine Corps is a component), and the Air Force (of which the Space Force is a component).

DISA provides, operates, and assures command and control, information-sharing capabilities, and a globally accessible enterprise information infrastructure in direct support to joint warfighters, national level leaders, and other mission and coalition partners across the full spectrum of operations. DISA implements the secretary of defense's defense strategic guidance and reflects the DOD Chief Information Officer (CIO) capability planning guidance.

In accordance with SFFAS 47, DISA General Fund (GF) does not have any consolidation or disclosure entities that are required to be disclosed within these notes. Although component reporting entities of the federal government may significantly influence each other, component reporting entities are subject to the overall control of the federal government and operate together to achieve the policies of the federal government and are not considered related parties. Therefore, component reporting entities need not be disclosed as related parties by other component reporting entities. Disclosure entities are not consolidation entities. Disclosure entities may provide the same or similar goods and services that consolidation entities do but are more likely to provide them on a market basis.

1B. Accounting Policies

DISA General Fund (GF) financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of DISA GF organizational elements. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), nonfinancial feeder systems, and accruals made for major items such as payroll expenses and accounts payable.

DISA GF presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which are the summation of the DOD components less the eliminations of intradepartmental activity. The Statement of Budgetary Resources (SBR) is presented on a combined basis, which is the summation of the DOD components; therefore, DOD intradepartmental activity has not been eliminated. The financial transactions are recorded on both a proprietary accrual basis and a budgetary basis of accounting. Under the proprietary accrual basis, revenues are recognized when earned, and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Under the budgetary basis, the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of federal funds.

DISA GF adopted updated accounting standards and other authoritative guidance issued by the Federal Accounting Standards Advisory Board (FASAB) as listed below:

- *SFFAS 50: Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*: Issued Aug. 4, 2016. Effective for periods beginning after Sept. 30, 2016.
- *SFFAS 53: Budget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued Oct. 27, 2017: Effective for reporting periods beginning after Sept. 30, 2018.
- *Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables:* Issued Feb. 20, 2020; Effective upon issuance.

DISA GF has implemented Standard Financial Information Structure compliant accounting systems and improved processes based on independent reviews and compliance with Office of Management and Budget (OMB) Circular No. A-136 and U.S. Generally Accepted Accounting Principles (GAAP).

The financial statements should be read with the realization that they are for a component of the U.S. government. Additionally, some of the assets and liabilities reported by the entity may be eliminated for government-wide reporting because they are offset by assets and liabilities of another U.S. government entity.

1C. Fund Balance with Treasury

The Fund Balance with Treasury (FBWT) represents the aggregate amount of DISA GF available budget spending authority available to pay current liabilities and finance future authorized purchases. DISA GF monetary resources of collections and disbursements are maintained in Department of the Treasury (Treasury) accounts. The disbursing offices of the Defense Finance and Accounting Service (DFAS), the military departments, the U.S. Army Corps of Engineers, and the Department of State's financial service centers process the majority of the Department of Defense's cash collections, disbursements, and adjustments worldwide. Each disbursing station reports to Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

FBWT is an asset of a component entity and a liability of the Treasury General Fund. The amounts represent commitments by the government to provide resources for programs, but they do not represent net assets to the government as a whole.

In addition, DFAS reports to Treasury by appropriation on interagency transfers, collections received, and disbursements issued. Treasury records these transactions to its applicable Fund Balance.

DISA GF does not report deposit fund balances on its financial statements.

For additional information, see the *Fund Balance with Treasury, Note 2.*

1D. Revenue and Other Financing Sources

As a component of the government-wide reporting entity, DISA GF is subject to the federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions resulting from the budget process are generally the same transactions reflected in the agency and the government-wide financial reports.

DISA GF budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but do not reflect assets to the government. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations are incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, which, as noted above, is to borrow from the public if there is a budget deficit.

DISA receives congressional appropriations and funding as general and working capital (revolving) and uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General funds are used for collections not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys. DOD appropriations funding covers costs including personnel, operations and maintenance, research and development, procurement, and military construction.

DISA GF receives congressional appropriations as financing sources for general funds, and on occasion, will also receive congressional appropriations for the WCFs. These funds either expire annually, some on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. DISA GF recognizes revenue resulting from costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is DISA GF standard policy for services provided as required by OMB Circular A-25, "User Charges." In some instances, revenue is recognized when bills are issued.

DISA GF net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses and financing sources (including appropriations, revenue, and gains) since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

In accordance with SFFAS 7 "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," DISA recognizes nonexchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return. Typically, DISA nonexchange revenue is composed of immaterial amounts of public interest receivable and accumulated penalties and administrative fees as reported in the Monthly Debt Management Report Contract Debt System.

Deferred revenue is recorded when the DOD receives payment for goods or services that have not been fully rendered. Deferred revenue is reported as a liability on the balance sheet until earned.

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

1E. Budgetary Terms

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law.

The department's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but do not reflect assets to the government. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions (e.g., Social Security benefits). After budgetary obligations have incurred, Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements.
The following budgetary terms are commonly used:

- Appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- Budgetary resources are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided

in previous years.

- Obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- Offsetting collections are payments to the government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the government and from intragovernmental transactions with other government accounts. The authority to spend collections is a form of budget authority.
- Offsetting receipts are payments to the government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, gifts or donations of money to the government, and from intragovernmental transactions with other government accounts.
- Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of government spending.

For further information about budget terms and concepts, see the "Budget Concepts" chapter of the Analytical Perspectives volume of the President's Budget: Analytical Perspectives - The White House.

1F. Changes in Entity or Financial Reporting

Section 406 -Intra-Governmental Capitalized Assets Procedures, of the quarterly reporting guidance was updated for fourth quarter of Fiscal Year (FY) 2023 to require agencies to record all direct cost to an expense series account and then offset those amounts using U.S. Standard General Ledger (USSGL) 6610 when the costs are capitalized to the appropriate asset account. Per this updated guidance, the DISA GF will no longer record federal USSGL 8802. This update was designed to avoid a systemic cost of goods sold (USSGL 6500) entry for the selling agency, which does not typically recognize inventory. This process change does not affect prior financial statements, only reconciles interagency expenses and revenues for fourth quarter of FY 2023 and forward.

1G. Classified Activities

Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

1H. Parent-Child Reporting

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

DISA receives allocation transfers from the Defense Acquisition University.

Note 2. Fund Balance with Treasury

The Treasury records cash receipts and disbursements on DISA GF's behalf and are available only for the purposes for which the funds were appropriated. The DISA GF balances with treasury consists of appropriation accounts.

The status of FBWT, as presented below, reflects the reconciliation between the budgetary resources supporting FBWT (largely consisting of unobligated balance and obligated balance not yet disbursed) and those resources provided by other means. The total FBWT reported on the balance sheet reflects the budgetary authority remaining for disbursements against current or future obligations.

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

Obligated balance not yet disbursed represents funds obligated for goods and services but not paid.

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

Non-FBWT budgetary accounts create budget authority and unobligated balances, but do not record to FBWT as there has been no receipt of cash or direct budget authority, such as appropriations. The DISA GF non-FBWT budgetary accounts are primarily composed of unfilled orders without advance from customers and receivables.

Treasury securities provide DISA GF with budgetary authority and enable DISA GF to access funds to make future benefit payments or other expenditures. DISA GF must redeem these securities before they become part of the FBWT.

Unfilled customer orders without advance – receivables provide budgetary resources when recorded. The FBWT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

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

Figure 22-Fund Balance with Treasury

(thousands)

DISA GF	2023	2022
Unobligated Balance:		
Available	$ 311,777	$ 302,699
Unavailable	341,802	379,288
Total Unobligated Balance	653,579	681,987
Obligated Balance not yet Disbursed	2,152,305	2,125,124
Non-FBWT Budgetary Accounts:		
Unfilled Customer Orders without Advance	(104,628)	(108,036)
Receivables and Other	(32,630)	(40,977)
Total Non-FBWT Budgetary Accounts	(137,258)	(149,013)
Total FBWT	$ 2,668,626	$ 2,658,098

Note 3. Accounts Receivable, Net

Accounts receivable represent DISA GF's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of Treasury Financial Manual, Volume I, Part 2, Chapter 4700. Allowances for uncollectible accounts due from the public are based on an estimation methodology using three years of historical collection data and is calculated on consolidated receivable balances**.**

The FASAB issued Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*, which clarified previously issued guidance. An allowance recorded to recognize an intragovernmental receivable at net realizable value on the financial statements does not alter the underlying statutory authority to collect the receivable or the legal obligation of the other intragovernmental entity to pay. For FY 2023, the intragovernmental allowance was calculated using the same methodology as for public receivables. DISA GF developed its policy related to the allowance for uncollectible accounts for intragovernmental receivables.

For FY 2023, DFAS changed the methodology for calculating the Allowance for Doubtful Accounts and has determined that the intragovernmental is $0 and non-federal amounts for DISA GF is $17.67. The amount displayed below from DDRS-AFS for an allowance and stems from transactions processed in Defense Agencies Initiative (DAI) as well as an adjustment processed in fourth quarter. In any case, the amount is not material to the financial statements for DISA GF.

Figure 23-Accounts Receivable, Net

(thousands)

DISA GF 2023	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 31,138	$ -	$ 31,138
Non-Federal Receivables (From the Public)	1,443	1	1,444
Total Accounts Receivable	$ 32,581	$ 1	$ 32,582

DISA GF 2022	Gross Amount Due	Allowance for Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 39,429	$ -	$ 39,429
Non-Federal Receivables (From the Public)	746	1	747
Total Accounts Receivable	$ 40,175	$ 1	$ 40,176

Note 4. General Property, Plant and Equipment, Net

The DISA GF general Property, Plant and Equipment (PP&E) is composed of leasehold improvements, equipment, and software with a net book value of $325.1 million.

The DISA GF PP&E consists of telecommunications equipment, computer equipment, computer software, assets under capital lease, and construction in progress. The DISA GF PP&E capitalization threshold is $250 thousand for asset acquisitions and modifications/improvements placed into service after Sept. 30, 2013. PP&E assets acquired prior to October 1, 2013, were capitalized at prior threshold levels ($100 thousand for equipment and $250 thousand for real property). PP&E with an acquisition cost of less than the capitalization threshold is expensed when purchased. Property and equipment meeting the capitalization threshold are depreciated using the straight-line method over the initial or remaining useful life as appropriate, which can range from two to 45 years.

The DISA GF capitalizes improvements to existing General PP&E assets when the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset.

There are no restrictions on the use or convertibility of DISA GF’s property and equipment, and all values are based on acquisition cost.

Information concerning deferred maintenance and repairs is discussed in unaudited required supplementary information.

The following table provides a summary of the activity for the current fiscal year.

Figure 24-General Property, Plant, and Equipment, Net

(thousands)

DISA GF	CY	PY
General PP&E, Net beginning of year	$ 326,365	$ 459,395
Capitalized Acquisitions	256,291	162,351
Dispositions	(9,589)	(7,530)
Transfers in/(out) without reimbursement	(159,335)	(200,439)
Revaluations (+/-)	(5,615)	(2,855)
Depreciation Expense	(82,972)	(84,557)
Balance at end of year	$ 325,145	$ 326,365

The charts below provide the depreciation method, service life, acquisition value, depreciation, and net book value for the different categories in a comparative view.

Figure 25-Major General PP&E Asset Classes

(thousands)

DISA GF 2023 Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Buildings, Structures, and Facilities	S/L	35,40, or 45*	$ 0	$ (0)	$ 0
Leasehold Improvements	S/L	Lease term	0	0	0
Software	S/L	2-5 or 10	42,711	(28,852)	13,859
General Equipment	S/L	Various**	591,877	(426,604)	165,273
Construction-in-Progress	N/A	N/A	146,013	N/A	146,013
Total General PP&E			$ 780,601	$ (455,456)	$ 325,145

DISA GF 2022 Major Asset Classes	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Buildings, Structures, and Facilities	S/L	35,40, or 45*	$ 10,012	$ (1,246)	$ 8,766
Leasehold Improvements	S/L	Lease term	81,857	(54,953)	26,904
Software	S/L	2-5 or 10	40,277	(24,125)	16,152
General Equipment	S/L	Various**	542,572	(387,549)	155,023
Construction-in-Progress	N/A	N/A	119,520	N/A	119,520
Total General PP&E			$ 794,238	$ (467,873)	$ 326,365

S/L= Straight Line N/A= Not Applicable
*Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings.
**GF uses 5 years for depreciation, unless otherwise specified (10/20 years)

Note 5. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

Intragovernmental liabilities “other” consists of $771 thousand of unfunded Federal Employees’ Compensation Act (FECA) liabilities related to bills from the Department of Labor (DOL) that are not funded until the billings are received.

Other than intragovernmental liabilities consist of “federal employee and veteran benefits,” which include $42 million in unfunded annual leave liability reflecting earned amounts of annual leave to be paid from future appropriations, $4.5 million in various employee actuarial FECA liabilities not due and payable during the current fiscal year, and $1.8 million for legal contingent liabilities. Refer to the Federal Employee and Veteran Benefits Payable note, for additional details.

Figure 26-Liabilities Not Covered by Budgetary Resources

(thousands)

DISA GF	2023	2022
Intragovernmental Liabilities		
Other	$ 771	$ 854
Total Intragovernmental Liabilities	771	854
Other than Intragovernmental Liabilities		
Accounts Payable	69	60
Federal employee and veteran benefits payable	46,465	45,869
Other Liabilities	1,787	0
Total Other than Intragovernmental Liabilities	48,321	45,929
Total Liabilities Not Covered by Budgetary Resources	49,092	46,783
Total Liabilities Covered by Budgetary Resources	377,818	355,586
Total Liabilities	$ 426,910	$ 402,369

Note 6. Federal Employee and Veteran Benefits Payable

Actuarial cost method used and assumptions:

The DOL estimates actuarial liability only at the end of each fiscal year.

In FY 2022 and FY 2023, the methodology for billable projected liabilities included, among other things:

1. An algorithmic model that relies on individual case characteristics and benefit payments (the FECA Case Reserve Model).
2. Incurred but not reported claims were estimated using the patterns of incurred benefit liabilities in addition to those of payments.

The FY 2022 and FY 2023 methodologies omitted pandemic-related adjustments to normalize the levels of payments. The FY 2023 methodology reduced the base factor for medical costs in the FECAS Case Reserve model.

The effects of inflation on the liability for future workers’ compensation benefits, wage inflation factors, cost of living adjustments (COLAs), and medical inflation factors consumer price index medical (CPI-M) were also applied to the calculation of projected future benefits.

DOL selected the COLA factors, CPI-M factors, and discount rate by averaging the COLA rates, CPI-M rates, and interest rates for the current and prior four years, all while using averaging render estimates that reflect historical trends over five years instead of opting for conditions that exist over one year.

The FY 2023 and FY 2022 methodologies for averaging the COLA rates used OMB-providededdrates.

The FY 2023 and FY2022 methodologies for averaging the CPI-M rates used OMB-provided rates and information obtained from the Bureau of Labor Statistics public releases for CPI.

The actual rates for these factors for the charge back year (CBY) 2022 were also used to adjust the methodology's historical payments to current-year constant dollars. The compensation COLAs and CPI-Ms used in the projections for various CBY were as follows:

Figure 27-Compensation COLAs and CPI-Ms

CBY	COLA	CPI-M
2023	N/A	N/A
2024	4.04%	3.25%
2025	4.29%	3.21%
2026	4.38%	3.51%
2027	4.13%	3.87%
2028 and thereafter	3.13%	4.03%

DOL selected the interest rate assumptions whereby projected annual payments were discounted to present value based on interest rate assumptions on the U.S. Department of the Treasury's Yield Curve for Treasury Nominal Coupon Issues (the TNC Yield Curve) to reflect the average duration of income payments and medical payments. Discount rates were based on averaging the TNC Yield Curves for the current and prior four years for FY 2023 and FY 2022, respectively. Interest rate assumptions utilized for FY 2023 discounting were as follows:

Discount Rates
For wage benefits:
2.326 percent in year 1 and years thereafter;
For medical benefits:
2.112 percent in year 1 and years thereafter.

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

The American Rescue Plan Act of 2021 (ARPA), P.L. 117-2, section 4016, "Eligibility for Workers' Compensation benefits for Federal Employees Diagnosed with COVID-19," mandated that the FECA Special Benefits Fund assume an unreimbursed liability (i.e., a liability that is not chargeable to the agencies) for approved claims of certain covered employees for injuries proximately caused by exposure to the novel coronavirus that causes COVID-19 (or another coronavirus declared to be a pandemic by public health authorities) while performing official duties during the covered exposure period. Pursuant to the ARPA, COVID-19 claims filed or adjudicated under the ARPA standards after March 11, 2021 and where COVID-19 is diagnosed on or before January 27, 2023 are included in the non-billable liabilities; accordingly, the methodology properly omits these future benefits.

Expense Components

For FY 2023, the only expense component pertaining to other actuarial benefits for DISA GF is the FECA expense. The DOL provides the expense data to DISA. The staffing ratio data from the DISA Headquarters determines the allocation of the expense to DISA GF and DISA WCF.

The DOL provided an estimate for DISA's future workers' compensation benefits of $9.4 million in total, of which $4.5 million was distributed to DISA GF based upon staffing ratios. DISA made the distribution using its normal methodology of apportioning FECA liability to GF and WCF based upon relative staffing levels. DISA used the same apportionment methodology in prior years.

Changes in Actuarial Liability

Fluctuations in the total liability amount charged to DISA by DOL will cause changes in FECA liability. The other actuarial benefits, FECA liability for DISA GF, decreased $811 thousand due to a decrease in COLA and CPI-M inflation factors that in turn increased the actuarial liability estimate provided by DOL (https://www.dol.gov/agencies/ocfo/publications).

Other Benefits

For the fourth quarter of FY 2023, DISA GF's "other" benefits are composed of unfunded accrued annual leave in the amount of $42 million.

Figure 28-Federal Employee and Veteran Benefits Payable

(thousands)

DISA GF 2023	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	$ 4,464	$ (0)	$ 4,464
Other	44,817	(2,815)	42,002
Total Other Benefits	49,281	(2,815)	46,466
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	49,281	(2,815)	46,466
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	2,646	(1,875)	771
Total Federal Employee and Veteran Benefits Payable	$ 51,927	$ (4,690)	$ 47,237

DISA GF 2022	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	$ 3,652	$ (0)	$ 3,652
Other	44,801	(2,584)	42,217
Total Other Benefits	48,453	(2,584)	45,869
Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	48,453	(2,584)	45,869
Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	2,655	(1,800)	855
Total Federal Employee and Veteran Benefits Payable	$ 51,108	$ (4,384)	$ 46,724

Note 7. Other Liabilities

DISA GF Intragovernmental Other Liabilities consist of:

- Federal employee and veteran benefits of $2.2 million: This liability represents the employer portion of payroll taxes and employer contributions for health benefits, life insurance, and retirement, as well as unfunded FECA liability.

DISA GF Other Than Intragovernmental Other Liabilities consist of:

- Accrued funded payroll and benefits of $6 million: DISA GF reports as other liabilities, the unpaid portion of accrued funded civilian payroll and employee's annual leave as it is earned, and subsequently reduces the leave liability when it is used.
- Legal contingent liabilities of $1.8 million: The contingent liability records the amount of liability recognized as a result of past events or exchange transactions in which a future outflow or other sacrifice of resources is both probable and measurable. A quarterly analysis is performed to determine the pending/threatened litigation and unasserted claims, administrative or judicial proceedings, lawsuits, and/or other legal actions filed against DISA that could ultimately result in settlements.
- Advances from others (presented separately on the Advances from Others and Deferred Revenue line below) of $5.4 million: This liability represents liabilities for collections received to cover future expenses or acquisition of assets DISA GF incurs or acquires on behalf of another organization. Further, is represents the remaining amount of customer advance billings. These customer advances will be liquidated in future periods as the result of filling customer orders/earned revenue based on the completion of contract task orders and other direct costs being applied to the specific customer advance accounts under major range and test facility base guidelines, polices, and regulation.

DISA GF's life and other insurance programs covering civilian employees are provided through the U.S. Office of Personnel Management (OPM). DISA GF does not negotiate the insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholdings related to the insurance and employer matches are submitted to OPM.

Figure 29-Other Liabilities

(thousands)

DISA GF 2023	Current Liability	Non-Current Liability	Total
Intragovernmental			
Other Liabilities reported on *Federal Employee and Veterans Benefits Payable Note*	$ 2,207	$ 439	$ 2,646
Total Intragovernmental	2,207	439	2,646
Other than Intragovernmental			
Accrued Funded Payroll and Benefits	5,953	0	5,953
Contingent Liabilities	0	1,787	1,787
Total Other than Intragovernmental	5,953	1,787	7,740
Total Other Liabilities	$ 8,160	$ 2,226	$ 10,386

DISA GF 2022	Current Liability	Non-Current Liability	Total
Intragovernmental			
Other Liabilities reported on *Federal Employee and Veterans Benefits Payable Note*	$ 2,247	$ 408	$ 2,655
Total Intragovernmental	2,247	408	2,655
Other than Intragovernmental			
Accrued Funded Payroll and Benefits	5,531	0	5,531
Contingent Liabilities	0	0	0
Total Other than Intragovernmental	5,531	0	5,531
Total Other Liabilities	$ 7,778	$ 408	$ 8,186

Figure 30-Advances from others and Deferred Revenue

(thousands)

DISA GF	2023	2022
Other than Intragovernmental Liabilities	$ 5,393	$ 7,654
Total Intragovernmental Liabilities	$ 5,393	$ 7,654

Note 8. Leases

Future Payments Due for Leases:

DISA GF has non-cancelable operating leases for office equipment, vehicles, land, buildings, and commercial space. The agency does not receive copies of leases but obtains individual occupancy agreements and is billed a cost based on the space DISA is occupying. The largest portion of these costs are reimbursements to the Pentagon Reservation Maintenance Fund. Occupancy agreements are also held with Washington Headquarters Service or the General Services Administration based upon the space DISA GF is occupying. Prior year tables for future minimum lease payments are not presented. Future lease payments due as of Sept. 30, 2023, were as follows:

Figure 31-Future Payments Due for Non-Cancelable Operating Leases

(thousands)

DISA GF 2023	Land & Buildings	Equipment	Other	Total
Federal				
Fiscal Year 2024	$ 39,146	$ 362	$ 3,658	$ 43,166
Fiscal Year 2025	40,320	362	3,098	43,780
Fiscal Year 2026	41,530	362	2,737	44,629
Fiscal Year 2027	42,776	362	2,726	45,834
Fiscal Year 2028	41,974	0	2,781	44,755
After 5 years	3,303	0	13,950	17,253
Total Federal Future Lease Payments	209,049	1,788	28,950	239,417
Non-Federal				
Fiscal Year 2024	0	39	0	39
Total Non-Federal Future Lease Payments	0	39	0	39
Total Future Lease Payments	$ 209,049	$ 1,457	$ 28,950	$ 239,456

Note 9. Commitments and Contingencies

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

In accordance with *SFFAS 5, Accounting for Liabilities of the Federal Government, as amended by SFFAS 12, Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. DISA GF has accrued contingent liabilities for material contingencies where an unfavorable outcome is considered probable, and the amount of potential loss is measurable. The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized, and the range is disclosed. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized and the range and a description of the nature of the contingency should be disclosed. No amounts have been accrued for contingencies where the likelihood of an unfavorable outcome is less than probable, where the amount or range of potential loss cannot be estimated due to a lack of sufficient information, or for immaterial contingencies. The presented amounts accrued for legal contingent liabilities are included within the contingent liabilities amount reported in the *Other Liabilities* note.

For the fourth quarter of FY 2023, DISA GF recognizes $1.8 million of legal contingent liability as a result of past events or exchange transactions in which a future outflow or other sacrifice of resources is both probable and measurable. A quarterly analysis is performed to determine the pending/threatened litigation and unasserted claims, administrative or judicial proceedings, lawsuits, and/or other legal actions filed against DISA that could ultimately result in settlements.

Note 10. Suborganization Program Costs

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of DISA GF supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DOD's current processes and systems capture costs based on appropriations groups as presented in the schedule below. The DOD is in the process of reviewing available data and developing a cost reporting methodology required by the SFFAS 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SSFAS No. 55, "Amending Inter-Entity Cost Provisions."

The Defense Department implemented SFFAS 55 in FY 2018, which rescinded SFFAS 30, "Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts and Interpretation 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS 4."

Intragovernmental costs and revenue are related to transactions between two reporting entities within the federal government. Public costs and revenue are exchange transactions made between DISA GF and a non-federal entity.

DISA GF reports exchange revenues for inflows of earned resources. They arise from exchange transactions, which occur when each party to the transaction sacrifices value and receives value in return. Exchange revenues arise when DISA GF provides something of value to the public or another government entity at a price. Pricing policy for exchange revenues are derived by recovering costs.

DISA GF employs a trading partner reconciliation throughout the year to validate buyer-side and seller-side balances and collaborates with its major DOD partners to identify and resolve material differences. Generally, in accordance with DOD Financial Management Regulation (FMR) Volume 6B, Chapter 13, paragraph 13201, the internal DOD buyer-side balances are adjusted to agree with internal seller-side balances for revenue. For variances that remain unreconciled at the end of the period, the DISA GF expenses are adjusted by reclassifying amounts between federal and non-federal expenses or by accruing additional accounts payable and expenses.

Figure 32-Costs and Exchange Revenue by Major Program

(thousands)

DISA GF	2023	2022
Operations, Readiness & Support		
Gross Cost	$ 3,017,914	$ 2,827,862
Less: Earned Revenue	(165,328)	(171,031)
Net Program Costs	2,852,586	2,656,831
Procurement		
Gross Cost	382,136	467,272
Less: Earned Revenue	(9,953)	(7,574)
Net Program Costs	372,183	459,698
Research, Development, Test & Evaluation		
Gross Cost	386,145	412,717
Less: Earned Revenue	(27,538)	(33,422)
Net Program Costs	358,607	379,295
Family Housing & Military Construction		
Gross Cost	1,175	3,208
Net Program Costs	1,175	3,208
Consolidated		
Gross Cost	3,787,370	3,711,059
Less Earned Revenue	(202,819)	(212,027)
Total Net Cost	$ 3,584,551	$ 3,499,032

Note 11. Statement of Budgetary Resources

DISA GF operates primarily with funding derived from direct appropriations that are subject to cancellation by the time-period in which funds may be used. An additional funding source is the use of reimbursable authority obtained from customer orders for services provided.

As of Sept. 30, 2023, DISA GF incurred $4.3 billion in obligations, of which $228 million are reimbursable, $4.1 billion are direct and none of which are exempt from apportionment.

The total unobligated balance available as of Sept. 30, 2023, is $653.6 million and represents the cumulative amount of budgetary authority that has been set aside to cover future obligations for the current period.

The DISA GF SBR includes intra-entity transactions because the statements are presented as combined.

As of Sept. 30, 2023, DISA GF's net amount of budgetary resources obligated for undelivered orders is $1.8 billion.

DISA GF does not have any legal arrangements affecting the use of unobligated budget authority and has not received permanent indefinite appropriations.

The amount of obligations incurred by DISA GF may not be directly compared to the amounts reported in the Budget of the United States Government because DISA GF funding is received and reported as a component of the "Other Defense Funds" program. The "Other Defense Funds" is combined with the service components and other DOD elements and then compared to the Budget of the United States government at the defense agency level.

Figure 33-Budgetary Resources Obligated for Undelivered Orders at the End of the Period

(thousands)

DISA GF	2023	2022
Intragovernmental		
Unpaid	$ 1,683,060	$ 1,352,635
Total Intragovernmental	1,683,060	1,352,635
Non-Federal		
Unpaid	95,329	423,007
Prepaid/Advanced	7	19
Total Non-Federal	95,336	423,026
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 1,778,396	$ 1,775,661

Note 12. Reconciliation of Net Cost to Net Outlays

The reconciliation of net cost to net outlays demonstrates the relationship between DISA GF's net cost of operations, reported on an accrual basis on the SNC, and net outlays, reported on a budgetary basis on the SBR. While budgetary and financial (proprietary) accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period.

The accrual basis of financial accounting is intended to provide a picture of DISA GF's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources and the use and receipt of cash by DISA GF. Outlays are payments to liquidate an obligation, excluding the repayment to the Treasury of debt principal.

Figure 34-Reconciliation of Net Cost of Operations to Net Outlays

(thousands)

DISA GF	Intragov.	Public	Total
Net Cost of Operations (SNC)	$ 2,896,620	$ 687,931	$ 3,584,551
Components of Net Cost That Are Not Part of Net Outlays:			
Change in Property, Plant, and Equipment, net	0	(1,220)	(1,220)
Increase/(Decrease) in Assets:			
Accounts receivable, net	(8,347)	698	(7,649)
Other Assets	0	(12)	(12)
Decrease/(Increase) in liabilities:			
Accounts Payable	(35,898)	12,182	(23,716)
Federal employee and veteran benefits payable	0	(829)	(829)
Other liabilities	9	52	61
Other Financing Sources:			
Imputed cost	(81,529)	0	(81,529)
Total Components of Net Cost Not Part of Net Outlays	$ (125,765)	$ 10,871	$ (114,894)
Miscellaneous Reconciling Items			
Transfers (in)/out without reimbursements	159,335	0	159,335
Other	0	9,589	9,589
Total Other Reconciling Items	159,335	9,589	168,924
Total Net Outlays	2,930,190	708,391	3,638,581
Agency Outlays, Net, Statement of Budgetary Resources			$ 3,638,463
Unreconciled difference			$ 118

The unreconciled difference of $118 thousand is related to Line R1C2, not including Standard General Ledger (SGL) 711000.9000, which is included in the SNC net cost of operations, but not in the SBR net outlays. The fluctuation is due to adjusting entries made for equipment sent to the Defense Logistics Agency (DLA) that was no longer in use.

Note 13. Reclassification of Financial Statement Line Items for Financial Report Compilation Process

The Statement of Changes in Net Position reports the change in net position for the period, which results from changes to cumulative results of operations. During FY 2023, changes for DISA GF primarily consists of budgetary financing sources for appropriations received, transferred-in/out, and used.

DISA GF does not have funds from dedicated collections. In accordance with OMB A-136 II.3.8, if DISA GF received funds from dedicated collections, a crosswalk for line items used to prepare the government-wide SNC would be disclosed in this note.

Required Supplemental Information

Deferred Maintenance and Repairs Disclosures

In accordance with FASAB SFFAS 42 and FMR 6B, Chapter 12, paragraph 120301, DISA is to report material amounts of deferred maintenance and repairs (DM&R) as supplementary information on its financial statements. In FY 2023, DISA GF has DM&R to report of $31.9 million.

Generally, due to the nature of DISA's business providing IT, telecommunications and computing services in support of combat missions, all required maintenance is funded within the period required to meet performance requirements of DISA missions.

DM&R determination is based on development and annual review of an integrated project list of life-cycle replacement items and identification of needed maintenance. Analysis determines and identifies any replacement of life-cycle items in the year that the items are needed. A review is conducted annually to rank and prioritize maintenance and repairs (M&R) activities, among other activities. The criteria for prioritizing M&R activities are life, safety, health, mission, and general repairs. The integrated project listing review and preventative maintenance (PM) contracts from the project manager on equipment are considered in determining acceptable condition standards when deferred maintenance is not required. PM is performed at least quarterly on systems based on operations and maintenance contracts.

As of the fourth quarter of FY 2023, DISA has transferred out all GF real property assets. The DISA GF has DM&R related to capitalized general, non-capitalized or fully depreciated general PP&E. DISA does not have stewardship PP&E or PP&E for which management does not measure and/or report DM&R. The rationale for excluding any PP&E asset other than if not capitalized, or it is fully depreciated, is the item does not meet the applicable capitalization criteria, is not on the integrated project list, or there are preventative maintenance contracts in place to address maintenance needs in the current year.

There have been changes in identification of DM&R that have occurred since the last fiscal year. In FY 2023, DISA GF has further refined its identification of DM&R and reports deferred maintenance of $31.9 million for general PP&E. DISA GF will continue to review its process and enhance its identification of deferred maintenance reporting as needed.

Defense Information Systems Agency
General Fund
As of Sept. 30, 2023
(thousands)

Figure 35- Combining Statement of Budgetary Resources

	O&M	PROC	RDT&E	MILCON	COMBINED
Budgetary Resources (discretionary and mandatory):					
Unobligated balance from prior year budget authority, net	$ 498,461	$346,735	$115,547	$ 17,406	$ 978,149
Appropriations	2,950,595	517,416	286,328	0	3,754,339
Spending Authority from offsetting collections	170,455	969	42,629	0	214,053
Total Budgetary Resources	3,619,511	865,120	444,504	17,406	4,946,541
Status of Budgetary Resources:					
New obligations and upward adjustments	3,354,090	650,399	287,006	1,467	4,292,962
Unobligated balance, end of year:					
Apportioned, unexpired accounts	31,513	157,185	115,732	7,348	311,778
Unexpired unobligated balance, end of year	31,513	157,185	115,732	7,348	311,778
Expired unobligated balance, end of year	233,908	57,536	41,765	8,592	341,801
Unobligated balance, end of year (total)	265,421	214,721	157,497	15,940	653,579
Total Budgetary Resources	3,619,511	865,120	444,503	17,407	4,946,541
Outlays, net:					
Outlays, net (total) discretionary and mandatory	2,777,303	475,085	371,971	14,104	3,638,463
Agency Outlays, net (discretionary and mandatory)	$2,777,303	$475,085	$371,971	$ 14,104	$ 3,638,463

*The Total Budgetary Resources lines for RDT&E and MILCON are not in balance due to chart rounding.

Defense Information Systems Agency
General Fund
Other Information
Fourth Quarter of Fiscal Year 2023, Ending Sept. 30, 2023

Summary of Financial Statement Audit and Management Assurances
Audit Opinion: Disclaimer of Opinion
Restatement: No

Figure 36- Summary of Financial Statement Audit

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Fund Balance with Treasury	5	0	0	0	5
Accounts Payable/Expense	6	0	1	0	5
Accounts Receivable/Revenue	3	0	1	0	2
Unmatched Transactions	1	0	0	0	1
Financial Reporting	3	0	1	0	2
Undelivered Orders	1	1	0	0	2
Unfilled Customer Orders	1	0	0	0	1
PPE	1	0	1	0	0
Total Material Weaknesses	21	1	4	0	18

Figure 37- Effectiveness of Internal Control over Financial Reporting (FMFIA § 2) Statement of Assurance: Disclaimer of Opinion

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Fund Balance with Treasury	5	0	0	0	0	5
Accounts Payable/Expense	6	0	1	0	0	5
Accounts Receivable/Revenue	3	0	1	0	0	2
Internal Controls	0	0	0	0	0	0
Unmatched Transactions	1	0	0	0	0	1
Financial Reporting	3	0	1	0	0	2
Undelivered Orders	1	1	0	0	0	2
Unfilled Customer Orders	1	0	0	0	0	1
PPE	1	0	1	0	0	0
Total Material Weaknesses	21	1	4	0	0	18

Figure 38-Effectiveness of Internal Control over Operations (FMFIA § 2) Statement of Assurance: Disclaimer of Opinion

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Figure 39-Conformance with Federal Financial Management System Requirements (FMFIA § 4) Statement of Assurance: Disclaimer of Opinion

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IT-Related	0	0	0	0	0	0
Total non-conformance	0	0	0	0	0	0

Figure 40-Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)

	Agency	Auditor
Federal Financial Management System Requirements	No lack of compliance noted except as noted in IT related material weaknesses above	Lack of substantial compliance noted
Applicable Federal Accounting Standards	No lack of compliance noted except as noted in financial reporting related material weaknesses above	Auditor was unable to conclude
USSGL at Transaction Level	No lack of compliance noted	Auditor was unable to conclude

Management Challenges

19-Oct-2023

MEMORANDUM FOR DIRECTOR (D)

SUBJECT: Top Management and Performance Challenges Facing the Defense Information Systems Agency (DISA) in Fiscal Year 2024

The Reports Consolidation Act of 2000 requires the DISA Office of the Inspector General (OIG) to issue a report summarizing what the OIG considers as serious management and performance challenges facing DISA and assessing the Agency's progress in addressing those challenges. DISA is required to include this report in its agency financial report. This report represents DISA OIG's independent assessment of the top management challenges facing DISA in fiscal year 2024.

In developing this report, the DISA OIG considered several criteria including items such as the impact on safety and cyber security, documented vulnerabilities, large dollar implications, high risk areas, and the ability of DISA to effect change. We reviewed recent and prior internal audits, evaluations, and investigation reports; reports published by other oversight bodies; and input received from DISA senior leadership. In addition, we recognize that DISA faces the extraordinary task of meeting these challenges while working in a hybrid work environment.

The DISA OIG identified seven challenges this year. The challenges are not listed in a specific order and all are considered to be significant to DISA's work. DISA's Top Management and Performance Challenges for Fiscal Year 2024 include:

- Meeting Data Management Challenges
- Managing Human Capital
- Cyber Supply Chain
- Current and Future Contracting Environment
- Mission Partner Payments
- Artificial Intelligence
- Safeguarding and Handling Classified Information

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Stephen M. Ryan
Inspector General

Challenge 1
Meeting Data Management Challenges

Data management is the practice of collecting, keeping, and using data securely. DISA transports mission partner data internally and externally while maintaining various operating systems that produce massive amounts of complex data.

The federal government, Department of Defense (DoD), and DISA, are under constant data-driven cyber-attacks. For example, the Federal Bureau of Investigations (FBI), National Security Agency (NSA), and the Cybersecurity and Infrastructure Security Agency (CISA) announced that hostile state-sponsored hackers targeted and breached U.S. defense and industry critical infrastructure.

To help address these challenges, DoD outlined data management goals in the 2020 DoD Data Strategy. Per the Strategy, DoD aims to protect data and evolve data into actionable information for decision makers. The DoD Data Strategy describes the DoD vision, guiding principles, essential capabilities, and goals for data management throughout the DoD.

DISA has the responsibility to help DoD modernize the infrastructure and identify, protect, detect, respond, and recover from data threats. The DISA Office of the Chief Data Officer (OCDO) was formally established in the standing up of Enterprise Integration and Innovation (EII) in September 2021. In 2022, the CDO published the DISA Data Strategy Implementation Plan (IPlan) to describe a modern approach to information architecture and data management, outline workstreams necessary to organize activities, define future activities, and identify next steps for the DISA organization. The DISA IPlan aligns with the DoD Data Strategy, DISA Strategy, and expands upon DISA's efforts to meet DoD data management principles, capabilities, and goals. DISA also created the DISA Data Analytics Center of Excellence to bridge business policies, cyber, and information technology. In 2023, the DISA OIG is assessing DISA's data management maturity.

Challenge 2
Managing Human Capital

DISA workforce continues as a hybrid work environment with most employees having the option to work from home more frequently. Moving forward in the hybrid work environment, DISA leadership will continue to be presented with many challenges including maintaining employee morale and productivity, acquiring the necessary and relevant technology and tools, and recruiting and retaining talent.

Recruiting talent continues to be a challenge and recruiting individuals with the right talent in a timely manner is critical. Whether individuals are recent college graduates, high-performing industry professionals, or military veterans with years of experience in the field, DISA's goal is to make the Agency a place sought out by high-caliber talent and provide a place talented individuals want to work. DISA competes for talent with the private sector, where additional benefits and flexibilities can be used to recruit highly qualified workers. DISA's telework and remote work policies allow leadership to broaden the hiring pool of candidates in various geographical regions to attract and retain high quality talent. However, leadership will have to balance the use of telework and remote work to ensure mission requirements are met while providing the flexibilities to recruit and retain a skilled cyber workforce.

As DISA continues to strengthen the work culture, the agency invests in key initiatives to attract and retain a talent pool skilled in critical thinking and diverse in ideas, backgrounds, and technical expertise. To achieve this, DISA is forecasting needed skills through succession planning, improving how it markets career opportunities within the agency, and deepening external partnerships with educational institutions and third-party personnel services.

Workforce 2025 is DISA's recent initiative designed to address longstanding cyber workforce challenges, including attracting, training, and promoting a workforce that is equipped with the knowledge and decision-making abilities to "creatively solve national security challenges in a complex global environment." DISA released *Workforce 2025 Implementation Plan* in September 2023, and the Plan is a living document that may change due to resources and/or strategic and workforce priorities.

The *Workforce 2025* strategy is designed to enhance the skills and talents of current employees while ensuring DISA onboards new talent and invests in the professional development of both throughout their careers. *Workforce 2025* is the Agency's plan to shape an empowered workforce, inspire trust through high trust behaviors, develop leaders, encourage bold decision making, enable collaboration, embrace technological advancement, and optimize the hybrid workforce and hybrid workplace. Workforce 2025 will establish a culture enabling the Agency to rapidly adapt to inevitable technological advances and mission portfolio adjustments ensuring DISA delivers relevant, cutting-edge capabilities so our Warfighters gain and maintain an operational and competitive edge.

Challenge 3
Cyber Supply Chain

Strengthening and securing DISA's Cyber Supply Chain is an important management challenge. DISA provides, operates, and assures command and control, information-sharing capabilities, and a globally accessible enterprise information infrastructure in direct support to the warfighter, national-level leaders, Combatant Commands, and coalition partners across the full spectrum of military operations

To support this mission DISA relies on an international supply chain to provide software, hardware, and services. The cyber supply chain includes a complex array of manufacturers, suppliers, and contractors. Cyber supply chain risk is the possibility that supply chain threats and vulnerabilities may intentionally or unintentionally compromise Information Technology (IT) or Operational Technology (OT) products and services.

To secure the cyber supply chain, DISA must protect, detect, respond, and recover from supply chain threats. Specifically, Information and Communications Technology Supply Chain Risk Management (ICT-SCRM) is the process of identifying, assessing, and mitigating the risks associated with the distributed and interconnected nature of IT services and supply chains. ICT-SCRM covers the entire life cycle of the supply chain, including design, development, distribution, deployment, acquisition, maintenance, and destruction. ICT-SCRM also includes cybersecurity, software assurance, obsolescence, counterfeit parts, foreign ownership of sub-tier vendors and other categories of risk that affect the supply chain. Successful ICT-SCRM maintains the integrity of products, services, people, technologies, and ensures the undisrupted flow of product, materiel, information, and finances.

In 2022, the DISA OIG conducted an evaluation of DISA's ICT-SCRM program and processes. The OIG observed DISA's ICT-SCRM program developed several best practices and the Agency has made significant program investments. For example, DISA created an ICT-SCRM management office, assigned an acting Branch Chief, and updated the Agency's ICT-SCRM instruction along with a Strategy and Implementation Plan. The DISA team has developed in-depth analysis and documentation of ICT suppliers and products. As a result, the DISA team is often sought after to support and train external agencies on ICT-SCRM activities. The creation of these operational relationships enhances DISA's capability to secure the DoD supply chain and support the Warfighter's ability to mitigate risk at the tactical level. Moving forward, DISA is focusing on ICT-SCRM related activities to address hardware bill of material (HBOM) rogue/counterfeit detection and software bill of material (SBOM) zero-day mitigation efforts.

Despite these positive elements, the OIG determined DISA can better define ICT-SCRM processes and provide additional operational guidance to increase the maturity of the program. We also found inconsistent ICT-SCRM performance across the agency, stakeholders lacked familiarity with ICT-SCRM, efforts were stove-piped, and training was not conducted in accordance with DISA requirements. The OIG identified the following four recommendations as part of our corrective action process: (1) Define, in writing, ICT-SCRM process steps, integration with other corporate processes, and provide additional operational guidance in accordance with DISAI 240-110-44; (2) Develop DISA ICT-SCRM training in accordance with NIST SP 800-161 Rev 1 and DISAI 240-110-44 to ensure a common understanding of processes and methods throughout the organization; (3) Establish ICT-SCRM metrics and benchmarking for performance analysis; (4) Develop an oversight process to ensure DISA's ICT-SCRM repository maintains all required SCRM threats, vulnerabilities, and reporting; including Criticality Analysis, Due Diligence Reports, and Risk Assessment artifacts.

Since the realignment of the DISA ICT-SCRM program on 01 July 2023, the Risk Management Executive, Threat Mitigation Division (RE3), continues to focus on the development of foundational program requirements while maintaining program execution. Of the four OIG recommendations made in 2022, two have been satisfied through the creation of an internal ICT-SCRM SharePoint page and ticketing system. RE3 continues to address the outstanding DISA OIG recommendations by updating the ICT-SCRM CONOPs and the development of DISA ICT-SCRM annual training; both efforts are on track to be completed by the end of calendar year 2023 (CY23).

Challenge 4
Current and Future Contracting Environment

Contracting is a top management challenge at DISA due in part to resource constraints. The DISA Defense Information Technology Contracting Organization (DITCO) procures complex mission partner IT, Cyber, and Telecommunications requirements. The Office of Personnel Management has determined the 1102 (contracting) job series a critical hiring need for which there is a severe shortage of candidates. DITCO hires a disproportionate number of career ladder positions (e.g., hire a GS-11 with limited contracting skills for complex requirements and best value trade off source selections into GS-13 full performance level positions). This also creates increased work for more experienced 1102s to provide substantive on-the-job training, and causes an inability to sufficiently and effectively meet DoD and other federal agency mission needs. DITCO's mission is to provide efficient and compliant procurement services for Information Technology, Cyber, and Telecommunication services that support national defense partners through timely, quality, and ethical contracting. DITCO has turned away mission partner requests, resulting in lost revenue, due to DITCO's mission requirements, workload, and hiring challenges.

In addition, DITCO identified the submission of late procurement packages and late funding from internal and external mission partners as a systemic, significant challenge. Late procurement packages occurred because of lack of planning, contract package routing delays, requirement definition issues, incomplete and unactionable procurement packages, unfunded requirement delays, and contract scope issues. This and other challenges in contracting faced by DITCO and mission partners are increased by Office of Management and Budget (OMB), Office of the Secretary of Defense (OSD), DoD, and DISA funding levels, increased contract documentation, incrementally funding contracts in small increments throughout the fiscal year which creates exponentially more work across the Agency, and other indirect process requirements. Among these are inefficient contracting information systems and interfaces which creates a substantive amount of manual work (and/or re-work) to include: (1) IDEAS Telecommunications contract writing system with a significant backlog of system enhancements, as well as down-time due to technical challenges and inoperable features, (2) lack of a circuit Review and Revalidation capability, and (3) DoD Procure to Pay Handshakes (i.e., data transfer) interfaces. DITCO and the Office of the Chief Financial Officer continue to collaborate to implement process improvements to fulfill contract requirements in a timely manner and meet mission partner needs.

The DISA OIG reported concerns relating to contracting at DISA; specifically, contracts pertaining to Government-Furnished Property, cyber safeguards of defense information, Government Purchase Card oversight, timely contract closeout, and management of unliquidated obligations. Additionally, the OIG identified concerns relating to Contracting Officer's Representatives (CORs) performing their duties and DITCO's oversight of CORs. CORs ensure delivery of supplies and critical mission services; however, inadequate COR oversight could result in decreased quality of contractor services.

Challenge 5
Mission Partner Payments

DISA, like other service providers in the Department of Defense, experiences delinquent accounts receivable as part of doing business with various mission partners. DISA continues to have challenges obtaining Mission Partner (Military Services and Defense/Non-Defense Agencies) funding in a timely manner for reimbursable costs incurred. In 2023, the DISA OIG conducted an audit of DISA's Reimbursable Services Collections to determine whether DISA collects accounts receivables for reimbursable services in accordance with DoD and DISA guidance.

We determined that DISA was not consistently pursuing collection of $137 million in aged Accounts Receivable (A/R) over 30 days from Mission Partners as of 30 June 2022, in accordance with the Department of Defense Financial Management Regulation (DoD FMR). DISA J8 did not pursue collections for General Fund (GF); however, J8 issued Working Capital Fund's (WCF's) collection Memorandums. We found internal control weaknesses, including incomplete policy, limited automated capabilities and processes, lack of compliance with the policy, and a policy that did not include the processes for classified and unbillable A/R transactions.

The audit also found DISA WCF was unable to bill Mission Partners for $77 million aged A/R over 90 days as of June 2022. DISA was performing work without funding documentation including a Standard Line of Accounting (SLOA) because DISA did not require Mission Partners to provide the SLOA prior to performing work for reoccurring services. DISA does have recurring and automated communication with Mission Partners, requesting the SLOA; however, many Mission Partners were not responsive in providing the SLOA when requested. Additionally, DISA's policy did not include the process for obtaining Mission Partners funding documentation with a SLOA prior to DISA providing the services that are recurring in nature, crossing fiscal years..

Incomplete and limited automated capabilities to accomplish and carryout policy for the collection process hinders J8's ability to receive timely reimbursement for services and the lack of funding information leads to delays in Mission Partner payments for services provided. The DISA OIG made six recommendations to address these issues.

DISA is planning to standardize customer engagement and delinquent customer notices across the GF and WCF to build a more consistent and streamlined process preventing aged Accounts Receivable bills from occurring. The updated policy, once signed, will dictate and enforce a standard process across DISA.

Challenge 6
Artificial Intelligence

Artificial intelligence (AI) refers to the ability of machines to perform tasks that normally require human intelligence. For example, AI includes recognizing patterns, learning from experience, drawing conclusions, making predictions, or acting. Examples of AI enabled technology include chatbots that facilitate writing, tools for intelligence analysis, and autonomous weapon systems. Strategic competitors, such as China and Russia, are also making significant investments in AI.

AI will transform warfare, and failure to adopt AI technology could hinder national security. According to the DISA Director, generative AI is "probably one of the most disruptive technologies and initiatives in a very long, long time. Those who harness that and can understand how to best leverage it, but also how to best protect against it, are going to be the ones that have the high ground."

In response to this challenge, the 2018 DoD AI Strategy directs the DoD to accelerate the adoption of AI and the creation of a force that can protect the security of our nation. In 2022, DoD also published a Responsible AI (RAI) Strategy and Implementation pathway that illuminates the path forward by defining and communicating a framework for harnessing AI.

DISA is also looking for ways to repurpose cutting-edge technology like AI for cyber analytics, cyber protection, and operations to protect the Defense Department's global network. For example, DISA held an AI Summit. Participants learned about various AI initiatives within DISA and around the Department of Defense. Participants had the opportunity to meet leaders that specialize in AI and observed demonstrations by the Joint Artificial Intelligence Center, DISA, and Industry Leaders. DISA also issued Initial Guidance on the Responsible Use of Publicly Available Generative Artificial Intelligence Tools.

Challenge 7
Safeguarding and Handling Classified Information

Safeguarding sensitive and classified data is a top management challenge to DISA, not only for the organization but also for mission partners. DISA provides crucial infrastructure and network capabilities enabling DoD Organizations and our global partners with carrying out strategic objectives as well as their daily business operations. Internal controls and security of sensitive information is not only a national defense priority, it comes with a significant cost to maintain.

In April 2023, the DoD CIO issued a memorandum "*Department of Defense Guidance on Safeguarding Responsibilities Regarding Classified Information*" regarding the improvement of controls around safeguarding classified information. In response, DISA leadership took action by issuing Operations Orders to address unauthorized disclosures and report postures and actions taken to improve compliance.

Recent DoD incidents relating to military service members, personnel, and contractors accessing and distributing sensitive and classified data have occurred from reasons such as personal ethics to espionage by nation states. These increasing number of incidents within DoD raise concerns by senior leadership over DoD's organizational and personnel access to sensitive infrastructure and data, what requirements are there to access data, and what systems are connected to this sensitive infrastructure. The resulting fallout from spillage or unauthorized disclosure incidents not only damages National Security, but also could threaten DISA's strategic mission, DISA's reputation within the DoD, and the loss of trust with our mission partners.

OFFICE OF THE INSPECTOR GENERAL

The Office of the Inspector General (OIG) is an impartial fact-finder for the director and leaders of DISA. The OIG seeks to improve the efficiency and effectiveness of DISA's programs and operations by conducting audits, investigations, and evaluations. The OIG then evaluates and coordinates to close the recommendations through the Liaison office.

AUDIT

OIG Audit provides independent and objective audit services to promote continuous performance improvement, management, and accountability of DISA operations, programs, and resources to support DISA's missions as a combat support agency. The types of services OIG Audit provides are performance audits, attestation engagements, financial audits, and, occasionally, non-audit services. OIG Audit is built on a framework for performing high-quality audit work with competence, integrity, and transparency.

INVESTIGATION

OIG Investigation supports the efficiency and effectiveness of DISA by providing accurate, thorough, and timely investigative products to key agency leaders. OIG Investigation performs five primary functions: Hotline Program, Administrative Investigations, Digital Forensics, Criminal Investigation Liaison Support, and Fraud Awareness Program. The fundamental purpose of investigations is to resolve specific allegations, complaints, or information concerning possible violations of law, regulation, or policy.

EVALUATION

OIG Evaluation conducts evaluations and special inquiries to improve processes, optimize the effective use of military and civilian personnel, enhance operational readiness, assess focus areas, and provide recommendations for improvement while teaching and training. The fundamental purpose of evaluations is to assess, assist, and enhance the ability of a command or component to prepare for and perform its assigned mission.

LIAISON

OIG Liaison serves as the conduit between DISA and external parties by providing guidance and assistance, ensuring leadership at all levels is appropriately informed and external agency objectives are met while minimizing the impact to DISA operations. OIG Liaison supports DISA as a whole by providing:

- Audit Coordination - Monitor all oversight activities impacting DISA.
- Communication - Liaison between DISA leadership and external parties.
- Follow-up - Track and ensure implementation of all external/internal recommendations.

Payment Integrity

For compliance with the Payment Integrity Information Act of 2019 (Pub. L. No. 116-117, 31 U.S.C. § 3352 and § 3357), DISA has an internal control structure in place to mitigate improper payments that could result in payment recovery actions. Actions taken to prevent overpayments include testing and review of civilian time and attendance, travel payments, and purchase card transactions. Tests validate that internal controls are in place and functioning as preventative measures to mitigate risks in the execution, obligation, and liquidation of funding for transactions. Controls are in place through established policy and procedures; training; separation of duties; and data mining to identify risks and fraud vulnerabilities. Additionally, DFAS, as DISA's accounting service provider, performs overpayment recapture functions on behalf of DISA. DFAS includes DISA transactions in its sampling populations for improper payment testing of civilian payroll and travel. There have been no issues arising to merit an anticipated negative impact regarding payment integrity and improper payment recovery in FY 2023.

DOD Office of Inspector General (OIG) Audit Report Transmittal Letter

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

November 8, 2023

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY

SUBJECT: Transmittal of the Independent Auditor's Reports on the Defense Information Systems Agency General Fund Financial Statements and Related Notes for FY 2023 and FY 2022
(Project No. D2023-D000FL-0056.000, Report No. DODIG-2024-009)

We contracted with the independent public accounting firm of Kearney & Company, P.C. (Kearney) to audit the Defense Information Systems Agency (DISA) General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2023, and 2022. The contract required Kearney to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether DISA's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," Volume 1, May 2023, Volume 2, May 2023, and Volume 3, June 2023. Kearney's Independent Auditor's Reports are attached.

Kearney's audit resulted in a disclaimer of opinion. Kearney could not obtain sufficient, appropriate audit evidence to support the reported amounts within the DISA General Fund Financial Statements. As a result, Kearney could not conclude whether the financial statements and related notes were presented fairly and in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney did not express an opinion on the DISA General Fund FY 2023 and FY 2022 Financial Statements and related notes.

Kearney's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," discusses five material weaknesses related to the DISA General

Fund's internal controls over financial reporting.* Specifically, Kearney's report stated that DISA did not design or implement internal controls to:

- reconcile and accurately report Fund Balance with Treasury;
- analyze, record, and support Accounts Receivable and revenue transactions in a timely manner;
- validate, record, and support Accounts Payable accrual estimates and expense transactions;
- validate, record, and support budgetary resource related transactions; or
- provide accurate and timely financial reporting information.

Kearney's additional report, "Independent Auditor's Report on Compliance with Laws and Regulations, Contracts, and Grant Agreements," discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, Kearney's report describes instances in which DISA did not comply with the Federal Financial Management Improvement Act of 1996 and the Federal Managers' Financial Integrity Act of 1982.

In connection with the contract, we reviewed Kearney's reports and related documentation and discussed them with Kearney's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the DISA General Fund FY 2023 and FY 2022 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal controls over financial reporting, on whether DISA's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Kearney did not comply, in all material respects, with GAGAS. Kearney is responsible for the attached November 8, 2023 reports and the conclusions expressed within the reports.

* A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a

We appreciate the cooperation and assistance received during the audit. If you have any questions, please contact me.

FOR THE INSPECTOR GENERAL:

Lorin T. Venable

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

Attachments:
As stated

Independent Auditor's Report

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

To the Director, Defense Information Systems Agency, and Inspector General of the Department of Defense

Report on the Audit of Financial Statements

Disclaimer of Opinion

We were engaged to audit the General Fund (GF) financial statements of the Defense Information Systems Agency (DISA), which comprise the Balance Sheets as of September 30, 2023 and 2022, the related Statements of Net Cost and Changes in Net Position, and the combined Statements of Budgetary Resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

We do not express an opinion on the accompanying GF financial statements of DISA. Because of the significance of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion that the financial statements are complete and free from material misstatements when taken as a whole.

We were unable to obtain sufficient appropriate audit evidence to support the existence, completeness, and accuracy of Fund Balance with Treasury (FBWT), Accounts Receivable (AR), Accounts Payable (AP), Earned Revenue, Gross Costs, and the related budgetary accounts. DISA was unable to provide sufficient supporting documentation in a timely manner to support these line items in fiscal year (FY) 2023. DISA was also unable to provide sufficient supporting documentation in a timely manner to complete testing over Financial Reporting. Specifically, DISA was unable to provide sufficient appropriate audit evidence to support certain types of transactions, referred to as undistributed and unmatched transactions, that materially impacted each of the aforementioned audit areas.

DISA was unable to support its revenue and expense activity during FY 2023 due to the underlying key supporting documentation missing critical information, such as quantity, price, amount, and delivery and receipt timeframes. Intra-governmental and intra-Department of Defense (DoD) activity was unsupported for a majority of the samples selected for testing. This also impacts DISA's ability to develop and validate an AP accrual estimate.

Undistributed transactions are disbursements and collections from feeder systems that were unable to interface into DISA's general ledger (GL) system. Unmatched transactions are disbursements that interface into DISA's GL system, but do not match to an obligating document in the GL system. DISA reported a significant number of either undistributed or unmatched transactions for each of the quarter-ends during FY 2023. Undistributed and unmatched transactions prevent DISA from preparing and supporting transaction-level lists of activity for its Revenue, Expense, AR, AP, and related budgetary accounts. The undistributed and unmatched transactions significantly impacted our audit procedures and DISA's ability to accurately provide sufficient audit evidence.

The effects of the conditions described in the preceding paragraphs cannot be fully quantified, nor was it practical, given the available information, to extend audit procedures to sufficiently determine the extent of the misstatements to the financial statements. The effects of the conditions in the preceding paragraphs and overall challenges in obtaining timely and sufficient audit evidence also made it impractical to execute all planned audit procedures. As a result of these departures, we were unable to determine whether any adjustments might have been found necessary with respect to recorded or unrecorded amounts within the elements of the financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for: 1) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 2) the preparation, measurement, and presentation of Required Supplementary Information (RSI) in accordance with U.S. generally accepted accounting principles; 3) the preparation and presentation of Other Information included in DISA GF's Agency Financial Report (AFR), as well as ensuring the consistency of that information with the audited financial statements and the RSI; and 4) 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DISA GF's ability to continue as a going concern for a reasonable period of time beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of DISA GF's financial statements in accordance with auditing standards generally accepted in the United States of America; 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. 24-01, *Audit Requirements for Federal Financial Statements*, and to issue an auditor's report. However, because of the matters described in the ***Basis for Disclaimer of Opinion*** section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements. We are required to be independent of DISA GF and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and other RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America because of matters described in the ***Basis for Disclaimer of Opinion*** section above. We do not express an opinion or provide any assurance on the information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01, we have also issued reports, dated November 8, 2023, on our consideration of DISA GF's internal control over financial reporting and on our tests of DISA GF's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2023. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 and should be considered in assessing the results of our audit.

Kearney & Company

Alexandria, Virginia
November 8, 2023

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Director, Defense Information Systems Agency, and Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; 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. 24-01, *Audit Requirements for Federal Financial Statements*, the General Fund (GF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise DISA GF's financial statements, and we have issued our report thereon dated November 8, 2023. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered DISA GF's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of DISA GF's internal control. Accordingly, we do not express an opinion on the effectiveness of DISA GF's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 24-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. A *material weakness* is a deficiency, or combination of deficiencies, in internal control 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. We consider the deficiencies described in the accompanying **Schedule of Findings** to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying **Schedule of Findings** to be significant deficiencies.

We noted certain additional matters involving internal control over financial reporting that we will report to DISA GF's management in a separate letter.

Defense Information Systems Agency General Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DISA GF's response to the findings identified in our engagement and described in the accompanying Agency Financial Report (AFR). The DISA GF acknowledged the findings identified in our engagement. DISA GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of DISA GF's internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 8, 2023

Schedule of Findings

Material Weaknesses

Throughout the course of our audit work of the Defense Information Systems Agency (DISA) General Fund (GF), we identified internal control deficiencies which were considered for the purposes of reporting on internal control over financial reporting. The material weaknesses presented in this Schedule of Findings have been formulated based on our determination of how individual control deficiencies, in aggregate, affect internal control over financial reporting.

Exhibit 1 presents the material weaknesses identified during our audit.

Exhibit 1: Material Weaknesses and Sub-Categories

Material Weakness	Material Weakness Sub-Category
I. Fund Balance with Treasury	A. Budget Clearing Account Reconciliation and Reporting Processes B. Statement of Differences Reconciliation and Reporting Processes C. Lack of Controls over the Cash Management Report Creation Process D. Cash Management Report Reconciliation and Reporting Procedures E. Lack of Controls over the Advana Reconciliation Process
II. Accounts Receivable/Revenue	A. Revenue Samples Not Supported B. Lack of Revenue Recognition C. Defense Agencies Initiative Report Functionality
III. Accounts Payable/Expense	A. Lack of Accounts Payable Validation B. Expense Samples Not Supported C. Lack of Receipt and Acceptance
IV. Budgetary Resources	A. Invalid Unfilled Customer Orders Without Advance Transactions B. Invalid Undelivered Orders Transactions C. Inaccurate Recoveries of Prior-Year Unpaid Obligations D. Unsupported End-of-Year Obligations
V. Financial Reporting	A. Untimely Issuance of Requested Audit Documentation and Financial Statement Package B. Undistributed and Unmatched Defense Agencies Initiative Transactions C. Lack of Timely Validation of Undistributed Journal Vouchers

I. Fund Balance with Treasury (*Repeat Condition*)

Deficiencies in five related areas, in aggregate, define this material weakness:

A. Budget Clearing Account Reconciliation and Reporting Processes
B. Statement of Differences Reconciliation and Reporting Processes
C. Lack of Controls over the Cash Management Report Creation Process
D. Cash Management Report Reconciliation and Reporting Procedures
E. Lack of Controls over the Advana Reconciliation Process

A. Budget Clearing Account Reconciliation and Reporting Processes

Background: DISA's service organization manages, reports, and accounts for Fund Balance with Treasury (FBWT) budget clearing (suspense) account activities to the U.S. Department of the Treasury (Treasury). DISA is responsible for monitoring and approving the FBWT reconciliations performed by its service organization on its behalf and is responsible for the complete and accurate reporting of FBWT on its financial statements and disclosures.

Suspense accounts temporarily hold unidentifiable general, revolving, special, or trust fund collections or disbursements that belong to the Federal Government. An "F" preceding the last four digits of the fund account symbol identifies these funds. These accounts are to be used only when there is a reasonable basis or evidence that the collections or disbursements belong to the U.S. Government and, therefore, properly affect the budgetary resources of the Department of Defense (DoD) activity. None of the collections recorded in suspense accounts are available for obligation or expenditure while in suspense. Agencies should have a process to research and properly record clearing account transactions in their general ledgers (GL) timely. Transactions recorded in DoD suspense are required to be reconciled monthly and moved to the appropriate Line of Accounting (LOA) within 60 business days from the date of transaction.

On behalf of DoD agencies, including DISA, DISA's service organization prepares materiality assessments quarterly using a combination of historical data and the current quarter's raw Universe of Transactions (UoT) to estimate the potential impact of outstanding suspense transactions to each DoD entity. The raw UoTs have not been fully researched to identify transaction count and dollar amount impact to DISA and other DoD entities and could contain summary lines. Fully researched UoTs are not available until 53 days after quarter-end and year-end financial reporting timelines.

DISA suspense transactions, if any, are included and accounted for in Treasury Index (TI)-97 Other Defense Organizations (ODO), Department of the Navy (TI-17), Department of the Air Force (TI-57), and Department of the Army (TI-21) suspense accounts based on DoD disbursing processes.

Condition: DISA, in coordination with its service organization, has not implemented sufficient internal control activities to ensure that transactions recorded in suspense accounts do not contain DISA collections and disbursements that should be recognized in DISA's accounting records. The processes currently in place cannot be relied upon to prevent, detect, or correct misstatements in time for quarterly and fiscal year (FY)-end financial reporting. While DISA's service organization prepares quarterly suspense materiality assessments for each TI to identify the total count and amount of suspense account transactions resolved to DISA and other Defense agencies, the uncleared suspense transactions included in the assessment are material, and the assessments are not available in a timely manner to perform sufficient analysis for financial reporting.

Cause: DISA's suspense activity is not recorded in unique suspense accounts, but rather in shared TI-97, TI-57, TI-21, and TI-17 suspense accounts. DoD suspense accounts continue to contain a high volume of collections and disbursements which require manual research and resolution. That manual research and resolution is what supports the production of the final UoTs and materiality assessments but takes a significant amount of time, which is the cause of them not being available in a timely manner for financial reporting. Additionally, at the time of UoT availability, there has been a significant volume of transactions for a material dollar amount in suspense that has not been identified to an entity and is listed in the UoT as "to be determined" (TBD). As of FY 2023 Quarter (Q) 3, the following were noted as "TBD" in the Suspense UoTs:

- TI-17 reported 14 out of 2,799 transactions (1%) totaling ($1.3 million) net and $1.3 million absolute (ABS) (11%), respectively
- TI-21 reported 566 out of 2,380 transactions (24%) totaling ($27.2 million) net and $62.3 million ABS (12%), respectively
- TI-57 reported 863 out of 1,380 transactions (63%) totaling $9.5 million net and $21.7 million ABS (45%), respectively
- TI-97 reported 19,101 out of 19,618 transactions (97%) totaling ($320.9 million) net and $655.9 million ABS (97%), respectively.

DISA and its service organization have not designed and implemented a methodology to determine the financial reporting impact of DoD suspense account balances to DISA's financial statements for financial reporting in a timely manner sufficient for quarterly and annual financial reporting timelines. The assessments do not identify amounts attributed to DISA for the current quarter, but estimate the amount based on historical data. Per Statement of Federal Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, DISA's FBWT represents its claim to the Federal Government's resources and its accounts with Treasury for which DISA is authorized to make expenditures and pay liabilities. The materiality assessment methodology is not designed effectively as it pertains to recording an FBWT projection, should a material misstatement be identified. SFFAS No. 1 does not permit FBWT as a viable account for estimated amounts.

Effect: DISA cannot identify and record its suspense activity into its GL and financial statements pursuant to quarterly financial reporting timelines. Without additional compensating internal controls or monitoring procedures and analyses, the lack of effective internal controls and processes to determine the financial reporting impact of the suspense balances inhibits DISA's ability to assert to the completeness and accuracy of reported FBWT on its Balance Sheet and other financial statement line items, as applicable.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that DISA implement internal control activities to ensure that material DISA transactions, individually and in the aggregate, are identified and appropriately included within DISA's accounting records. Specifically, Kearney recommends that DISA perform the following:

1. Continue implementing business process improvements in the related financial statement line items to prevent items from reaching suspense. Specifically, DISA should develop and implement monitoring controls and processes for Accounts Receivable (AR) and Accounts Payable (AP) balances to reduce the risk of DISA having a material amount of disbursements and collections not reflected on its financial statements.
2. Research and resolve suspense transactions by correcting the transactions in source systems and assist DISA's service organization with necessary supporting documentation for corrections, if needed.
3. Consider any limitations to DISA's service organization's suspense account reconciliation process and develop compensating controls to reconcile any included FBWT suspense activity or, through documented materiality analysis, indicate that management accepts the risk of potential misstatement. This includes considering the materiality assessments and the amount of "TBD" data included, as well as the risk that DISA could have material transactions included in what is flagged as "TBD" in the UoTs that are used to create those assessments.
4. Pursuant to receiving the necessary information and documentation from DISA's service organization, develop and implement procedures to identify DISA's suspense account balances for recording and reporting into the GLs and financial statements.

In addition, Kearney recommends that DISA coordinate with its service organization to perform the following:

1. Continue to develop procedures to determine what portion of the suspense balances, if any, should be attributed to DISA for financial reporting in a timely manner and made available for year-end financial reporting purposes.
2. Continue to monitor and track the resolution of suspense activity cleared to DISA to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."
3. Continue to work to develop effective system and process controls to ensure that disbursements and collections are processed with valid TI, Treasury Account Symbol (TAS), and FY inputs.
4. Continue to develop and implement processes and controls to eliminate instances where transactions are being placed in suspense accounts intentionally.
5. Develop and implement a process to establish unique identifiers for each transaction in suspense UoTs that roll forward from period to period. DISA's service organization should develop controls over the establishment and roll-over of those unique identifiers that can be tested for reliance.

B. Statement of Differences Reconciliation and Reporting Processes

Background: DISA's service organization provides daily Non-Treasury Disbursing Office

(NTDO) disbursing services under various Agency Location Codes (ALC), often referred to as Disbursing Symbol Station Numbers (DSSN). Additionally, DISA's service organization provides monthly Treasury reporting services under various reporting ALCs, which are different than disbursing ALCs. Monthly, NTDO disbursing activity is submitted to its assigned reporting ALC to generate a consolidated Standard Form (SF)-1219, *Statement of Accountability*, and SF-1220, *Statement of Transactions*. Daily, Treasury Disbursing Office (TDO) ALCs submit reports directly to Treasury and complete SF-224, *Statement of Transactions*, at month-end.

Treasury compares data submitted by financial institutions and Treasury Regional Financial Centers to ensure the integrity of the collection and disbursement activity submitted. A Statement of Differences (SOD) report, known as the Financial Management Services (FMS) 6652, is generated by Treasury each month in the Central Accounting Reporting System (CARS). The SOD report identifies discrepancies between the collections and disbursements reported to Treasury and the transactions that were processed by the ALCs each month (i.e., the month the report is generated).

There are three categories of SOD reports generated by Treasury: 1) Deposit in Transit (DIT); 2) Intra-Governmental Payment and Collections (IPAC) or Disbursing; and 3) Check Issued. Disbursing Officers within the ALCs are required to research and resolve DIT, IPAC, and Check Issued differences monthly. DISA's service organization has three reporting ALCs which are responsible for month-end reporting of collections and disbursements to Treasury. Further, as a reporting entity, DISA is responsible for monitoring differences identified on the FMS 6652 for the ALCs that process its transactions to determine whether its transactions are included in an SOD and erroneously omitted from its financial statements.

Condition: DISA, in coordination with its service organization, has not implemented a monitoring control to ensure that transactions that compose the SOD balances in DISA's primary DSSNs do not contain DISA collections and disbursements that should be recognized in DISA's accounting records. The processes currently in place cannot be relied upon to prevent, detect, or correct misstatements in time for quarterly and FY-end financial reporting. While DISA's service organization prepares quarterly SOD materiality assessments at the DSSN level (for DISA's service organization's managed DSSNs) to identify the total count and dollar value of the SOD transactions resolved to DISA and other Defense agencies, the uncleared SOD transactions included in the assessments are significant. Assessments with fully cleared data identified to an entity are not available in a timely manner to perform sufficient analysis for financial reporting timelines.

Cause: DISA's service organization's process to create the UoT for SODs is a time-intensive and manual process that requires the consolidation of multiple files from various sources. The SOD UoTs continue to contain a high volume of collection and disbursements which require manual research and resolution. That manual research and resolution supports the production of the final UoTs and materiality assessments but takes a significant amount of time making them unavailable for financial reporting. Additionally, at the time of UoT availability, there is a significant volume of transactions, for a significant dollar amount, making up the SOD balances that have not been identified to an entity and are listed in the UoTs as "TBD."

While DISA's service organization has continued efforts to identify root causes by DSSN to reduce SOD balances and clear transactions to DoD entities timely, shared ALCs and lack of LOA information continue to make it difficult to resolve differences timely.

Effect: Without receiving the complete and final SOD UoTs from DISA's service organization in a timely manner, DISA is unable to identify its transactions that are included within SODs, if any, to recognize amounts within its accounting records in the period in which the transactions were processed. Further, without additional compensating controls and/or monitoring procedures, DISA is unable to assert to the completeness and accuracy of reported FBWT on its Balance Sheet and other financial statement line items, as applicable.

Recommendations: Kearney recommends that DISA implement internal control activities to ensure that material DISA transactions, individually and in the aggregate, are identified and appropriately included within DISA's accounting records. Specifically, Kearney recommends that DISA perform the following:

1. Assist DISA's service organization by providing supporting information to clear transactions reported in SODs.
2. Continue working with Treasury, the Office of the Secretary of Defense (OSD), DISA's service organization, and other parties to transition from using monthly NTDO reporting ALCs to daily TDO reporting ALCs.
3. Consider any limitations to DISA's service organization's SOD process and develop compensating controls to reconcile SOD balances to minimize the risk of a potential material misstatement.
4. Pursuant to receiving the necessary information and documentation from DISA's service organization, develop and implement procedures to identify DISA's actual or estimated SOD balances for recording and reporting adjustments within the financial statements.

In addition, Kearney recommends that DISA coordinate with its service organization to perform the following:

1. Continue to develop procedures to determine what portion of the SOD balances, if any, should be attributed to DISA for financial reporting in a timely manner and made available for year-end financial reporting purposes.
2. Continue to monitor and track the resolution of SOD activity cleared to DISA to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."
3. Continue to develop effective system and process controls to ensure that disbursements and collections are processed with valid TI, TAS, and FY inputs.
4. Assess and identify ALCs that primarily report collection and disbursement activity to Treasury on behalf of DISA.
5. Monitor and track the resolution of SODs cleared to DISA to enable the entity to perform root cause analysis and develop compensating controls for financial reporting purposes.
6. Coordinate recurring meetings with DISA to help resolve outstanding differences.

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C. Lack of Controls over the Cash Management Report Creation Process

Background: DISA is one of the TI-97 ODOs whose funds are aggregated at Treasury. Treasury maintains and reports FBWT balances through CARS at the TAS and ALC level, rather than at the limit level, which would distinguish DISA's FBWT balance from the combined ODO FBWT amount. DISA's service organization's Treasury Division produces the Cash Management Report (CMR) to provide ODOs with individual FBWT at the limit level.

The CMR creation process is complex and requires the compilation of data from multiple sources and systems, including:

- Headquarters Accounting and Reporting System (HQARS)
  - CIGGAX.txt – A text file of current and cumulative year-to-date disbursement and collection transactions
  - Hcb04y01.txt (Edit Table 4) – Period of Availability (POA) crosswalk table maintained by the Fiscal Code Team at DISA's service organization per 7097 and the Sub-Allocation Holder Identifier (SAHI) regulations
- Defense Cash Accounting System (DCAS)
  - OSDLimitConvTable.csv – Navy Subhead distribution file, which crosswalks Navy subheads to valid OSD limits
- Treasury CARS data
  - CARS_EXPEND.csv – Funding and expenditure data by appropriation reported to U.S. Treasury by ALCs for the current FY
  - CARS_RECEIPTS.csv – Net Activity Data by appropriation reported to U.S. Treasury by ALCs for the current FY
- Defense Departmental Reporting System (DDRS) – Budgetary (B) of data from the Program Budget Accounting System (PBAS)/Enterprise Funds Distribution (EFD)
  - CMR_Funding.csv – Contains TI-97 funding.

DISA's service organization consolidates the expenditure and budgetary data in HQARS and then transfers the compiled activity to a C# database to create the CMR. The CMR is disaggregated and used to generate TI-97 Audit Workbooks and is then ingested into DDRS-B to calculate automated undistributed adjustments, which forces DISA's FBWT balance to reconcile to the CMR at the limit level. As a DoD Component, DISA is responsible for monitoring and approving the reconciliations performed on its behalf by its service organization.

Condition: Internal control deficiencies identified in the CMR creation process negatively impact DISA's ability to support the completeness and accuracy of its FBWT balance. The specific conditions comprise:

- DISA's FBWT is reconciled to Treasury via the CMR created by its service organization. DISA's service organization does not perform data validation procedures to ensure the source files used to create the CMR reconcile back to the original source systems. This applies to expenditure activity that is imported at the summary level from DCAS and the Defense Cash Management System (DCMS) into HQARS, as well as to the files

imported or interfaced into HQARS for the DSSNs managed by DISA's service organization
- DISA's service organization creates the CMR to determine the FBWT balance for each TI-97 agency at the limit level. The CMR contains unidentified differences with Treasury which could contain transactions belonging to DISA and could pose a completeness risk to DISA
- The data in the CMR is obtained from a number of different sources which use a variety of structures for myriad data elements. DISA's service organization has created several databases to convert the data into a consistent format that is compatible with HQARS. The tables in these databases that perform the conversions do not have documented controls to ensure the data conversions are performed accurately.

Cause: DISA shares TI and basic symbols with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DISA is dependent on its service organization to provide the FBWT amount on the financial statements. DISA's service organization does not reconcile input data for the CMR back to source systems. The CMR contains unidentified differences with Treasury, which could contain transactions belonging to DISA and could pose a completeness risk to DISA. While DISA's service organization has developed a Corrective Action Plan (CAP) to remediate this issue, the corrective actions are not planned to be fully in place until March 30, 2029.

Effect: The internal control deficiencies surrounding the CMR creation process may impact DISA's ability to: 1) support its financial statement balances in a timely manner; 2) support the completeness and accuracy of its FBWT; and 3) increase the risk that errors or necessary adjustments exist but remain undetected by management. DISA is unable to support the completeness and accuracy of its FBWT without sufficiently documented procedures and controls over the generation of the CMR. The internal control deficiencies over the creation of the CMR also mean that the assignment of transactions in the CMR to various ODOs may not be accurate. As a result, DISA's financial statements may contain significant misstatements that may not be detected and corrected in a timely manner.

Recommendations: Kearney recommends that DISA work with its service organization to perform the following:

1. Work with Treasury to establish subaccounts under the basic symbols used by DISA (0100, 0300, 0400, 0500) that are unique to DISA so that it can obtain CARS reports to document its FBWT balance directly from Treasury and remove the need for the creation of the CMR.

In addition, Kearney recommends that DISA's service organization perform the following:

1. Implement appropriate data validation controls of the source files used to create the CMR as they are gathered and transferred from system to system during the creation of the CMR process.
2. Create the CMR in a system with appropriate general application information technology (IT) controls to prevent changes to the data without appropriate authorization.

D. Cash Management Report Reconciliation and Reporting Procedures

Background: DISA is one of the TI-97 ODOs whose funds are aggregated at Treasury. Treasury maintains and reports FBWT balances through CARS at the TAS and ALC level, rather than at the limit level, which would distinguish DISA's FBWT balance from the aggregated ODO FBWT amount. DISA's service organization's Treasury Division produces the CMR to provide ODOs with individual FBWT at limit level.

The CMR is broken up into two different categories: "Reconciling Items" and "Unidentified Variances." For the transactions in these categories, the owner agency has not been identified at the time of reporting and, therefore, is not reported on any specific ODO's financial statements, including DISA's. DISA's service organization is responsible for tracking, researching, and resolving the Reconciling Items and Unidentified Variances timely as part of the TI-97 FBWT reconciliation. The CMR Reconciling Items and Unidentified Variances could potentially result in material misstatements for any one specific TI-97 agency, including DISA.

Condition: DISA, in coordination with its service organization, has not implemented sufficient internal control activities to ensure that transactions recorded in the CMR Reconciling Items and Unidentified Variances do not contain DISA collections and disbursements that should be recognized in DISA's accounting records. The processes currently in place cannot be relied upon to prevent, detect, or correct misstatements in time for quarterly and FY-end financial reporting. While DISA's service organization prepares quarterly CMR materiality assessments to identify the total count and dollar amount of Reconciling Items and Unidentified Variances transactions resolved to DISA and other Defense agencies, the uncleared CMR transactions included in the assessments are material. Assessments with fully cleared data identified to an entity are not available in a timely manner to perform sufficient analysis for financial reporting timelines.

Cause: DISA shares TI and TAS with multiple agencies, which prevents it from obtaining its discrete FBWT balance directly from Treasury. DISA is dependent on its service organization to provide the FBWT amount on the financial statements in order to balance with the CMR. DISA's service organization's process to create the UoT for the CMR is a time-intensive and manual process that requires the consolidation of multiple files from various sources. The CMR UoT continues to contain a high volume of collections and disbursements which require manual research and resolution. That manual research and resolution supports the production of the final UoT and materiality assessment but takes a significant amount of time, making them unavailable for financial reporting. Additionally, at the time of UoT availability, there is historically a significant volume of transactions, for a material dollar amount, making up the CMR balances that have not been identified to an entity and are listed in the UoTs as "TBD." As of FY 2023

Q3, 1,087 out of 4,304 transactions (25%) totaling ($24 million) net and $46.4 million ABS (15%) were noted as "TBD" in the CMR UoT.

Effect: DISA cannot identify or record CMR Reconciling Items or Unidentified Variances activity belonging to DISA into its GL and financial statements pursuant to quarterly financial reporting timelines. Without additional compensating internal controls or monitoring procedures and analyses, the lack of methodology to determine the financial reporting impact of these balances inhibits DISA's ability to assert to the completeness and accuracy of reported FBWT on its Balance Sheet and other financial statement line items, as applicable.

Recommendations: Kearney recommends that DISA, its service organization, and other agencies listed below perform the following:

1. Work with Treasury to establish subaccounts under the basic symbol used by DISA (0100, 0300, 0400, 0500) that are unique to the entity so that it can obtain Treasury CARS reports to document its FBWT balance directly from Treasury and remove the need for the CMR.
2. Work with Treasury, OSD, DISA's service organization, and other parties to transition away from using monthly non-CARS reporting ALCs to daily full CARS reporting ALCs.
3. Consider any limitations to DISA's service organization's CMR reconciliation process and continue developing compensating controls to reconcile the CMR to minimize the risk of potential material misstatement.

In addition, Kearney recommends that DISA coordinate with its service organization to perform the following:

1. Continue to develop and implement procedures to resolve differences between the CMR and CARS monthly and identify the agencies for which the differences impact.
2. Continue to monitor and track the resolution of the various CMR differences categories cleared to DISA to enable the entity to perform root cause analysis. This includes further research and resolution over the transactions not resolved in the UoTs and listed as "TBD."
3. Continue to develop effective system and process controls to ensure that disbursements and collections are processed with valid TI, TAS, and DoD limits.

E. Lack of Controls over the Advana Reconciliation Process

Background: DISA is a DoD agency that is required to prepare quarterly and annual financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP), as established by the Federal Accounting Standards Advisory Board (FASAB).

Advana is a tool developed by the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) which performs a monthly FBWT reconciliation for multiple ODOs to identify differences in FBWT balances between what is reported on the CMR and what is recorded in an entity's GL system. Advana replaced the functions previously performed by the Department 97

Reconciliation and Reporting Tool (DRRT), for which there are prior-year control findings. DISA's service organization's Client Systems Team performs a review and approval of the Non-Secure Internet Protocol Router Network (NIPR) dataset in the Transporter Application. Once approved, OUSD(C) transfers the results from Secret Internet Protocol Router Network (SIPR) to NIPR via the Cross Domain Solution (CDS) and publishes the results to the NIPR WebApp (no later than two business days after DISA's service organization's Client Systems Team completes its review on SIPR). Each month, after reconciliations are performed within Advana, DISA's service organization provides the undistributed journal voucher (JV) to DISA and posts to its GL system in order to tie to the CMR.

DISA is responsible for reconciling its FBWT monthly and maintaining effective internal controls over its financial reporting to prevent, detect, and correct material misstatements in a timely manner. This includes coordinating with its service organization, as necessary, and monitoring, reviewing, and approving the reconciling procedures performed on its behalf. Without administering these steps, DISA is at risk of posting unsupported adjusting entries and potentially reporting material misstatements in its financial statements.

Condition: During audit walkthroughs, DISA's service organization confirmed that no new controls had been put in place to remediate prior-year findings regarding reconciling data back to source systems as a part of this process previously performed in DRRT. Additionally, DISA does not validate the information received from Advana or have front-end controls in place to confirm the accuracy and completeness of the data attributed to DISA GF.

DISA's service organization does not have procedures or controls in place to reconcile input data imported into Advana back to original source systems. Additionally, DISA's service organization does not have a process in place to validate that the limits assigned to transactions within Advana are accurate and attributed to the correct entities, including the transactions attributed to DISA GF.

Cause: OUSD(C) created Advana to replace DRRT, but no controls were implemented over the ingestion of data that would validate the LOA, specifically the limit during that process, as supported by the material CMR Unidentified Variances balances. Additionally, DISA and its service organization did not design and implement effective FBWT reconciliation controls to ensure that accurate, complete, and properly supported financial data is included within the Advana reconciliation.

Effect: As a result of the lack of effective controls over the Advana reconciliation process, the FBWT may be misstated and include transactions that do not belong to DISA, and misstatements may not be detected and corrected timely, causing a potential misstatement of DISA's financial statements.

Recommendations: Kearney recommends that DISA perform the following:

1. Coordinate with OUSD(C) to develop and implement a process in which data imported into Advana is traced to original source systems and the accuracy of the LOA information is validated.

2. Develop and implement procedures for effective communication with its service organization's management throughout the Advana reconciliation process to ensure there is DISA management review and approval of the data being attributed to DISA from Advana.
3. Develop and implement effective controls to ensure the validation and/or review of the data received by DISA's service organization, produced by Advana, before it is recorded into DISA's GL system.

In addition, Kearney recommends that DISA coordinate with its service organization to perform the following:

1. Develop and implement effective controls related to identifying and analyzing the risk with regard to the incorrect and incomplete data used for ODOs' financial statement compilation, including an analysis of internal and external factors, involving appropriate level of management, and determining how to respond to risk.
2. Develop and implement effective procedures to internally communicate information necessary to support the functioning of internal controls related to the Advana reconciliation, including relevant objectives and responsibilities. These procedures should include the flow of information up, down, and across the organization using a variety of methods and channels.

II. Accounts Receivable/Revenue (*Repeat Condition*)

Deficiencies in three related areas, in aggregate, define this material weakness:

A. Revenue Samples Not Supported
B. Lack of Revenue Recognition
C. Defense Agencies Initiative Report Functionality

A. Revenue Samples Not Supported

Background: DISA participates in various types of activities that generate revenue that are reported on its annual Statement of Net Cost (SNC). This revenue is generated primarily to provide information system (IS) services to various trading partners throughout the FY. Examples of revenue include labor hours for services performed and rendered, cost distribution and sharing services among DoD entities, and passthrough revenue where DISA GF bills its customer based off of an expense incurred. The DISA GF revenue recorded for the period ended June 30, 2023 totaled $126.4 million. DISA management is responsible for ensuring revenue transactions are recorded in the correct period for the correct amount. During FY 2023, DISA GF's audit transitioned to an Audit Continuation Methodology (ACM). Based on prior-year audit results and findings, a targeted sampling approach was designed to test only revenue transactions that occurred in October and November 2022. During that period, DISA GF recorded $16.1 million in revenue that was subjected to audit testing.

As part of the procurement process, DISA prepares billing documentation for services performed for its customer. This invoice type varies, as it is dependent on whether the transaction is between another Government agency or a commercial customer. DISA utilizes SF-1080, *Vouchers for Transfers Between Appropriations and/or Funds* for a majority of its intragovernmental transactions. Each source of intragovernmental transaction and billing on behalf of the customers is processed by DISA's service organization and collected on behalf of the performing agency.

Condition: DISA GF's targeted sampling approach included a review of 110 revenue transactions. Testing revealed that, for 81 of the 110 (74%) samples, DISA GF recorded revenue in FY 2023 for goods and services provided in a prior FY. ***Exhibit 2*** summarizes the 81 exception results:

Exhibit 2: Revenue Exception Results

Exception Transaction Type	Error Count	Amount
Cost Distribution Activity	16	$249.6 thousand
Joint Interoperability Test Command (JITC)/Labor Hours	25	$186.6 thousand
Passthrough Expense	40	$4.4 million

For an additional 14 of the 110 samples, totaling approximately $3.2 million, the supporting documentation did not provide enough evidence to determine when revenue was earned.

Cause: DISA management does not have processes or controls in place to ensure revenue is recorded in the period in which it is earned. DISA does not currently record an accrual to account for revenue that is earned, but not yet billed. Many of DISA's revenue transactions are driven by its expense recognition, which is subject to an accrual. However, when these expense accruals are recorded, DISA does not always record an entry to reflect the corresponding revenue accrual. Although DISA is in the process of designing a revenue accrual, DISA has not completed its analysis of the impact to trading partner reconciliations. Additionally, as noted in Notice of Finding and Recommendation (NFR) 2023-FIN-GF-02, *Undistributed and Unmatched DAI Transactions*, a significant number of payments (expenses) were not recorded in DISA's financial accounting system accurately and timely. When expenses that drive its revenue are not recorded timely, DISA cannot effectively perform analysis to ensure revenue is recorded in the correct period.

Effect: The exceptions noted during sample-based testing amounted to DISA's earned revenue being likely misstated by $4.9 million. However, due to the nature of this control deficiency, along with the unable to conclude activity totaling $3.2 million, additional misstatements may also exist in the balance. Without effective controls relating to timely revenue recognition, DISA is unable to ensure that revenue will be billed and collected accurately, completely, and in a timely manner. DISA management cannot assert to the completeness and accuracy of the amounts recorded on the SNC Earned Revenue line item, as well as the AR line item on the Balance Sheet. DISA's current revenue recognition process does not ensure revenue is recorded in the period it is earned.

Recommendations: Kearney recommends that DISA perform the following:

1. Design and implement procedures and controls to confirm that revenue accruals are recorded to match corresponding expense accruals, when appropriate. This should include posting a JV entry to ensure revenue is recorded in the proper period.
2. Review and identify specific revenue activity that is at risk of being recorded in the subsequent period. This includes JITC labor, cost distribution/sharing activity, and passthrough activity (i.e., recorded external expense drives revenue) as noted in the condition.
3. Implement the recommendations described in NFR 2023-FIN-GF-02, *Undistributed and Unmatched DAI Transactions*, and reconcile expenditure activity to revenue activity.

B. Lack of Revenue Recognition

Background: DISA provides goods and services to other Federal and commercial entities that generate revenue reported on the SNC. These revenues are generated primarily to provide IS services to various trading partners throughout the FY. Much of DISA's revenue is earned by performing work through Reimbursable Agreements.

Under the Economy Act of 1932, which allows Federal agencies to use advances or reimbursements in return for providing others with goods and services, payment (via expenditure transfer) may be made in advance or reimbursements may be made. Advances and reimbursements from other Federal Government appropriations are available for obligation, but not disbursed until received, when the ordering appropriation records a valid obligation to cover the order. The Act states that the providing agency shall charge the ordering agency "on the basis of the actual cost of goods or services provided" as agreed to by the agencies.

In addition, DISA also provides passthrough services, where DISA GF procures goods and services through DISA Working Capital Fund (WCF) or other commercial entities. DISA GF records AP to account for goods and services performed or procured, but not yet invoiced. Due to the nature of DISA GF's business processes, there is reimbursable and passthrough activity within its estimated AP population. This contracting and passthrough activity has a corresponding revenue event that should be recorded at the same time. A JV adjustment should be recorded to ensure that revenue is recorded in the correct period.

Condition: DISA identified instances where goods and services were provided to other Federal agencies, but revenue was not being systematically recorded in its accounting system, Defense Agencies Initiative (DAI), as expected. Manual research conducted by DISA, utilizing the End-to-End Reimbursable Data Mart (E2ERDM) system reports and Advana, has made significant progress, but not yet identified or corrected all instances of unrecorded revenue. Further, DISA has not posted an adjusting entry to AR/Revenue to account for reimbursable and passthrough activity within its estimated AP population. DISA's analysis indicated the unposted adjustment for March 31, 2023 totaled $11.95 million.

Cause: DISA relies on transaction posting models in DAI to ensure that revenue is recorded and billed. Expenditures relating to reimbursable activity should systematically generate revenue within DAI. Although DISA implemented a control to review and reconcile reimbursable activity to ensure all revenue was being accurately recorded, a variance still exists. Further, DISA has not evaluated the need for an adjusting entry to AR/Revenue to account for its reimbursable activity within the estimated AP population.

Effect: DISA has not completed its analysis to determine the total impact of unbilled and unrecorded revenue in DAI. The revenue reported on DISA's SNC may not be complete or accurate for the period ended September 30, 2023. DISA's revenue and related budgetary accounts could potentially be materially misstated due to prior-year and current-year unrecorded revenue.

Recommendations: Kearney recommends that DISA perform the following:

1. Continue to research, identify, and quantity the total misstatement due to the lack of revenue recognition. Once complete, DISA should post the appropriate adjusting entries to ensure the SNC Revenue line item is materially correct.
2. Continue to design and implement processes and controls to ensure all revenue from reimbursable activities is actually recorded and reconciles to the associated expenditure.
3. Continue review of the E2ERDM system-generated reports to review revenue to determine if the revenue posted is recognized in the proper period.

C. Defense Agencies Initiative Report Functionality

1. Defense Agencies Initiative Accounts Receivable Aging Schedule Functionality and Universe of Transactions

Background: AR arise from claims to cash or other assets. A receivable should be recognized when a Federal entity establishes a claim to cash or other assets against other entities, either based on legal provisions, such as a payment due date (e.g., taxes not received by the date they are due) or goods or services provided. When a receivable is not collected for an extended period of time and payments are outstanding, it should be subject to an aging schedule for review of collectability/allowance for doubtful accounts. DISA GF utilizes DAI to function as its GL accounting system. DAI is managed by a third party, the Defense Logistics Agency (DLA), who established a Project Management Office (PMO) to assist customer agencies with troubleshooting issues and system functions. DISA GF's AR population comprises every transaction recorded, including the recognition of a receivable, posting of a receipt, or cancellation of an invoice/bill. To review outstanding receivables for aged AR analysis and the calculation of the allowance for uncollectible amounts, DISA GF summarizes the population on fund and project segment for review at a summarized level.

In accordance with the Financial Management Regulation (FMR), DISA GF designed steps to coordinate with mission partners that have outstanding payments of receivable transactions over 90 days. In order to properly monitor the aged receivables, DISA is required to submit a formal letter to the mission partner for debts greater than 90 days outstanding that would prompt the mission partner to fulfill their outstanding receivables. If there are past due receivables greater than 120 days outstanding, DISA is required to create and submit an Elevation Package to the mission partner. Within the Elevation Package, DISA must include a memorandum signed by the

Comptroller, formally notifying the mission partner of its aged outstanding receivables. DISA is responsible for establishing the policies and procedures to determine the collectability of the receivables to ensure that an allowance for the uncollectible amount is created, if necessary.

Condition: DISA GF cannot properly age its outstanding receivables without significant manual processes and data manipulation. DISA GF's UoT AR population includes outstanding bills, receipts, and corrections that do not offset correctly within the GL population. Because of this, DISA GF is unable to use DAI to generate an aging report for outstanding receivables by bill number and, therefore, cannot accurately age receivables and implement processes and controls related to the allowance for doubtful accounts.

Cause: Since the inception of DAI, DISA GF encountered several known system issues which allowed for receipts to be processed without correctly or completely matching to the original bill establishing the receivable. These posting errors require manual efforts to ensure that transactions are reposted correctly. Further, a known issue within DAI prevents DISA from generating an AR aging schedule. DISA is working with the DAI PMO to research potential implementation of additional reporting functionality over its AR processes. In the meantime, DISA has created a manual process to produce a UoT that includes an aged AR report by bill number.

Effect: The manual efforts needed to resolve errors where receipts are posted into DAI without matching to an outstanding bill introduce additional risk of misstatement when errors are not corrected timely. Further, without an accurate and effective method of generating an AR aging schedule, DISA cannot fully implement its control processes related to aged AR and the calculation of the allowance over uncollectible accounts. Therefore, DISA GF has an increased risk of overstating its AR balance and not fully collecting funds timely from its mission partners.

Recommendations: Kearney recommends that DISA continue to properly document and execute the CAPs in place for the FY 2023 financial statement audit. Specifically, we recommend that DISA perform the following:

1. Continue to coordinate with the DAI PMO to improve DAI functionality to assist in the monitoring of aged receivables.
2. Ensure that the AR control environment incorporates any updates to the monitoring controls and review of DISA's AR balances and its service organization reconciliations.
3. Review aged AR balances to determine collectability and resolve outstanding receivables timely.
4. Implement and document a process to research, identify, and correct systematic issues in DAI in a timely manner to reduce the instances where receipt of funds is not properly matched to the established receivable.

2. Reliable Defense Agencies Initiative General Ledger Report Data

Background: In October 2018, DISA transitioned its GL accounting system from the Washington Headquarters Services Allotment and Accounting System (WAAS) to DAI, which is managed by DLA. DAI was intended to improve and modernize the budget, finance, and accounting operations of DISA and other DoD agencies for the purpose of achieving accurate and reliable financial information in support of financial accountability and effective and efficient decision-making. DISA GF also utilizes Advana to standardize and create functional GL reports outside of DAI.

A GL accounting system is designed to process transactions systematically throughout the entire lifecycle of an economic event, such as a bill or invoice. A receivable must be recognized when a Federal entity establishes a claim to cash or other assets against other entities based on goods or services provided. Further, a liability must be recognized when a Federal entity accepts title to goods which remain unpaid or owes money for services rendered. When receivables are collected or liabilities are paid, the previously established bill or invoice is liquidated and, therefore, removed from the GL population. However, within DISA GF's DAI GL system, these proprietary asset and liability accounts, as well as the associated budgetary accounts, are disrupted by errors and reclassifications from the unmatched and undistributed processes, which break the link between receivable and collection, as well as invoice and payment. Specifically, these transaction types relate to financial transactions that occur but do not properly post to the correct corresponding budgetary and proprietary accounts and require significant manual analysis and corrections to be properly accounted for.

Condition: DISA's cumulative account balances for AR, AP, Undelivered Orders (UDO), and Unfilled Customer Orders (UCO) include errors, reclassifications, and abnormal activity from unmatched and undistributed transactions that inhibit their ability to perform effective analysis, support statistically valid samples, and produce reliable financial statements. These residual errors from unmatched, undistributed, and conversion activity limit the integrity of the data available to DISA management. Further, DISA cannot use the functional reports from DAI, such as "Open AR" or "Open AP," because they do not tie to DISA GF's trial balance. DISA's attempt to create a valid UoT begins with a report that includes every transaction that has been recorded in DAI from inception and involves significant manual effort to remove off-setting transactions and identify those transactions that compose the current balance.

Cause: DISA does not have effective controls established and has not identified all root causes or implemented corrective actions to prevent unmatched and undistributed transactions. In order to correct unmatched activity within DAI, DISA performs a process to void and cancel the original transaction and re-enter the transaction matching to the bill/invoice. Duplicative balances and residual errors from unmatched and undistributed transactions cause excessive activity and result in increased file size and volume of transactions, which limits DISA's ability to appropriately reconcile, monitor, and support its GL balances within DAI.

Effect: Without the ability to generate accurate reports from DAI, DISA cannot identify, correct, and attest to the validity of all transactions within its cumulative proprietary and budgetary accounts. Manual data analysis through Advana is time-consuming and could potentially lead to additional reporting errors due to the manual nature of the process. Additionally, DISA cannot perform effective analysis or provide the appropriate GL documentation to successfully support audit requests.

Recommendations: Kearney recommends that DISA continue to design approaches to reconcile and review the GL data accurately and timely through enhancements to Advana. We also recommend that DISA continue to work with its service organization and the DLA PMO to perform the following:

1. Implement effective DAI report functionality and resolve errors to ensure reports generated within DAI, such as "Open AR" and "Open AP," agree to the trial balance.
2. Continue to work with its service organization to perform root cause analysis to identify why transactions systematically do not interface into DAI. This should include identifying which specific systems and transaction types fail to interface correctly and implementing corrective actions to mitigate future unmatched and undistributed transactions from being processed.
3. Develop and implement alternative methods to effectively correct unmatched transactions and discontinue the void and cancel process within DAI.

III. Accounts Payable/Expense (*Repeat Condition*)

Deficiencies in three related areas, in aggregate, define this material weakness:

A. Lack of Accounts Payable Validation
B. Expense Samples Not Supported
C. Lack of Receipt and Acceptance

A. Lack of Accounts Payable Validation

Background: A liability is a responsibility of a Federal Government agency to provide assets or services to another entity at a determinable date, when a specific event occurs, or on demand. Federal agencies should only record a liability when there is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions. The United States Standard General Ledger (USSGL) provides guidance on which USSGL accounts should be used to report the various types of liabilities that a Federal entity may encounter.

When a Federal agency is preparing financial statements, a methodology for estimating amounts owed, but not yet invoiced, must be established. This AP estimate ensures expenses are recorded in the proper period using accrual accounting and the matching principle. Management is responsible for developing these reasonable estimates based on assumptions and relevant factors and comparing estimates with subsequent results to assess the accuracy of the estimation process. An AP accrual is intended to recognize amounts owed by DISA for goods and services received, but not yet invoiced. The majority of AP recorded by DISA GF is estimated. As of September 30, 2022, invoiced AP totaled $10.7 million, while estimated AP totaled $326.6 million. Nearly 75% of DISA GF's estimated AP is with the WCF, which is validated through a reconciliation process. The GF's estimated non-WCF accrual subject to a separate validation as of September 30, 2022 totaled $89.1 million.

Condition: DISA GF records estimated AP/Expenses based on a straight-line estimation methodology of 91% of the total contract value over the period of performance specified in the signed contract agreement. DISA calculated this estimate by reviewing its history of completed contracts and the payments recorded compared to contractual ceiling values. DISA has not successfully implemented a process or control non-WCF AP accrual to analyze subsequent vendor invoices paid to determine which FY the underlying goods and services were received. Such an analysis would provide a validation of whether the estimated AP reported at period-end was estimated based on reasonable assumptions.

Cause: DISA has not successfully executed a process to validate its AP accrual estimates through a review of documentation in a timely and effective manner that supports when the goods or services were actually received. DISA is in the process of reviewing its AP accrual and subsequent disbursements by vendor type. However, several factors continue to impact DISA's ability to complete the validation in a complete and timely manner. For example, supporting documentation behind DISA's intra-governmental expenses does not consistently contain sufficient detail to determine when goods or services were actually incurred. Further, corrections to prior-year unmatched disbursement activity cannot be easily identified and appear to be current-year activity.

Effect: Without sufficient underlying supporting documentation and a process to validate the reasonableness of significant accounting estimates, the estimates may be based on assumptions that are not consistent with actual events and data. This increases the risk that DISA's financial statements may be misstated.

Recommendations: Kearney recommends that DISA perform the following:

1. Continue to execute its plan to perform an accrual validation through the review of subsequent vendor invoices. DISA should compare actual vendor invoice amounts to the estimated AP balance to assess the reasonableness of the estimate.
2. Reassess the reasonableness of the AP estimation technique and its underlying assumptions based on the results and conclusion of the validation effort. This could include analyzing and organizing the data and activity in similar categories.
3. Coordinate with its service organization to ensure expense transaction supporting documentation contains sufficient evidence of when goods/services were provided, as prescribed in the FMR.

B. Expense Samples Not Supported

Background: DISA participates in various types of transaction activities that generate expenses for the agency which are reported on the SNC. These expenses are generated primarily through the costs to provide IS services to various trading partners, as well as the standard, operational expenses incurred throughout the FY. DISA GF records expenses based on cash payments and estimated expenses based on a straight-line estimation methodology of 91% of the total contract value over the period of performance specified in the signed contract agreement through an accrual JV. DISA calculated this estimate by reviewing its history of completed contracts and the expenses recorded compared to contractual ceiling values. DISA GF expenses recorded for the period ended June 30, 2023 totaled $2.7 billion. DISA management is responsible for ensuring expense transactions are recorded in the correct period for the correct amount and that appropriate documentation is readily available to support the transaction.

As part of the procurement process, DISA obtains documentation for services received from the vendor. This invoice type varies, as it is dependent on whether the transaction is between another Government agency or a commercial vendor. When the transaction is with another Government agency, DISA typically obtains an SF-1080, *Vouchers for Transfers Between Appropriations and/or Funds*. DISA's service organization processes and collects on behalf of the performing agency for each source of intragovernmental transaction.

During FY 2023, DISA GF's audit transitioned to an ACM. Based on prior-year audit results and findings, a targeted sampling approach was designed to test only expense transactions that occurred in October through December 2022. During that period, DISA GF recorded $185.3 million in expenses that were subjected to audit testing.

Condition: A sample of 160 (110 Federal, 50 Non-Federal) GF expense transactions totaling $105.2 million were selected for review. Several exceptions related to expenses recorded by DISA in the current year; however, the supporting documentation provided indicated the expense was incurred in a prior year and not accounted for through DISA's prior-year accrual process. Additionally, in some cases, the supporting documentation did not provide sufficient evidence for when a good or service was performed. Testing indicated further exceptions for transactions in which DISA was not able to provide sufficient audit evidence to support what period the expense was incurred. Due to the ACM, DISA did not reach out to mission partners to resolve the exceptions and retrieve additional supporting documentation. Results of testing are summarized below:*

Exhibit 3: Expense Exception Results

Exception Type	Non-Federal Amount (Count)	Federal Amount (Count)
Prior Period Expense Error	$8.6 million (10)	$39.6 million (39)
Insufficient Service/Delivery Date Documentation to Conclude	$1.7 million (4)	$17.3 million (27)
Insufficient Goods/Service Description to Conclude	$9.5 million (26)	$60.1 million (83)

*Some exceptions may fall into multiple categories

Cause: DISA's service organization does not always maintain appropriate evidence to support the payments made on DISA's behalf. DISA does not have controls in place to retain documentation of when or what expenses were incurred.

Additionally, DISA has not established controls and methodologies to ensure expenses are recognized in the appropriate period. As noted in NFR 2023-FIN-GF-14, *Lack of Timely Validation of Undistributed JVs*, and NFR 2023-FIN-GF-02, *Undistributed and Unmatched Transactions*, a significant number of payments are not recorded in DISA's financial accounting system timely and accurately, and DISA relies on payments to post expenses in its accounting system. Historically, undistributed and unmatched transactions have hindered DISA's ability to develop and perform a supported GF AP accrual. For example, DISA GF's accrual methodology includes a provision to stop accruing expenses seven months after the contractual period of performance end date. This methodology does not account for the fact that invoices may be billed after seven months or may remain posted as unmatched or undistributed before correctly posting to the Purchase Order (PO) in DAI. When transactions are not posted timely in DAI, DISA GF's accrual methodology cannot effectively ensure that the resulting estimated expenses are accounted for in the correct period.

Effect: Without sufficient and appropriate audit evidence for underlying expenses, DISA is unable to sufficiently support the amounts reported in DISA's Gross Cost line (SNC) and AP (Balance Sheet). This lack of documentation also impacts DISA's ability to sufficiently complete accrual estimates, with supported assumptions, to ensure expenses are posted in the proper period.

Recommendations: Kearney recommends that DISA perform the following:

1. Design and implement procedures and controls to confirm the expenses are appropriately recorded in the proper period or accounted for through DISA's accrual process, as well as contain the necessary documentation and support for each transaction type.
2. Require trading partners to provide sufficient and appropriate audit evidence for each individual invoice transaction as part of the initial Military Interdepartmental Purchase Request (MIPR) or contractual agreement.
3. Review the GF accrual methodology to determine if additional accruals or a change to the current methodology is required based on the exceptions identified in the condition. This may include studying significant trading partners, lag periods for billing activity, and certain system interface analysis for undistributed/unmatched activity.

In addition, Kearney recommends that DISA coordinate with its service organization to perform the following:

1. Ensure that sufficient and appropriate evidence is collected and maintained for each expense transaction prior to processing the payment so DISA has readily available documentation to support expense transactions (e.g., applicable invoice, matching receiving report, and/or applicable contract).
2. Establish preventative controls to ensure payments made on behalf of DISA cannot process as unmatched into DAI without a valid obligation and AP. This would ensure all payments post correctly in DAI.
3. Develop and implement alternative methods to effectively correct unmatched transactions and discontinue the void and cancel process within DAI.

C. Lack of Receipt and Acceptance

1. Intragovernmental Payment and Collection System Receipt and Acceptance Process

Background: DISA GF participates in Reimbursable Work Order (RWO) – Grantor (G) transactions with its intragovernmental trading partners. Within an RWO-G agreement, DISA grants reimbursable authority to another Federal entity that performs the work stipulated in the agreement and bills DISA in order to replenish the funding that it expended on DISA's behalf. In this process, DISA, through its service organization, reimburses its trading partners using IPAC.

The IPAC system allows intragovernmental entities to transfer funding between one another as reimbursement for goods and services provided. This system is configured to allow the service organization to process payments without prior approval from the receiver of those goods or services. These disbursements and collections are reported to Treasury on a monthly basis on behalf of DISA by its service organization. DISA allows its service organization to accept and create payments on its behalf. DISA retains responsibility for ensuring it has sufficient appropriate documentation to support the payment.

Condition: DISA does not consistently obtain, review, and document the receipt and acceptance of goods and services received from intragovernmental trading partners prior to payment.

Cause: DISA has engaged a service organization to process disbursements that pertain to expenses on the entity's behalf. DISA has not developed and implemented a formalized process with supporting internal controls to validate trading partner activity prior to payment via evidence of receipt and acceptance. It has not yet implemented G-Invoicing, which is required for all new orders dated October 1, 2022 and later. DISA has not developed and implemented a process to obtain timely post-payment evidence of receipt.

Effect: Without appropriate receipt and acceptance of trading partner activity, DISA is unable to confirm the accuracy, validity, or timeliness of its intergovernmental transactions (both Gross Costs and AP). As a result, it may have misstatements in its Gross Costs and AP in the period it receives goods and services, as well as additional misstatements in the subsequent period when the Gross Costs and AP are recorded. The entity is at increased risk of paying trading partners for goods or services that did not conform with the terms of its agreements or that DISA did not receive.

Recommendations: Kearney recommends that DISA coordinate with its service organization to perform the following:

1. Design, track, and implement G-Invoicing and ensure the process is mitigating the issues identified in the condition accordingly.
2. Design and implement a process to validate and document receipt and acceptance of goods/services provided by intragovernmental trading partners to confirm the valuation and occurrence of expense transactions.
3. Coordinate with trading partners to ensure Support Agreements (SA), Inter-Agency Agreements (IAA), Memorandums of Understanding (MOU), or equivalent include language requiring cooperation of the trading partner to provide any required documentation necessary for DISA to validate the accuracy of the amounts that have been billed.

2. Wide Area Workflow Receipt and Acceptance Documentation

Background: DISA GF procures various telecommunication and computing goods and services throughout the year with both DoD and non-DoD agencies. DISA receives invoices for the procured goods/services through the Wide Area Workflow (WAWF) system. A majority of these transactions are invoiced through the system. WAWF provides the DoD and its suppliers with a single point of entry to generate, process, and store invoices, receiving reports, non-contractual payment requests, and acceptance data sets, as well as other related data to support DoD asset visibility, tracking, and payment processes by a systematic flow for agencies. It provides the connection of information related to the acceptance of goods and services in support of the DoD supply chain. WAWF has a System and Organization Controls (SOC) 1® report that is completed each FY in order to assess the specific systematic controls, as well as to identify the complementary user entity controls (CUEC) that the user entity (i.e., DISA) has the responsibility to implement to support WAWF transactions.

WAWF system end users include vendor technicians entering the invoice detail, as well as the specific Contracting Officer's Representatives (COR) who approve orders within WAWF, which initiates payment. WAWF's Program Office encourages the user entities to implement the entity's own policies and procedures relating to what is required to be confirmed for each WAWF transaction. The WAWF process is initiated by the vendor, who is providing goods/services to DISA, loading the invoice detail (e.g., amounts, Contract Line Item Number [CLIN], description of goods and services, date received) into WAWF. The vendor submits this summary of the invoice information and can also upload an electronic copy of the invoice from the vendor's accounting system for additional support as an attachment within WAWF. The COR is responsible for verifying the vendor attachments in WAWF, ensuring the transaction is accurate and valid, as well as documenting and retaining evidence of receipt.

Condition: DISA does not have a process in place to consistently validate the supporting documentation submitted by vendors and approved by the COR prior to certification and payment. DISA has not implemented a consistent process to document evidence of the review of the invoice, receiving report, and contract/purchase request. Additionally, DISA has not implemented the CUECs from the WAWF SOC 1® report regarding obtaining and maintaining sufficient support to document evidence of receipt and acceptance of goods and/or services.

Cause: DISA management places reliance on the general functionality of the WAWF environment in order to perform a systematic receipt and acceptance of the transactions. DISA's CORs and customers do not have a consistent methodology to retain the supporting documentation of their concurrence, in having received the specific goods/services as noted by their systematic approval. DISA has chosen not to outline or document a policy in place to emphasize the COR's retention of supporting documentation per the WAWF SOC 1® report, which is documented as a key responsibility of DISA.

Effect: Without appropriate review of the supporting documentation submitted and attached for receipt and acceptance within WAWF, there is an increased risk that DISA has not received the goods or services described in the vendor invoice. CORs who are responsible for receipt and acceptance will have varying decisions on what documentation would demonstrate acceptance, thus resulting in an inconsistency across DISA. DISA is not able to support the accuracy, validity, or timeliness of its receipt and acceptance in instances where the invoices are not submitted with applicable descriptions of the goods or services, whether that is on a timely basis or billed erroneously. Ineffective controls or control objectives may result from DISA's failure to implement internal controls to address all required CUECs.

Recommendations: Kearney recommends that DISA perform the following:

1. Design and implement a standardized process to perform a three-way match between the invoice, receiving report, and contract/purchase request in order to validate the documentation of the receipt and acceptance of goods and/or services provided by vendors through WAWF.
2. Design and implement the CUEC described in the WAWF SOC 1® report to ensure that the COR consistently reviews and documents evidence of the receipt and acceptance of the goods and service prior to approving the invoice in WAWF. This may include updating the Standard Operating Procedures (SOP) and COR training to meet those requirements.
3. Establish a threshold to determine which invoices should be subject to an enhanced control environment based on a risk assessment.
4. Further engage with the Procurement Services Directorate (PSD) to configure alternative ways to provide evidence of the COR's review over transaction support.

IV. Budgetary Resources (*Repeat Condition*)

Deficiencies in four related areas, in aggregate, define this material weakness:

A. Invalid Unfilled Customer Orders Without Advance Transactions
B. Invalid Undelivered Orders Transactions
C. Inaccurate Recoveries of Prior-Year Unpaid Obligations
D. Unsupported End-of-Year Obligations

A. Invalid Unfilled Customer Orders Without Advance Transactions

Background: USSGL Account 422100, *Unfilled Customer Orders (UCO) Without Advance*, represent orders for goods and/or services to be furnished for other Federal Government agencies and for the public. Federal agencies record UCOs Without Advance when they enter into an agreement, such as a MIPR, contract, or sales order, to provide goods and/or services when a customer cash advance is not received. These orders provide obligational budgetary authority for reimbursable programs. Agencies should maintain policies and procedures to ensure that UCOs represent valid future billings and collections.

DISA GF reported approximately $166.3 million in UCOs Without Advance on its March 31, 2023 trial balance. The account balance is supported by a subsidiary ledger that details information such as the fund, document number, order amount, and transaction date, among other unique identifying details for each UCO balance.

DISA and its service organization's current business processes and control structures allow payments to be processed without correctly or completely matching all data elements to an obligating document/AP balance in DAI. These transactions are processed as "unmatched." For undistributed transactions, when payments do not successfully interface into DAI, a bulk JV is assigned to DISA, which reduces DISA's FBWT and AP line items and corresponding Budget Accounts. When an unmatched transaction interfaces to DAI and does not post to a PO, it creates an abnormal UDO (4801) until it can be cleared by successfully matching to a PO. Once the unmatched transaction is successfully cleared, the clearing transactions remain in the unmatched UoT. The dormant UCOs are impacted by unmatched and undistributed transactions as revenue transactions are driven by expenditures through a passthrough process.

In FY 2022, DISA GF implemented a control to record an adjustment for dormant UCOs, in which the entity would post an on-the-top JV to reduce the obligation balance by the amount identified. Dormant UCOs are identified by UCO balances as uncollected orders aged greater than 365 days and the obligation date is greater than 18 months.

Condition: DISA GF's control to adjust UCOs for dormant activity is based on inaccurate data due to the effect of unmatched and undistributed transactions. Due to these limitations, the dormant UCO control cannot be effective until the unmatched and undistributed transactions are reduced to insignificant amounts.

Cause: Systems used for processing DISA's obligations and disbursements do not have effective controls established to prevent disbursements from being processed when they cannot be matched to an outstanding payable and obligation. All undistributed transactions that are assigned to DISA but do not interface into DAI are posted via a JV through DISA's service organization's reconciliation process. DISA has not yet identified all root causes or implemented corrective actions for undistributed and unmatched disbursements (refer to the documented finding at NFR 2023-FIN-GF-02, *Undistributed and Unmatched DAI Transactions*).

The accuracy of DISA's data and effectiveness of its process to identify dormant UCOs and adjust its financial statements is impacted by unmatched and undistributed transactions. Without resolving these issues, DISA is unable to confirm the validity and accuracy of a significant number of its UCO balances.

DISA has not developed internal controls to ensure that all JVs, such as the adjustments to reduce UCOs at year-end, are appropriate and supported by documentation.

Effect: Because DISA cannot account for the impact of unmatched and undistributed transactions, it cannot reconcile and assert to the completeness, accuracy, and validity of its UCO population. Without sufficient and appropriate audit evidence for the validity of the UCOs, DISA's Statement of Budgetary Resources (SBR) Lines 1071, *Unobligated balance from prior year budget authority, net (discretionary and mandatory)*, and 1890, *Spending Authority from offsetting collections (discretionary and mandatory)*, could be materially misstated.

Recommendations: Kearney recommends that DISA perform the following:

1. Identify unmatched transactions and undistributed amounts affecting the UCOs Without Advance population.
2. Continue to perform analysis to determine the root cause of the unmatched and undistributed transactions and establish controls to mitigate future transactions from being processed unless its service organization can confirm they will post correctly.
3. Implement policies to ensure that funds holders are adequately assessing the validity of the open UCO balances and liquidate invalid UCOs when possible.
4. Implement policies, or update existing policies, which require PSD to process contract actions timely once all goods and services have been provided to the customer.
5. Ensure deobligations of UCOs are supported by documented communications and agreements with customer organizations.

B. Invalid Undelivered Orders Transactions

Background: UDOs represent the amount of goods and/or services ordered which have not been actually or constructively received and for which amounts have not been prepaid or advanced. Federal agencies record UDOs when they enter into an agreement, such as a MIPR, contract, or sales order, to receive goods and/or services. Agencies should maintain policies and procedures to ensure that UDOs represent valid future outlays.

DISA GF reported more than $1.76 billion in UDOs on its March 31, 2023 trial balance. The account balance is supported by a subsidiary ledger that details information such as the document number, obligated amount, undelivered amount, and transaction date, among other unique identifying details for each UDO balance.

DISA and its service organization's current business processes and control structures allow payments to be processed without correctly or completely matching all data elements to an obligating document/AP balance in DAI. These transactions are processed as "unmatched." For undistributed transactions, when payments do not successfully interface into DAI, a bulk JV is assigned to DISA, which reduces DISA's FBWT and AP line items and corresponding Budget Accounts. When an unmatched transaction interfaces to DAI and does not post to a PO, it creates an abnormal UDO (4801) until it can be cleared by successfully matching to a PO. Once the unmatched transaction is successfully cleared, the clearing transactions remain in the unmatched UoT.

In FY 2022, DISA GF implemented a control to record an adjustment for dormant UDOs, in which DISA would post an on-the-top JV to reduce the obligation balance by the amount identified. Dormant UDOs are identified by UDO balances as uncollected orders aged greater than 365 days and the obligation date is greater than 18 months.

Condition: DISA GF's control to adjust UDOs for dormant activity is based on inaccurate data due to the effect of unmatched and undistributed transactions. Due to these limitations, the dormant UDO control cannot be effective until the unmatched and undistributed transactions are reduced to insignificant amounts.

Cause: Systems used for processing DISA's obligations and disbursements do not have effective controls established to prevent disbursements from being processed when they cannot be matched to an outstanding payable and obligation. All unmatched transactions that are assigned to DISA but do not interface into DAI, known as "undistributed transactions," are posted via a JV through DISA's service organization reconciliation process. DISA has not yet identified all root causes or implemented corrective actions for undistributed and unmatched disbursements (refer to the documented finding at NFR 2023-FIN-GF-02, *Undistributed and Unmatched DAI Transactions*).

The accuracy of DISA's data effectiveness of its process to identify dormant UDOs and adjust its financial statements is impacted by unmatched and undistributed transactions. Without resolving the issues, DISA is unable to confirm the validity and accuracy of UDO balances.

Effect: Because DISA cannot account for the impact of unmatched and undistributed transactions, it cannot reconcile and assert to the completeness, accuracy, and validity of its UDO population. Without sufficient and appropriate audit evidence for the validity of the UDOs, DISA's SBR Lines 1071, *Unobligated balance from prior year budget authority, net (discretionary and mandatory)*, and 2190, *New obligations and upward adjustments (total) Unobligated balance, end of year*, could be materially misstated.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement procedures to determine the impact of the unmatched and undistributed transactions on the GF UDO population, to include the impact of obligations not recorded in DAI.
2. Continue to perform analysis to determine the root cause of the unmatched and undistributed transactions and establish controls to mitigate future transactions from being processed unless its service organization can confirm they will post correctly.
3. Update existing policies to ensure that funds holders are adequately assessing the validity of the open UDO balances and deobligate invalid UDOs when possible.
4. Implement policies, or update existing policies, which require PSD to process contract actions timely once all goods and services have been provided to the customer.

C. Inaccurate Recoveries of Prior-Year Unpaid Obligations

Background: Recoveries of unpaid obligations consist of USSGL Accounts 487100, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations, Recoveries*, and 497100, *Downward Adjustments of Prior-Year Unpaid Delivered Orders – Obligations, Recoveries*. These accounts represent Recoveries during the current FY resulting from downward adjustments to obligations or delivered orders originally recorded in a prior FY. Recovered budget authority is presented on SBR Line 1071, *Unobligated Balance from Prior Year Budget Authority, net*. DISA is responsible for developing policies and procedures to ensure that budgetary activity is accurately reported in accordance with USSGL guidelines.

DISA GF reported $357.4 million in Recoveries to USSGL Account 487100 on its March 31, 2023 trial balance. The account balance is supported by transaction-level detail that contains information such as document number, project number, and amount, among other identifying details.

DISA developed a JV process starting in Q2 of FY 2021 to remove Inaccurate Recoveries of Prior-Year Unpaid Obligations resulting from DAI posting logic issues. Specifically, DISA became aware that the processing of certain administrative modifications resulted in inappropriate postings to its budgetary accounts. To adjust for these inaccurate postings, DISA determines the Inaccurate Recoveries of Prior-Year Obligations from the UDO report identifying matching transactions to General Ledger Account Codes (GLAC) 4871 and 4881.

Condition: A sample of 15 Recoveries of Prior-Year Obligations was selected for review. As a result of testing, the following exceptions were identified:

- Five Recovery of Prior-Year-Obligations totaling $8.5 million where the Deobligation Acceptance was recorded in the incorrect FY and, therefore, untimely

- Five Recovery of Prior-Year-Obligations totaling $4.8 million where the Deobligation resulted from either funding being moved from one CLIN to another, movement of funds from one PO to another, or Administrative Update. The administrative changes should not have resulted in a downward adjustment of Prior-Year-Obligation.

Cause: Despite DISA's implementation of a new process to identify and adjust for erroneous transactions resulting from DAI posting logic issues, a significant number of unsupported or untimely transactions exist in DISA's accounts. Additionally, DISA's financial system, DAI, does not allow administrative changes on Prior-Year Obligations without posting the administrative change through USSGL Accounts 487100 and 488100, causing errors on the SBR. In some instances, DISA has not yet implemented effective control procedures to ensure that transactions recorded to USSGL Account 487100 were properly supported downward adjustments to Prior-Year Obligations. DISA also did not have effective control procedures to ensure that transactions recorded in USSGL Account 487100 were recorded in a timely manner in the correct FY.

Effect: SBR Line 1071, *Unobligated balance from prior year budget authority, net (discretionary and mandatory)*, was misstated due to $13.3 million known errors as of March 31, 2023.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement a process and controls to ensure that all transactions recorded to USSGL Account 487100 reference obligations are recorded in a prior FY and are recorded timely.
2. Implement procedures to confirm that each transaction is supported by documentary evidence meeting the requirement for Government obligations of USSGL Account 487100 transactions to ensure that any transactions are produced by accounting events (i.e., contractual deobligation and not administrative fund changes).
3. Work with the DAI PMO to implement a systems change that allows administrative changes to Prior-Year Obligations without posting an entry to USSGL Account 487100.

D. Unsupported End-of-Year Obligations

Background: UDOs represent the amount of goods and/or services ordered which have not been actually or constructively received and for which amounts have not been prepaid or advanced. Federal agencies record UDOs when they enter into an agreement, such as a MIPR, contract, or sales order, to receive goods and/or services. Agencies should maintain policies and procedures to ensure that UDOs represent valid future outlays.

DISA GF reported more than $1.76 billion in UDOs on its March 31, 2023 trial balance. The account balance is supported by a subsidiary ledger that details information such as the document number, obligated amount, undelivered amount, and transaction date, among other unique identifying details for each UDO balance. It is the responsibility of DISA management to ensure that all End-of-Year (EOY) modifications (MOD) are supported by adequate documentation.

Condition: DISA GF reported $13.6 million in EOY MODs as of September 30, 2022, where the entity recorded an unsupported obligation to match a customer order. DISA was unable to provide evidence that an obligation existed, such as a contract with a vendor to provide the requested goods or services to the customer agency. It subsequently deobligated these amounts in FY 2023, causing an overstatement in USSGL 487100, *Downward Adjustment of Prior-Year Unpaid Undelivered Orders*.

Cause: DISA recorded unsupported obligations to preserve funding provided on a customer order. It also recorded the unsupported obligation based on anticipated EOY usage charge for customer orders to preserve funding and does not have a control to ensure there is a written agreement with a vendor.

Effect: Because DISA cannot provide supporting documentation to verify the amount of the EOY MODs, it cannot reconcile and assert to the completeness, accuracy, and validity of its UDO population. Without sufficient and appropriate audit evidence for the validity of the UDOs, DISA's SBR Lines 1071, *Unobligated balance from prior year budget authority, net (discretionary and mandatory)*, and 2190, *New obligations and upward adjustments (total) Unobligated balance, end of year*, could be materially misstated.

Recommendations: Kearney recommends that DISA perform the following:

1. Update existing procedures for recording obligations for estimated usage charges for customer orders at year-end to ensure that obligations are only recorded when valid obligations exist, are supported by documentary evidence in accordance with 31 United States Code (U.S.C.) 1501, and represent a valid future outlay.

V. Financial Reporting (*Repeat Condition*)

Deficiencies in three related areas, in aggregate, define this material weakness:

A. Untimely Issuance of Requested Audit Documentation and Financial Statement Package
B. Undistributed and Unmatched Defense Agencies Initiative Transactions
C. Lack of Timely Validation of Undistributed Journal Vouchers

A. Untimely Issuance of Requested Audit Documentation and Financial Statement Package

Background: As a part of the financial statement audit of the DISA GF, DISA management will submit Provided by Client (PBC) documentation regularly throughout the course of the audit. Because of the nature of a financial statement audit, DISA management receives specific supporting documentation requests at FY-end to substantiate the balances reported within the financial statements as of September 30, 2023 and to support critical year-end procedures, which are necessary for DISA to obtain an opinion on its financial statements. DISA is responsible for preparing and maintaining the documentation in order to be readily available for auditors and applicable stakeholders.

DISA's service organization compiles DISA GF's financial statements. When the financial statement compilation process is initiated, the DISA GF DDRS-B trial balance is imported into DDRS – Audited Financial Statements (AFS). Once received, the Defense Agencies Audited Financial Statements Branch collects, consolidates, and identifies all ODO's GF financial activity for the Defense agencies under its purview and reports the information within DDRS-AFS. DISA GF utilizes the DDRS-AFS information to complete the year-end financial statement package, to include the draft Agency Financial Report (AFR) with Management's Discussion and Analysis, financial statements, footnotes, and Other Information. Historically, DISA GF's financial statements have included both a high volume and material amount of on-top JV adjusting entries posted in DDRS-B and DDRS-AFS. In order to determine what composes the ending balances reported in DDRS-AFS, DISA creates a crosswalk from its GL system, DAI, to DDRS-AFS. DISA relies on its service organization to provide the JV listings out of DDRS-B and DDRS-AFS to complete the crosswalk. DISA management is responsible for performing a quality control review of the files prepared by its service organization.

OUSD(C) has established due dates for the submission of year-end documents to allow agencies to meet the schedule requirements of their respective financial statement audits. The DoD Office of Inspector General (OIG) establishes contractual deadlines for DISA's external auditors, which comprises requiring the draft audit report, with all underlying supporting working papers, including the aforementioned working papers related to the financial statements, footnotes, and related audit documentation, to be completed by deadlines at the end of October each FY.

Condition: DISA GF, in coordination with its service organization, was unable to provide several of the applicable audit documentation requests in time for year-end testing procedures, which would be necessary to conclude on a potential audit opinion and maintain compliance with contractual external audit deliverables. Specifically, the following documents listed in ***Exhibit 4*** below, which are needed to perform testing procedures over and support the final reported amounts on the AFR, were not provided in time for year-end testing procedures to be performed in time for contractual audit deliverables. Per the Statement of Work, the draft portion of the Testing Phase and Reporting Phase are due October 25 and October 26, respectively. See below for the financial reporting audit documentation requests that were not received on-time or before the October 25, 2023, deadline:

Exhibit 4: PBC Timeline and AFR Schedule

PBC Name	Date Due to the Auditor	Date Received by Auditor
September 30, 2023 GL Activity	10/11/2023	10/16/2023
September 30, 2023 Financial Statements and Footnotes	10/20/2023	10/25/2023
September 30, 2023 TI-97 GF Audit Workbook	10/23/2023	10/24/2023
September 30, 2023 Unallocated Funds Reconciliation	10/27/2023	Not received as of 10/25/2023
September 30, 2023 CMR GF Undistributed Posting	11/3/2023	Not received as of 10/25/2023

PBC Name	Date Due to the Auditor	Date Received by Auditor
TI-17 September 30, 2023 Suspense Aging, UoT, and Cleared Analysis	11/9/2023	Not received as of 10/25/2023
TI-21 September 30, 2023 Suspense Aging, UoT, and Cleared Analysis	11/9/2023	Not received as of 10/25/2023
TI-57 September 30, 2023 Suspense Aging, UoT, and Cleared Analysis	11/9/2023	Not received as of 10/25/2023
TI-97 September 30, 2023 Suspense Aging, UoT, and Cleared Analysis	11/9/2023	Not received as of 10/25/2023
September 30, 2023 Payroll Register Reconciliation	10/19/2023	10/23/2023

Cause: DISA's current procedures and dependencies on its service organization contribute to its inability to timely and sufficiently provide documentation in a reasonable timeframe for financial reporting and audit timelines. The OUSD(C) schedule does not allow sufficient time for review and performance of testing procedures by external component auditors of necessary audit documentation in time for the draft audit report due date of October 26, 2023. Additionally, the process of posting a high volume of material adjusting entry JVs into DDRS-B and DDRS-AFS, rather than ensuring entries are posted in DISA's GL system in time for year-end reporting, contributes to the need to perform testing procedures over year-end JVs for the draft audit report.

Effect: Without readily available documentation, DISA management may not be able to perform critical functions to monitor and provide requests necessary to obtain an audit opinion or provide year-end financial statements and reports to the relevant stakeholders and auditors. Delayed PBC items which were provided shortly before or after that date did not allow sufficient time to complete required audit procedures.

There is an increased risk that the lack of controls and processes in place adequately substantiate whether the balances reported within DISA GF's financial statements are materially correct and presented in accordance with GAAP.

Recommendations: Kearney recommends that DISA to perform the following:

1. Continue to develop processes and facilitate the delivery of critical audit documentation requests made by the external auditor in line with quarterly and year-end financial reporting timelines.
2. Develop and implement processes which ensure timely posting of accounting entries into the GL system, DAI, and reduce the volume of adjusting entry JVs entered on-top via DDRS-B and DDRS-AFS.
3. Coordinate with its service organization and OUSD(C) to establish processes and controls for completing year-end financial reporting documentation in a timelier manner to be available for external audit review and testing.

B. Undistributed and Unmatched Defense Agencies Initiative Transactions

Background: In October 2018, DISA transitioned its GL accounting system from WAAS to DAI, which is managed by DLA. Due to data conversion and posting logic challenges, a significant number of payments made by DISA's service organization on behalf of DISA were processed without matching the payment to the appropriate project within DAI. Payments not linked to a document in DAI, also called "unmatched" disbursements, generate expense transactions. In order to correct unmatched activity within DAI, DISA's service organization voids and cancels the original transaction. In some cases, transactions are not posted to DAI or fail to interface but are assigned to DISA and posted through an unsupported JV entry, called "undistributed" activity.

When a Federal agency prepares financial statements, a methodology for estimating amounts owed, but not yet invoiced, must be established. The AP estimate ensures expenses are recorded in the correct period following accrual accounting and the matching principle. The DISA GF records estimated AP/Expenses based on a straight-line estimation methodology of 91% of the total contract value over the period of performance specified in the signed contract agreement. This estimate, along with other key estimates, relies on accurate and complete obligation and payment data in DAI. Management is responsible for developing these reasonable estimates based on assumptions and relevant factors and comparing estimates with subsequent results to assess the accuracy of the estimate.

Identified as part of FY 2022 UDO testing, when an unmatched transaction interfaces to DAI and does not post to a PO, the unmatched transaction posts to a project segment "0" and creates an abnormal UDO (4801) until cleared by successfully matching to a PO. Once the unmatched transaction is successfully cleared, the clearing transactions remain on the unmatched UoT. DISA conducts manual research to determine why the transaction did not post to the correct project and coordinates with its service organization to post the correction to clear the unmatched transaction in DAI. To preserve the integrity of the financial IS, it is important to identify and prevent unmatched and undistributed transactions and develop a reasonable estimate to establish a proper AP

Condition: DISA and its service organization's current business processes and control structures allow payments to be processed without correctly or completely matching all data elements to an obligating document/AP balance in DAI. These transactions are processed as "unmatched." For undistributed transactions, when payments do not successfully interface into DAI, a bulk JV is assigned to DISA, which reduces DISA's FBWT and AP line items. This JV is unsupported without underlying details available at the time it is posted. In order to clear unmatched transactions from DAI, a manual process of research and coordination with its service organization is required by DISA. Clearing unmatched transactions through the manual void and cancel process causes errors to remain in DISA's accounting records and financial statements. These cumulative errors impact the ability to select and conduct adequate testing on these balances.

For the period ended June 30, 2023, the following amounts remained unmatched and undistributed:

Exhibit 5: Unmatched and Undistributed Balances

Account	Unmatched/Undistributed Amounts
Unmatched Expense	($980.4) thousand
Unmatched AP	$215.7 thousand
Unmatched UDOs	$5.85 million
Undistributed	$17.1 million*

*Net, Undistributed JVs' impact reduces AP and cash

Cause: Systems used for processing DISA's obligations and disbursements do not have effective controls established to prevent disbursements from being processed when they cannot be matched to an outstanding payable and obligation. All undistributed transactions that are assigned to DISA but do not interface into DAI are posted via JV through a reconciliation process completed by DISA's service organization.

DISA has not yet identified all root causes or implemented corrective actions for undistributed and unmatched disbursements. However, DISA officials have identified several causes of unmatched transactions to date, including:

- Certain Disbursing Offices do not interface specific data elements, such as CLIN and Accounting Classification Reference Numbers (ACRN)
- Some documents have truncated document numbers
- Payment amounts are higher than the project's AP balance
- Typographical errors (i.e., "0" versus "O") exist
- Certain systems do not interface correctly into DAI and drop key data elements required to pass validation checks and match appropriately in DAI
- Obligating documents are not always entered timely in DAI, and payments are sometimes made before initial agreements and/or modifications are recorded.

Effect: Unmatched/undistributed transactions result in several negative impacts to DISA's financial management and reporting processes. When material undistributed/unmatched transactions exist, DISA cannot perform effective analysis or assert to the existence or completeness of its FY 2023 Gross Costs on its SNC or Cumulative Results of Operations (CRO) on its Balance Sheet. DISA cannot perform an effective AP accrual or accrual validation, conduct cut-off procedures, support the validity of open obligations, or support that the amounts reported on Gross Costs on its SNC and AP on its Balance Sheet are complete and exist or occurred.

The process to clear and post unmatched activity correctly into DAI causes duplicative activity within DAI, limiting DISA's ability to produce reliable GL data, and leaves the Unmatched clearing transactions on the UDO UoT, which was identified as part of the FY 2022 UDO testing results. Undistributed and unmatched transactions could lead to erroneous or duplicative disbursements made without detection until the completion of the manual research process. The manual process needed to resolve undistributed/unmatched transactions introduces additional risk of misstatement and is inherently inefficient. Prior-year misstatements impact the Gross

Costs (SNC), which are unaddressed, resulting in an overstatement in the CRO balance (Balance Sheet). DISA has not determined the impact to SBR Lines 2190, *New Obligations and Upward Adjustments*, and 1071, *Unobligated balance from Prior-Year Budget Authority, Net*.

Recommendations: Kearney recommends that DISA perform the following:

1. Conduct an analysis over the unmatched expense population and the contract accrual population to determine the impact of double-counted prior-year Gross Cost (SNC) transactions, which are now in CRO (Balance Sheet) in order to post an adjustment based on the analysis. This should include a review of abnormal AP balances.
2. Review cumulative GL accounts, such as AP and UDOs, to remediate and correct prior-period errors in order to determine the potential misstatement to prior-period and current-year activity.

In addition, Kearney recommends that DISA work with its service organization and the DLA PMO to perform the following:

1. Establish preventative controls to ensure payments made on behalf of DISA cannot process as unmatched into DAI without a valid obligation and AP. This would ensure all payments are posted correctly in DAI.
2. Perform root cause analysis to identify why transactions systematically do not interface into DAI. This should include identifying which specific systems and transaction types fail to interface correctly and implementing corrective actions to mitigate future unmatched and undistributed transactions from being processed.

C. Lack of Timely Validation of Undistributed Journal Vouchers

Background: DISA is one of the TI-97 ODO whose funds are aggregated at Treasury. Treasury maintains and reports FBWT balances at the TAS level, rather than at the limit level, which would distinguish DISA's FBWT balance from the aggregated ODO FBWT amount. DISA's service organization's Treasury Division produces the CMR to provide ODOs with individual FBWT at limit level.

DISA's service organization prepares various JVs for DISA and other customers and processes them within DDRS-B. DISA's service organization processes many of these JVs within DDRS-B, on behalf of DISA, including the Undistributed Cash JV. Since the accounting cycle is cut off the last day of each month, there is a timing difference between cash transactions reported on the CMR by DISA's service organization on behalf of TI-97 agencies, including DISA, and cash transactions recorded in agencies' GL, including DAI and the Financial Accounting and Management Information System (FAMIS) –WCF for DISA GF and DISA WCF, respectively. The CMR is used to prepare the Undistributed JV. The Advana repository is not available until after the JVs have been completed. The Undistributed JV is prepared by calculating the difference between the CMR and the DAI trial balance. The JV is recorded to eliminate the difference between the CMR and DISA's GL. Each month, DISA's service organization prepares the Undistributed JV, DISA reviews the JV, and its service organization then processes it in DDRS-B. The difference is known as the Undistributed Cash amount, as it includes transactions which have not been distributed to the specific agencies' GL system.

DISA is responsible for ensuring FBWT is reconciled and maintaining effective internal controls over its financial reporting to prevent, detect, or correct material misstatements in a timely manner, as mandated by the DoD FMR and Government Accountability Office (GAO). This includes reviewing, approving, and maintaining support for all transactions and JVs recorded by DISA or by its service organization on DISA's behalf. By not administering these steps, DISA is at risk of posting unsupported adjusting entries and potentially reporting material misstatements in its financial statements. Additionally, DISA is responsible for implementing and maintaining effective controls and system interfaces to ensure that transactions posted outside of its GL system are recorded to its financial statements timely and accurately.

Condition: DISA does not have effectively designed controls in place to ensure and verify in a timely manner that the transactions on the Undistributed JV belong to DISA and are adequately supported. At the time of its posting, the Undistributed JV is not validated or researched by DISA to verify that the transactions included in this JV belong to DISA (i.e., were properly attributed to DISA based on the full LOA, including limit). Additionally, the Q3 Undistributed samples were unable to be supported timely. The sample was submitted on September 19, 2023 with a due date of October 3, 2023 and, after multiple extensions, the final submission of sample support was received on October 18, 2023.

Cause: Though DISA performed a root cause analysis in response to prior-year NFR 2022-FIN-GF-09, *Lack of Timely Validation of Undistributed JVs*, and determined the source systems from which transactions are not properly interfacing to DAI, DISA did not effectively identify the specific causes regarding why the transactions do not interface from those source systems into DAI. Further, DISA did not validate that all of its financial systems properly interface to DAI, ensuring transactions are recorded timely. The Undistributed JV as of Q3 FY 2023 includes 2,780 transactions from multiple different source systems for which transactions are processed but are not making it into DISA GF's DAI GL system timely.

Additionally, DISA has not designed or implemented effective controls to reconcile and review Undistributed adjustments that are posted to its FBWT or resolve any differences timely and ensure that they are properly supported. In particular, there are no front-end controls in place to validate that the transactions included in the Undistributed JV belong to DISA and are supported with proper documentation.

DISA does not effectively monitor the CMR process to ensure that the data populating the CMR is accurate and transactions belong to them. When the CMR data is reconciled in Advana, there are not sufficient controls to verify that the limits are accurate, so the accuracy of the data that processes through the CMR, Advana, and, ultimately, to DISA's financial statements is not properly verified (see the documented control deficiency over the Advana process at NFR 2023-FIN-GF-08, *Lack of Controls over the Advana Process*).

Effect: As a result of a lack of effective controls in place, the following line items were adjusted without validating the transactions or obtaining appropriate supporting documentation for the transactions prior to posting (amounts in millions):*

Exhibit 6: Undistributed Balances per Line Item

Line Item	September 2022	December 2022	March 2023	June 2023
FBWT	($16.8)	($42.1)	($23.6)	($17)
AR	($1.1)	$1.2	($2.8)	($3.5)
AP	$17.9	$40.9	$26.4	$20.5

*Amounts of AR and AP combined do not equal amounts of FBWT due to limitations in data available.

While DISA has made progress over the past FY in determining the split between amounts recorded to "Intragovernmental" and "Other than intragovernmental" for AR or AP, the percentages and Advana data used to create them is not reliable or readily available at the time of the Undistributed JV entry. Therefore, DISA is unable to effectively support the percentage allocation in its current form. This increases the risk that the Undistributed postings to Intragovernmental AR and AP and Other than Intragovernmental AR and AP are misstated.

Without appropriate processes and controls in place, there is an increased risk that FBWT, AP, and AR are materially misstated on DISA's financial statements and may not be presented in accordance with GAAP.

Recommendations: Kearney recommends that DISA perform the following:

1. Continue to perform root cause analysis to identify why transactions do not make it into DISA GF's DAI system and why some external systems do not appropriately interface with DAI. DISA should determine what steps are necessary to fix the interface issues and ensure that transactions post correctly and timely into DISA GF's DAI to reduce the balance and material impact of the monthly Undistributed JVs.
2. Monitor the Undistributed adjustments recorded in DDRS-B and research all unsupported adjustments to ensure the FBWT balances reported are accurate and complete prior to posting.
3. Document and implement appropriate controls to ensure that the balances recorded within the financial statements are appropriately classified and truly belong to DISA.
4. Develop and implement procedures to maintain readily available supporting documentation for the transactions included in the Undistributed JVs.

*   *   *   *   *

Significant Deficiencies

Throughout the course of our audit work of the Defense Information Systems Agency (DISA) General Fund (GF), we identified internal control deficiencies which were considered for the purposes of reporting on internal control over financial reporting. The significant deficiencies presented in this Schedule of Findings has been formulated based on our determination of how individual control deficiencies, in aggregate, affect internal control over financial reporting. ***Exhibit 7*** presents the significant deficiencies identified during our audit:

Exhibit 7: Significant Deficiencies

Significant Deficiency	Significant Deficiency Sub-Category
I. Property, Plant, and Equipment	**A. Property, Plant, and Equipment Completeness Issue**
II. Information Technology	**A. Incomplete Complementary User Entity Controls Implementation**

I. Property, Plant, and Equipment (*New Condition*)

A. Property, Plant, and Equipment Completeness Issue

Background: The June 30, 2023 DISA GF General Property, Plant, and Equipment (PP&E) line item on the Balance Sheet was composed of leasehold improvements, equipment, software, and Construction in Progress (CIP) with a net book value (NBV) of $356.8 million.

The Federal Accounting Standards Advisory Board (FASAB) defines PP&E as meeting the criteria of having an estimated useful life of two or more years that are not intended for the sale in the ordinary course of operations and has been acquired or constructed with the intention of being used or being available for use by the entity. FASAB defines an expense as an outflow of or other decrease in assets, an increase in liabilities, or a combination of both that results in a decrease in the Government's net position during the reporting period.

When purchases are made, the Office of the Chief Financial Officer (OCFO) routes potential capital asset purchases to DISA's Capital Asset Management (CAM) Team to manually review the acquisition package. The CAM Team determines if the asset is capital or non-capital using the Capital Determination Checklist. It is the responsibility of DISA management to ensure that expenditures are being properly recorded as either capital purchases on the Balance Sheet or expenses on the Statement of Net Cost (SNC).

Condition: A limited pilot sample of 160 expense transactions were subject to sample-based testing related to PP&E completeness testing. Testing revealed three exceptions totaling approximately $4.8 million that were incorrectly expensed and should have been capitalized.

Cause: DISA OCFO did not complete its internal control procedures, which includes identifying potential capital purchases and notifying the CAM Team to complete the Capital Determination Checklist. DISA GF failed to properly identify and capitalize purchases that met its capitalization criteria thresholds.

Effect: The exceptions noted during sample-based testing amounted to an approximately $4.8 million understatement of DISA's PP&E line on the June 30, 2023 Balance Sheet and an overstatement of approximately $4.8 million of the Gross Costs line on the June 30, 2023 SNC. However, due to the nature of this control deficiency, additional misstatements may exist on the Balance Sheet and SNC. Without effective operating controls related to DISA GF's capitalization policies and procedures, there is an increased risk that DISA GF will continue to incorrectly expense capital asset purchases.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that DISA perform the following:

1. Expand its existing control for the Capital Determination Checklist to ensure that all equipment purchases are included in the control.
2. Review existing agreements that are not subject to the Capital Determination Checklist to ensure additional misstatements are corrected timely.

II. Information Technology (*Repeat Condition*)

A. Incomplete Complementary User Entity Controls Implementation

Background: DISA utilizes several service organizations to support its operations and mission. As such, DISA obtains assurances from each organization regarding the effectiveness of the organization's internal controls related to the service(s) provided. Specifically, each organization provides a written assertion that accompanies a description of its service(s) and related information system(s) (IS). These assertions are communicated via a System and Organization Controls (SOC) report. In fiscal year (FY) 2023, each service organization provided DISA management with a SOC 1®, Type 2, *Report on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*, to report on the design and operating effectiveness of its internal controls.

In many cases, service organizations design their controls in support of their service(s) with the assumption that the user entities (i.e., customers or users of the service[s]) will implement certain controls (i.e., complementary user entity controls [CUEC]) to achieve the overall control objectives and create a secure computing environment. Specifically, Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*, defines CUECs as controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities and are necessary to achieve the control objectives stated in management's description of the service organization's system.

DISA relies on multiple service organizations and their respective SOC reports to gain an understanding of the security posture of each of the systems upon which DISA relies. For example, DISA utilizes the Defense Logistics Agency's (DLA) Defense Agencies Initiative (DAI) system for financial management; DLA's Defense Property Accountability System (DPAS) for logistics and property management services; DLA's Wide Area Workflow (WAWF) for management of goods and services; the Defense Finance and Accounting Service's (DFAS) Defense Cash Accounting System (DCAS) for transaction distribution services; DFAS's Defense Civilian Pay System (DCPS) for Federal civilian payroll services; DFAS's Defense Departmental Reporting System (DDRS) for financial reporting services; DFAS's Automated Disbursing System (ADS) for standard disbursing services; the Defense Manpower Data Center's (DMDC) Defense Civilian Personnel Data System (DCPDS) for processing payroll affecting civilian human resource transactions; and the Chief Digital and Artificial Intelligence Office (CDAO) Directorate for Business Analytics' Advancing Analytics (Advana) for data analytics.

Condition: DISA has not implemented all of the CUECs required by its service organizations. Based on a subset of high-risk CUECs (e.g., cross-system segregation of duties [SD], periodic access reviews, removals, and user authorization) required by DISA's service organizations, examples of control deficiencies indicating CUECs that DISA has not fully implemented included:

- DISA did not develop cross-system SD documentation to detail conflicts that may occur when personnel obtain access to multiple systems utilized by DISA to include, but not be limited to, ADS, Advana, DAI, DCAS, DCPS, DCPDS, DDRS, DPAS, and WAWF
- DISA did not effectively perform periodic reviews of all DISA users for the Advana application
- DISA did not maintain adequate documentation to support management's approval of the level of access granted to DISA users of the DAI and DCPS applications
- DISA did not consistently remove or disable access to DISA users of the DAI and WAWF applications upon their separation from the agency.

Cause: Although DISA was aware of the requirements for implementing the CUECs and had begun implementation, it had not finalized implementation of all CUECs as of the end of the FY 2023 financial statement audit. Throughout FY 2023, DISA refined its existing process regarding review and implementation of all CUECs identified within each service organization SOC 1®, Type 2 report, determined relevance to DISA, and assessed its corresponding DISA control, as well as continued to identify and implement controls to remediate gaps for CUECs not sufficiently designed (e.g., cross-systems SD). Additionally, due to the large number of CUECs, DISA established a phased approach and executed it to test CUECs based on level of risk and document results of implementation.

Effect: DISA's failure to implement internal controls to address all required CUECs may result in ineffective controls/control objectives. As SOC 1®, Type 2 reports address the effectiveness of controls related to the user entity's financial reporting, ineffective controls/control objectives (i.e., Access Controls, Security Management, and Configuration Management) increase the risk of negative impact to the confidentiality, integrity, and availability of data supporting DISA's financial statements.

Recommendations: Kearney recommends that DISA perform the following:

1. Implement all CUECs identified within each service organization's SOC 1®, Type 2 report.

2. Identify gaps for CUECs not designed effectively, as well as design and implement controls to remediate those gaps.

*   *   *   *   *

APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included in the audit report on the Defense Information Systems Agency (DISA) General Fund's (GF) fiscal year (FY) 2022 financial statements, we noted several issues that were related to internal control over financial reporting. The statuses of the FY 2022 internal control findings are summarized in ***Exhibit 8***.

Exhibit 8: Status of Prior-Year Findings

Control Deficiency	FY 2022 Status	FY 2023 Status
Fund Balance with Treasury	Material Weakness	Material Weakness
Accounts Receivable/Revenue	Material Weakness	Material Weakness
Property, Plant, and Equipment	Material Weakness	Significant Deficiency
Accounts Payable/Expense	Material Weakness	Material Weakness
Budgetary Resources	Material Weakness	Material Weakness
Financial Reporting	Material Weakness	Material Weakness
Information Technology	Significant Deficiency	Significant Deficiency

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

To the Director, Defense Information Systems Agency, and Inspector General of the Department of Defense

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; 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. 24-01, *Audit Requirements for Federal Financial Statements*, the General Fund (GF) financial statements of the Defense Information Systems Agency (DISA) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise DISA GF's financial statements and have issued our report thereon dated November 8, 2023. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Report on Compliance and Other Matters

In connection with our engagement to audit the financial statements of DISA GF, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DISA GF. However, providing an opinion on compliance with those provisions was not an objective of our engagement; accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-01 and which are described in the accompanying **Schedule of Findings** as Items I and II.

The results of our tests of compliance with FFMIA disclosed that DISA GF's financial management systems did not comply substantially with the Federal financial management system's requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger at the transaction level, as described in the accompanying **Schedule of Findings** as Items I and II.

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

KEARNEY& COMPANY

Defense Information Systems Agency General Fund's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on DISA GF's response to the findings identified in our engagement and described in the accompanying memorandum attached to this report in the Agency Financial Report (AFR). The DISA GF acknowledged the findings identified in our engagement. DISA GF's response was not subjected to the other auditing procedures applied in the engagement to audit the financial statements; accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an engagement performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 in considering the entity's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 8, 2023

Schedule of Findings

Noncompliance and Other Matters

I. Noncompliance with Federal Financial Management Improvement Act of 1996 (*Repeat Condition*)

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that an entity's overall financial management systems environment operate, process, and report data in a meaningful manner to support business decisions. FFMIA states that Federal agencies shall comply substantially with the requirements within Section 803(a). These requirements include:

- Federal financial management system requirements
- Applicable Federal accounting standards
- United States Standard General Ledger (USSGL) at the transaction level.

The Defense Information Systems Agency's (DISA) financial management systems do not substantially comply with the requirements within FFMIA, as discussed below.

Federal Financial Management Systems Requirements

FFMIA requires reliable financial reporting, including the availability of timely and accurate financial information, and maintaining internal control over financial reporting and financial system security. The matters described in the Basis for Disclaimer of Opinion section in the accompanying *Independent Auditor's Report*, as well as the material weaknesses reported in the accompanying *Report on Internal Control over Financial Reporting*, represent noncompliance with the requirement for financial systems and reliable financial reporting.

Federal Accounting Standards

FFMIA requires that agency management systems maintain data to support financial reporting in accordance with accounting principles generally accepted in the United States of America (GAAP). As described in the Basis for Disclaimer of Opinion section in the accompanying *Independent Auditor's Report*, we experienced a scope limitation and were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of DISA's financial statements. Because of the significance of this scope limitation, we were unable to determine whether DISA's financial statements contained material departures from GAAP.

United States Standard General Ledger at the Transaction Level

FFMIA requires that agency management systems record financial events by applying the USSGL guidance in the Treasury Financial Manual (TFM) at the transaction level. As described in the Basis for Disclaimer of Opinion section in the accompanying *Independent Auditor's Report*, we experienced a scope limitation and were unable to obtain sufficient appropriate audit evidence regarding the completeness and accuracy of DISA's financial statements. Because of the significance of this scope limitation, we were unable to execute all planned audit procedures, including tests for compliance with the USSGL at the transaction level.

II. Noncompliance with Federal Managers' Financial Integrity Act of 1982 (*Repeat Condition*)

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, implements the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FMFIA and OMB Circular A-123 require agencies to establish a process to document, assess, and assert to the effectiveness of internal control over financial reporting.

DISA has not established and implemented controls in accordance with standards prescribed by the Comptroller General of the United States, as codified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (Green Book), as described by the material weaknesses in the *Report on Internal Control over Financial Reporting*.

DISA Management Comments to Auditor's Report

Mr. Kelly Gorrell
Kearney & Company
1701 Duke Street, Suite 500
Alexandria, VA 22314

Mr. Gorrell:

DISA acknowledges receipt of Kearney & Company's draft audit report for DISA's FY 2023 General Fund (GF) financial statements.

We acknowledge the auditor-identified findings in the following key areas: 1) Fund Balance with Treasury, 2) Accounts Receivable/Revenue, 3) Accounts Payable/ Expense, 4) Budgetary Resources, and 5) Financial Reporting, each of which, in the aggregate are considered material weaknesses. We also acknowledge the auditor-identified findings in the Information Technology and Property, Plant & Equipment areas which are considered significant deficiencies.

DISA made great progress in FY 2023, specifically with reducing the unmatched and undistributed balances that impact the key areas identified above and has a placed a renewed focus on successful resolution of the remaining audit issues during the upcoming audit cycle.

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ALEX DIAZ
Director, Accounting Operations and Compliance

Appendix A- DISA Organizational Chart

Joint Service Provider

Joint Force Headquarter-DODIN

DISA Director JFHQ-DODIN Commander

Deputy Director

Procurement Services Directorate
Chief Financial Officer and Comptroller

Assistant to the Director

Chief of Staff

Workforce Services and Development Directorate

Digital Capabilities and Security Center

Cyber Security and Analytics
Joint Enterprise Services
Defense Spectrum Organization
Joint Interoperability Test Command

Hosting and Compute Center

Compute Operations
Operations Support
Product Management

Enterprise Operations and Infrastructure Center

Endpoint Services and Customer Support
Transport Services
Cyberspace Operations

Enterprise Integration and Innovation Center

Emerging Technology and Enterprise Architecture
Enterprise Engineering and Governance
Risk Management Executive
Chief Data Officer

Special Staff

Chaplain Program Office
Congressional Affairs Coordinator
Office of Strategic Communication and Public Affairs
General Counsel
Inspector General
Component Acquisition Executive
Small Business Programs
Protocol
Pentagon Liaison Officer
Office of Equality, Diversity and Inclusion

ADCON Organizations

Joint Artificial Intelligence Center
Secretary of Defense Communications
White House Communications Agency
White House Situation Support Staff