FY 2019 USSOCOM Financial Statement Reporting Package

September 30, 2019

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Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED BALANCE SHEET - UNAUDITED
As of September 30, 2019 and 2018

	2019 Consolidated	2018 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	$ 11,094,764,565.54	$ 10,188,817,196.67
3. Accounts Receivable (Note 6)	15,389,622.60	6,454,838.28
4. Other Assets (Note 10)	45,386.00	45,386.00
5. Total Intragovernmental Assets	$ 11,110,199,574.14	$ 10,195,317,420.95
C. Accounts Receivable, Net (Note 6)	1,666,957.24	1,753,979.37
F. General Property, Plant and Equipment, Net (Note 9)	3,400,096,690.43	12,810,745,188.58
H. Other Assets (Note 10)	208,026,826.16	193,391,176.18
2. TOTAL ASSETS	$ 14,719,990,047.97	$ 23,201,207,765.08
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 9)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable	$ 67,961,200.82	$ 302,455,929.95
3. Other Liabilities (Note 15 & 17)	14,367,360.00	7,423,360.13
4. Total Intragovernmental Liabilities	$ 82,328,560.82	$ 309,879,290.08
B. Accounts Payable	$ 1,435,803,051.45	$ 1,324,272,280.21
F. Other Liabilities (Note 15 & Note 17)	72,356,385.96	121,746,743.44
5. TOTAL LIABILITIES	$ 1,590,487,998.23	$ 1,755,898,313.73
6. COMMITMENTS AND CONTINGENCIES (NOTE 17)		
7. NET POSITION		
B. Unexpended Appropriations - Other Funds	9,909,022,989.82	8,490,028,656.65
D. Cumulative Results of Operations - Other Funds	3,220,479,059.92	12,955,280,794.70
8. TOTAL NET POSITION	$ 13,129,502,049.74	$ 21,445,309,451.35
9. TOTAL LIABILITIES AND NET POSITION	$ 14,719,990,047.97	$ 23,201,207,765.08

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION - UNAUDITED
For the periods ended September 30, 2019 and 2018

	2019 Consolidated	2018 Consolidated
UNEXPENDED APPROPRIATIONS:		
1. Beginning Balances (Includes Funds from Dedicated Collections - See Note 18)	$ 8,490,028,656.65	$ 7,790,907,738.97
3. Beginning balances, as adjusted	8,490,028,656.65	7,790,907,738.97
4. Budgetary Financing Sources:		
4.A. Appropriations received	13,309,621,804.00	12,429,210,500.00
4.B. Appropriations transferred-in/out	163,720,000.00	268,337,334.00
4.C. Other adjustments (+/-)	(205,258,829.02)	(227,434,738.40)
4.D. Appropriations used	(11,849,088,641.81)	(11,770,992,177.92)
5. Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	1,418,994,333.17	699,120,917.68
6. Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	9,909,022,989.82	8,490,028,656.65
CUMULATIVE RESULTS OF OPERATIONS:		
7. Beginning Balances	12,955,280,794.70	11,327,005,776.86
9. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	12,955,280,794.70	11,327,005,776.86
10. Budgetary Financing Sources:		
10.A. Other adjustments (+/-)	(49,388.49)	(4,141,476.22)
10.B. Appropriations used	11,849,088,641.81	11,770,992,177.92
10.C. Nonexchange revenue	2,219.64	4,187.87
10.D. Donations and Forfeitures of Cash and Cash Equivalents	0.00	45,386.00
11. Other Financing Sources (Nonexchange):		
11.B. Transfers-in/out without reimbursement (+/-)	(6,880,515,080.82)	47,947,948.47
11.C. Imputed financing from costs absorbed by others	24,571,846.32	21,579,065.16
11.D. Other (+/-)	(2,491,054,527.17)	1,381,058,164.67
12. Total Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	2,502,043,711.29	13,217,485,453.87
13. Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	12,236,845,446.07	11,589,210,436.03
14. Net Change	(9,734,801,734.78)	1,628,275,017.84
15. Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	3,220,479,059.92	12,955,280,794.70
16. Net Position	$ 13,129,502,049.74	$ 21,445,309,451.35

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command COMBINED
STATEMENT OF BUDGETARY RESOURCES - UNAUDITED
For the periods ended September 30, 2019 and 2018

		2019 Combined		2018 Combined
Budgetary Resources:				
1051 Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$	2,284,646,722.65	$	2,187,661,313.18
1290 Appropriations (discretionary and mandatory)		13,475,364,804.00		12,714,544,834.00
1890 Spending Authority from offsetting collections (discretionary and mandatory)		470,934,393.70		486,359,623.87
1910 Total Budgetary Resources	$	16,230,945,920.35	$	15,388,565,771.05
Status of Budgetary Resources:				
2190 New obligations and upward adjustments (total)	$	14,299,833,983.09	$	13,514,606,843.62
Unobligated balance, end of year				
2204 Apportioned, unexpired accounts		1,536,350,938.82		1,522,133,660.48
2404 Unapportioned, unexpired accounts		628,064.38		0.00
2412 Unexpired unobligated balance, end of year		1,536,979,003.20		1,522,133,660.48
2413 Expired unobligated balance, end of year		394,132,934.06		351,825,266.95
2490 Unobligated balance, end of year (total)		1,931,111,937.26		1,873,958,927.43
2500 Total Budgetary Resources	$	16,230,945,920.35	$	15,388,565,771.05
Outlays, net:				
4190 Outlays, net (total) (discretionary and mandatory)		12,362,086,217.62		11,569,441,145.13
4210 Agency Outlays, net (discretionary and mandatory)	$	12,362,086,217.62	$	11,569,441,145.13

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED STATEMENT OF NET COST - UNAUDITED
For the periods ended September 30, 2019 and 2018

	2019 Consolidated	2018 Consolidated
1. Program Costs		
A. Gross Costs	$ 12,608,906,937.14	$ 11,962,953,203.99
Operations, Readiness & Support	9,209,372,703.62	9,168,816,166.90
Procurement	2,703,964,054.20	2,032,281,570.58
Research, Development, Test & Evaluation	665,256,497.58	671,357,494.82
Family Housing & Military Construction	30,313,681.74	90,497,971.69
B. (Less: Earned Revenue)	(372,061,491.07)	(373,742,767.96)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	12,236,845,446.07	11,589,210,436.03
E. Net Program Costs Including Assumption Changes	12,236,845,446.07	11,589,210,436.03
2. Net Cost of Operations	$ 12,236,845,446.07	$ 11,589,210,436.03

Note 1.	Summary of Significant Accounting Policies - Unaudited

1.A. Reporting Entity

United States Special Operations Command (USSOCOM) is comprised of the following Components and Sub-unified Command, whose responsibilities are to ensure their Special Operations Forces (SOF) are highly trained, equipped and rapidly deployable to support national security interests around the world:

- U.S. Army Special Operations Command (USASOC)

The USASOC is located at Ft. Bragg, North Carolina. The mission of USASOC is to organize, train, educate, man, equip, fund, administer, mobilize, deploy and sustain Army special operations forces to successfully conduct worldwide special operations, across the range of military operations, in support of regional combatant commanders, American ambassadors and other agencies as directed.

- Naval Special Warfare Command (NAVSPECWARCOM)

The NAVSPECWARCOM is located at Naval Amphibious Base, Coronado, California. Naval Special Warfare Command provides vision, leadership, doctrinal guidance, resources and oversight to ensure component maritime special operations forces are ready to meet the operational requirements of combatant commanders.

- Air Force Special Operations Command (AFSOC)

The AFSOC is located at Hurlburt Field, Florida. The AFSOC is America's specialized air power, a step ahead in a changing world, delivering special operations combat power anytime, anywhere.

- Marine Corps Forces Special Operations Command (MARSOC)

The MARSOC is located at Camp Lejeune, North Carolina. The MARSOC, as the U.S. Marine Corps component of USSOCOM, trains, organizes, equips, and when directed by the Commander of USSOCOM, deploys task organized, scalable, and responsive U.S. Marine Corps special operations forces worldwide in support of combatant commanders and other agencies.

- Joint Special Operations Command (JSOC)

The JSOC is a sub-unified command of USSOCOM. The JSOC is a joint headquarters designed to study special operations requirements and techniques, ensure interoperability and equipment standardization, plan and conduct joint special operations exercises and training, and develop joint special operations tactics.

Per 10 United States Code (USC) 165, "the Secretary of a military department is responsible for the administration and support of forces assigned by him to a combatant command" (USSOCOM). Administrative support is provided by combatant command support agents within support for the Combatant Command headquarters, and the subordinate unified command headquarters shall be provided by the Combatant Command Support Agents (CCSA)." USSOCOM Service Components processes, controls, and systems, including accounting systems are aligned with their "parent" Service (Army, Navy, Air Force, Marine Corps); USSOCOM Headquarters element and Sub-Unified Commands' processes and controls are aligned with their CCSA.

USSOCOM, through additional sub-unified commands or TSOCs, supports the Geographic Combatant Commands. The TSOCs are responsible for planning special operations throughout their assigned areas of responsibility, planning and conducting peacetime joint training exercises, and orchestrating command and control of peacetime and wartime special operations:

- Theater Special Operations Command - Africa (SOCAFRICA)

The SOCAFRICA is a sub-unified command of USSOCOM under operational control of United States Africa Command, with headquarters in Kelley Barracks, Stuttgart-Mohringen, Germany. The SOCAFRICA's primary responsibility is to exercise operational control over theater-assigned or allocated Air Force, Army, Marine, or Navy special operations forces conducting operations, exercises, and theater security cooperation in the USAFRICOM area of responsibility.

- Theater Special Operations Command - Central (SOCCENT)

The SOCCENT, in partnership with interagency and international partners, supports the United States Central Command's (CENTCOM's) and USSOCOM's objectives by employing special operations to deter and degrade malign actors, influence relevant populations, and enhance regional partners to protect U.S. national interests and maintain regional stability. When directed, SOCCENT employs special operations forces for contingency and crisis response.

- Theater Special Operations Command - Europe (SOCEUR)

The SOCEUR employs special operations forces across the United States European Command (USEUCOM) area of responsibility to enable deterrence, strengthen European security collective capabilities and interoperability, and counter transnational threats to protect U.S. personnel and interests.

- Theater Special Operations Command - Korea (SOCKOR)

The SOCKOR plans and conducts special operations in support of the commander of United States Forces/United Nations commander/Combined Forces commander in armistice, crisis and war. The SOCKOR is a functional component command of United States Forces Korea, tasked to plan and conduct special operations in the Korean theater of operations. The SOCKOR continues to be the only theater SOC in which U.S. and host nation SOF are institutionally organized for combined operations. The SOCKOR and Republic of Korea (ROK) Army Special Warfare Command (SWC) regularly train in their combined roles, while SOCKOR's Special Forces detachment acts as the liaison between ROK Special Forces and the U.S. Special Forces.

- Theater Special Operations Command - North (SOCNORTH)

The SOCNORTH, in partnership with the interagency and regional SOF, synchronize operations against terrorist networks and their acquisition or use of weapons of mass destruction, and when directed, employs fully capable SOF to defend the homeland in depth and respond to crisis. The SOCNORTH is responsive, capable, and postured to provide scalable SOF options to contribute to the defense of the homeland with emphasis on counterterrorism, counter weapons of mass destruction-terrorism, and counter transnational organized crime in Mexico.

- Theater Special Operations Command - Pacific (SOCPAC)

The SOCPAC is a sub-unified command of USSOCOM under the operational control of U.S. Indo-Pacific Command (USINDOPACOM) and serves as the functional component for all special operations missions deployed throughout the Indo-Asia-Pacific region. The SOCPAC coordinates, plans, and directs all special operations in the Pacific theater supporting commander, USINDOPACOM objectives of deterring aggression, responding quickly to crisis, and defeating threats to the United States and its interests.

- Theater Special Operations Command - South (SOCSOUTH)

The SOCSOUTH is a sub-unified command of USSOCOM under the operational control of U.S. Southern Command. It is a joint Special Operations headquarters that plans and executes special operations in Central and South America and the Caribbean.

1.B. Mission of the Reporting Entity

USSOCOM synchronizes the planning of Special Operations and provides SOF to support persistent, networked and distributed Global Combatant Command operations in order to protect and advance our Nation's interests. Each service branch has a Special Operations Command that is unique and capable of running its own operations, but when the different special operations forces need to work together for an operation, USSOCOM becomes the joint command of the operation.

To achieve this mission, SOF commanders and staff must plan and lead a full range of lethal and non-lethal special operations missions in complex and ambiguous environments. Additionally, USSOCOM accomplishes these missions through the use of four service component commands, and eight sub-unified commands or Theater Special Operations Commands (TSOCs). SOF personnel serve as key members of Joint, Interagency, and International teams and must be prepared to employ all assigned authorities and apply all available elements of power to accomplish the assigned missions.
This mission makes it a unique unified combatant command.

1.C. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of USSOCOM, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, Office of the Secretary of Defense (OSD), Memorandum, "Internal Reporting for USSOCOM Financial Statements", DoD Financial Statement Audit Guide, and other appropriate legislation. The financial statements have been prepared from the books and records of USSOCOM using financial data obtained from the military department financial systems, Army, Navy and Air Force, and related non-financial system data in accordance, and to the extent possible, U.S. generally accepted accounting principles (U.S. GAAP) promulgated by the Federal Accounting Standards Advisory Board, the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements", and DoD Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which USSOCOM is responsible unless otherwise noted.

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

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

1.D. Basis of Accounting

USSOCOM does not have a single accounting system. Therefore, USSOCOM financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of USSOCOM components and TSOCs; USSOCOM Service Components' processes, controls, and systems, including accounting systems are aligned with their "parent" Service. USSOCOM Headquarters element and Sub-Unified Commands' processes and controls are aligned with their Command Support Agents (CCSA).

The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses and accounts payable.

USSOCOM presents the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on a consolidated basis, which is a summation of the Components less the eliminations; with the exception of revenue eliminations due to system limitations. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the Components, and therefore intradepartmental activity has not been eliminated. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use of Federal funds.

USSOCOM is continuing to evaluate the effects that will result from fully adopting recent accounting standards and other authoritative guidance issued by FASAB. The guidance listed below is expected to have an impact on the financial statements; however, USSOCOM is currently unable to determine the full impact.

1.) SFFAS 50: Establishing Opening Balances for General Property, Plant, and Equipment. Issued on: August 4, 2016. Effective Date: For periods beginning after September 30, 2016.

USSOCOM plans to utilize deemed cost to value beginning balances for general property, plant and equipment (GPP&E), as permitted by SFFAS 50. USSOCOM has valued some of its GPPE using deemed cost methodologies as described in SFFAS 50. However, systems required to account for historical cost for GPP&E in accordance with SFFAS 6, Accounting for Property, Plant and Equipment, are not yet fully implemented. Therefore, USSOCOM is not making an unreserved assertion with respect to this line item.

2.) SFFAS 53: Budget and Accrual Reconciliation, Amending SFFAS 7, Accounting for Revenue and other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, SFFAS 22, Change in Certain Requirements for Reconciling Obligations and Net Cost of Operations, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources, and SFFAS 24, Selected Standards for the Consolidated Financial Report of the United States Government: Issued on: October 27, 2017: Effective Date: reporting periods beginning after September 30, 2018.

3.) SFFAS 54: Leases: An Amending SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment: Issued Date: April 17, 2018: Effective Date: reporting periods beginning after September 30, 2020. Early adoption is not permitted.

4.) Technical Bulletin 2017-1: Intragovernmental Exchange Transactions: Issued on November 1, 2017; Effective date: upon issuance.

5.) Technical Bulletin 2017-2: Assigning Assets to Component Reporting Entities: Issued on November 1, 2017; Effective date: upon issuance.

6.) Technical Release 18: Implementation Guidance for Establishing Opening Balances; Issued on October 2, 2017, Effective Date: upon issuance.

7.) Staff Implementation Guidance 6.1: Clarification of Paragraphs 40-41 of SFFAS 6, Accounting for Property, Plant, and Equipment, as amended issued on July 17, 2018 and Effective Date: upon issuance.

The DoD is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with U.S. GAAP. One such action is the ongoing revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all

USSOCOM financial and nonfinancial feeder systems and processes are able to collect and report financial information as required by U.S. GAAP, there will be instances when USSOCOM's financial data will be derived from budgetary transactions or data from nonfinancial feeder systems.

The financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources and legal authority to do so.

1.E. Accounting for Intragovernmental and Intergovernmental Activities

The Treasury Financial Manual Part 2 – Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-governmental activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental costs and exchange revenue represents transactions made between two reporting entities within the federal government. Costs and earned revenues with the public represents exchange transactions made between the reporting entity and a non-federal entity. USSOCOM cannot accurately identify intragovernmental transactions by customer because the underlying accounting systems do not track buyer and seller data at the transaction level. Generally, at the DOD level, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with DoD seller-side balances and are then eliminated. USSOCOM, by way of the Department, is implementing replacement systems and a standard financial information structure incorporating the necessary elements to enable USSOCOM to correctly report, reconcile, and eliminate intragovernmental balances.

While USSOCOM is unable to fully reconcile intragovernmental transactions with all federal agencies, USSOCOM is able to reconcile balances pertaining to benefit program transactions with the Office of Personnel Management. USSOCOM is taking actions to fully reconcile intragovernmental transactions with all federal agencies.

Imputed financing represents the cost paid on behalf of USSOCOM by another Federal entity. USSOCOM recognizes imputed costs for employee pension, post-retirement health, and life insurance benefits.

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

For additional information, see Note 19 General Disclosures Related to the Statement of Net Cost.

1.F. Non-Entity Assets

Non-entity assets are not available for use in USSOCOM's normal operations. USSOCOM has stewardship accountability and reporting responsibility for non-entity assets. An example of a non-entity asset is non-federal accounts receivable.
For additional information, see Note 2. Non-Entity Assets.

1.G. Fund Balance with Treasury

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

In addition, DFAS and the USACE Finance Center submit reports to U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBwT account.

For additional information, see Note 3 Fund Balance with Treasury.

1.H. Cash and Other Monetary Assets

USSOCOM does not have any cash reported on USSOCOM financial statements.

For additional information, see Note 4 Cash and Other Monetary Assets.

1.I. Investments and Related Interest

USSOCOM does not invest in Securities.

1.J. Accounts Receivable

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon factors such as: aging of accounts receivable, debtor's ability to pay, and payment history. USSOCOM does not recognize an allowance for estimated uncollectible amounts from other federal agencies, as receivables from other federal agencies are considered to be inherently collectible.

For additional information, see Note 6 Accounts Receivable.

1.K. Direct Loans and Loan Guarantees

USSOCOM does not report any direct loans and loan guarantees.

1.L. Inventories and Related Property

USSOCOM currently does not have any inventories, but does have related property.

Related property includes Operating Materials and Supplies (OM&S) and stockpile material. OM&S, including munitions not held for sale, are valued at standard purchase price. USSOCOM currently uses the purchase method of accounting for OM&S. Under this method, materials and supplies are expensed when purchased. During FY 2019, USSOCOM expensed amounts using the purchase method, because management deemed that the item was in the hands of the end user and was an immaterial amount. Since Q4, FY 2018, USSOCOM has been working to input OM&S into the new accountable property system of record (APSR), Defense Property Accountability System (DPAS) as well as performing analysis to determine if the correct accounting method is being applied.

1.M. General Property, Plant and Equipment

USSOCOM generally records General Property, Plant and Equipment (GPP&E) at the estimated historical cost. When applicable, USSOCOM will continue to adopt SFFAS 50, which permits alternative methods in establishing opening balances effective for periods beginning after September 30, 2016.

USSOCOM's GPP&E is comprised of General Equipment and Construction-in-progress (CIP). With the exception of real property construction-in-progress, USSOCOM does not report any real property.

GPP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds DoD's capitalization threshold. USSOCOM capitalizes improvements to existing GPP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. USSOCOM depreciates all GPP&E, other than land, on a straight-line basis. USSOCOM does not meet the recognition criteria to report real property (building, structures, and land) as described in the OUSD(C) Memorandum, dated September 30, 2015, "Accounting Policy Update for Financial Statement Reporting for Real Property Assets". Therefore, all completed USSOCOM-funded Real Property (RP) CIP projects are transferred and financially reported by the military departments/components. When it is in the best interest of the government, USSOCOM provides government property to contractors to complete contract work. USSOCOM either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured GPP&E exceeds the DoD capitalization threshold, federal accounting standards require that it be reported on USSOCOM's Balance Sheet.

For additional information, see Note 9 General Property, Plant and Equipment.

1.N. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on USSOCOM's Balance Sheet. For advance payments recorded as assets, USSOCOM properly expenses or capitalizes assets when the related goods and services are received.

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

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

For additional information, see Note 10 Other Assets.

1.O. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. Per the Quarter 4, FY 2019, lease data call information received from components and TSOCs, USSOCOM currently does not hold any capital leases. An operating lease does not substantially transfer all the benefits and risk of ownership to USSOCOM. Payments for operating leases are expensed over the lease term. Currently, USSOCOM reports operating leases only.

For additional information, see Note 16 Leases.

1.P. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by USSOCOM absent proper budget authority.

Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 11, Liabilities Not Covered by Budgetary Resources.

1.Q. Environmental and Disposal Liabilities

USSOCOM does not report any Environmental Liabilities.

1.R. Other Liabilities

Other liabilities includes:

1.) Advances from Others, which represent amounts received in advance for goods or services that have not been fully rendered by USSOCOM.

2.) Accrued payroll consists of salaries, wages, and other compensation earned by employees but not disbursed as of September 30. The liability is estimated for reporting purposes based on historical pay information.

3.) Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of non-vested leave are expensed when used.

4.) SFFAS 51, Insurance Programs, established accounting and financial reporting standards for insurance programs. Office of Personnel Management (OPM) administers insurance benefit programs available for coverage to USSOCOM's Civilian employees. The programs are available to Civilian employees but employees do not have to participate. These programs include life, health, and long term care insurance.

5.) The life insurance program, Federal Employee Group Life Insurance (FEGLI) plan is a term life insurance benefit with varying amounts of coverage selected by the employee. The Federal Employees Health Benefits (FEHB) program is comprised of different types of health plans that are available to Federal employees for individual and family coverage for healthcare. Those employees meeting the criteria for coverage under FEHB may also enroll in the Federal Employees Dental and Vision Insurance Program (FEDVIP). FEDVIP allows for employees to have dental insurance and vision insurance to be purchased on a group basis.

6.) The Federal Long Term Care Insurance Program (FLTCIP) provides long term care insurance to help pay for costs of care when enrollees need help with activities they perform every day, or have a severe cognitive impairment, such as Alzheimer's disease. To meet the eligibility requirements for FLTCIP, employees must be eligible to participate in FEHB. However, employees do not have to be enrolled in FEHB.

7.) OPM, as the administrating agency, establishes the types of insurance plans, options for coverage, the premium amounts to be paid by the employees and the amount and timing of the benefit received. USSOCOM has no role in negotiating these insurance contracts and incurs no liabilities directly to the insurance companies. Employee payroll withholding related to the insurance and employee matches are submitted to OPM.

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

9.) Other Liabilities primarily consists a journal voucher to resolve a cancel year balance. The cancel year balance resolved within the source system. Departmental reporting will need to reverse the correcting entry.

For additional information, see Note 15 Other Liabilities.

1.S. Commitments and Contingencies

USSOCOM recognizes contingent liabilities on the Consolidated Balance Sheet for those legal actions where management considers an adverse decision to be probable and the loss amount is reasonably estimable. These legal actions are estimated and disclosed in Note 17, Commitments and Contingencies. However, there are cases where amounts have not been accrued or disclosed because the likelihood of an adverse decision is considered remote or the amount of potential loss cannot be estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. USSOCOM's risk of loss and resultant contingent liabilities arise mostly from pending or threatened litigation or claims and assessments due to contract disputes.

USSOCOM does not have environmental contingencies.

For additional information, see Note 17 Commitments and Contingencies.

1.T. Military Retirement and Other Federal Employment Benefits

USSOCOM does not report any military retirement and other federal employment benefits because such liabilities/costs are recorded on the financials statements of the individual services.

1.U. Revenues and Other Financing Sources

USSOCOM receives congressional appropriations as financing sources for general funds. USSOCOM 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.

These funds either expire annually or some on a multi-year basis. When authorized by legislation, these appropriations are supplemented by revenues generated by services provided. USSOCOM recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is USSOCOM's standard policy for services provided as required by OMB Circular A-25, "User Charges". USSOCOM recognizes revenue when earned, within the constraints of its current system capabilities, with the exception of activity recorded within SOMARDS.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) Number 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," USSOCOM recognizes non-exchange 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.

1.V. Recognition of Expenses

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses and accounts payable.

In the case of OM&S, operating expenses are generally recognized when the items are purchased. Under the consumption method, OM&S would be expensed when consumed. As of Q4, FY 2019, efforts are still underway to transition to the consumption method for recognizing OM&S expenses.

1.W. Treaties for Use of Foreign Bases

USSOCOM does not report any treaties for use of foreign bases.

1.X. Use of Estimates

USSOCOM's management make assumptions and reasonable estimates in the preparations of financial statements based on current conditions, which may affect the reported amounts. Actual results could differ materially from the estimated amounts. Significant estimates include such items as year-end accruals of accounts payable.

1.Y. Parent-Child Reporting

USSOCOM receives it's funding from the Office of Secretary of Defense (OSD). USSOCOM is also party to allocation transfers with other DoD entities as a receiving (child). 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.

As of FY 2019, USSOCOM received allocation transfers from the following agencies: Defense Threat Reduction Agency (DTRA) and Defense Security Cooperation Agency (DSCA).

1.Z. Transactions with Foreign Governments and International Organizations

USSOCOM does not report any transactions with Foreign Governments and International Organizations.

1.AA. Fiduciary Activities

USSOCOM does not report any fiduciary activities.

1.BB. Tax Exempt Status

As an agency of the federal government, USSOCOM is exempt from all income taxes imposed by any governing body whether it is a federal, state, commonwealth, local, or foreign government.

1.CC. Subsequent Events

Subsequent events have been evaluated from the balance sheet date through the date the financial statements are available to be issued.

1.DD. Standardized Notes to the Financial Statements

Beginning in FY2019, DoD Agency-wide and Components have the same note structure in the notes to the financial statements included in their respective annual financial statements. If a note is not applicable to a Component, the Component will include the note number and name, and short statement indicating that is not applicable. This is in an effort to provide consistency throughout the Department and Components Stand Alone annual financial statements.

Note 2. Non-Entity Assets - Unaudited

Table 2. Non-Entity Assets

As of September 30		2019		2018
1. Intragovernmental Assets				
A. Fund Balance with Treasury	$	0.00	$	0.00
B. Accounts Receivable		0.00		0.00
C. Other Assets		0.00		0.00
Total Intragovernmental Assets	$	0.00	$	0.00
2. Non-Federal Assets				
A. Cash and Other Monetary Assets	$	0.00	$	0.00
B. Accounts Receivable		29,761.89		51,473.59
C. Other Assets		0.00		0.00
Total Unobligated Balance	$	29,761.89	$	51,473.59
3. Total Non-Entity Assets	$	29,761.89	$	51,473.59
4. Total Entity Assets	$	14,719,960,286.08	$	23,201,156,291.49
Total Assets	$	14,719,990,047.97	$	23,201,207,765.08

SFFAS No.1, "Accounting for Selected Assets and Liabilities", assets available to an entity to use in its operations are entity assets, while those assets not available to an entity but held by the entity are non-entity assets. While both entity and non-entity assets are to be reported on the financial statements, the standards require segregation of these asset types. In addition, a liability must be recognized in an amount equal to non-entity assets (See Note 15). Based on this guidance, USSOCOM has stewardship accountability and reporting responsibility for nonentity assets.

Non-federal Assets - Accounts Receivable (Public)

Non-federal Accounts Receivable is interest receivables and fines and penalties that upon collection are remitted to the U.S. Treasury as miscellaneous receipts. The primary component of nonentity accounts receivable is the public receivable data call adjustment. Currently, accounts receivables data from the Defense Civilian Pay System (DCPS), the Mechanization of Contract Administrative Services/Monthly Debt Management Report (MOCAS/MDMR LITE), the Consolidated Disbursing System/Monthly Debt Management Report (CDS/MDMR), and the Defense Debt Management System (DDMS) is not flowing up from the field level. Each quarter, Treasury Report on Receivables (TROR) entries must be made manually through journal vouchers into DDRS-B to ensure ending balances of trial balance reconciles to the source systems cited above.

Note 3. Fund Balance with Treasury - Unaudited

Table 3. Status of Fund Balance with Treasury

As of September 30		2019		2018
1. Unobligated Balance				
A. Available	$	1,536,350,938.82	$	1,522,133,660.48
B. Unavailable		394,760,998.44		351,825,266.95
Total Unobligated Balance	$	1,931,111,937.26	$	1,873,958,927.43
2. Obligated Balance not yet Disbursed	$	9,560,919,940.45	$	8,643,073,184.25
3. Non-Budgetary FBwT				
A. Clearing Accounts	$	0.00	$	0.00
B. Deposit Funds		0.00		0.00
C. Non-entity and Other		0.00		0.00
Total Non-Budgetary FBwT	$	0.00	$	0.00
4. Non-FBwT Budgetary Accounts				
A. Investments - Treasury Securities	$	0.00	$	0.00
B. Unfilled Customer Orders without Advance		(355,958,415.16)		(306,378,551.45)
C. Contract Authority		0.00		0.00
D. Borrowing Authority		0.00		0.00
E. Receivables and Other		(41,308,897.01)		(21,836,363.56)
Total Non-Budgetary FBwT	$	(397,267,312.17)	$	(328,214,915.01)
Total FBwT	$	11,094,764,565.54	$	10,188,817,196.67

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

The Status of Fund Balance with Treasury (FBwT) reflects the budgetary resources and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover future obligations. The unavailable balance consists primarily of unobligated appropriation from prior years (expired) that are no longer available for new obligations.

Obligated Balance not yet disbursed represents funds obligated for goods and services but not paid. Non-FBwT Budgetary Accounts reduces the status of FBwT. Examples include unfilled orders without advance and reimbursements and other income earned.

Total FBwT does not include funds held as a result of allocation transfers received from federal agencies. The USSOCM received allocation transfers from other federal agencies for execution on their behalf in the amount of $48.9 million in FY 2019 and $48.3 million in FY 2018.

Material discrepancies exist between FBwT as reflected in USSOCOM general ledger and the balance per U.S. Treasury records. These differences are caused mostly by undistributed amounts. USSOCOM is currently researching a method to calculate these differences.

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury. Supported disbursements and collections have corroborating documentation for the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transactions and most likely would not meet audit scrutiny. Unsupported adjustments are made to the USSOCOM's accounts payable and receivable trial balances prior to validating underlying transactions.

Note 4.	Cash and Other Monetary Assets - Unaudited

USSOCOM does not report cash and other monetary assets.

Note 5.	Investments and Related Interest - Unaudited

USSOCOM does not report any investments and related interest.

Note 6. Accounts Receivable, Net - Unaudited

Table 6. Accounts Receivable, Net

As of September 30	2019		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 15,389,622.60	N/A	$ 15,389,622.60
2. Non-Federal Receivables (From the Public)	$ 1,829,932.34	$ (162,975.10)	$ 1,666,957.24
Total Accounts Receivable	$ 17,219,554.94	$ (162,975.10)	$ 17,056,579.84

As of September 30	2018		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 6,454,838.28	N/A	$ 6,454,838.28
2. Non-Federal Receivables (From the Public)	$ 1,886,782.61	$ (132,803.24)	$ 1,753,979.37
Total Accounts Receivable	$ 8,341,620.89	$ (132,803.24)	$ 8,208,817.65

Accounts receivable represents USSOCOM's claim for payment from other entities. USSOCOM only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 10 of Treasury Financial Manual, Volume I, Part 2; Chapter 4700. USSOCOM uses historical accounts receivable data to compute the allowance for doubtful accounts. Amounts with an age greater than 2 years are considered doubtful for collection; these amounts are used to record the allowance.

USSOCOM does not currently have any cases that have generated an order for criminal restitution.

Note 7.	Direct Loan and Loan Guarantees, Non-Federal Borrowers - Unaudited

USSOCOM does not have any direct loan and loan guarantees.

Note 8.	Inventory and Related Property, Net - Unaudited

USSOCOM does not report any inventory and related property.

Note 9. General PP&E, Net - Unaudited

Table 9A. Major General PP&E Asset Classes

As of September 30	2019				
	Deprec-iation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0.00	N/A	$ 0.00
B. Buildings, Structures, and Facilities	S/L	35, 40, or 45	0.00	$ 0.00	0.00
C. Leasehold Improve-ments	S/L	Lease term	0.00	0.00	0.00
D. Software	S/L	2-5 or 10	0.00	0.00	0.00
E. General Equipment	S/L	Various	4,641,585,940.13	(2,342,339,357.93)	2,299,246,582.20
F. Assets Under Capital Lease	S/L	Lease term	0.00	0.00	0.00
G. Construc-tion-in-Progress	N/A	N/A	1,100,850,108.23	N/A	1,100,850,108.23
H. Other	N/A	N/A	0.00	0.00	0.00
Total General P&E			$ 5,742,436,048.36	$ (2,342,339,357.93)	$ 3,400,096,690.43

As of September 30	2018				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0.00	N/A	$ 0.00
B. Buildings, Structures, and Facilities	S/L	35, 40, or 45	0.00	$ 0.00	0.00
C. Leasehold Improvements	S/L	Lease term	0.00	0.00	0.00
D. Software	S/L	2-5 or 10	0.00	0.00	0.00
E. General Equipment	S/L	Various	18,947,365,120.94	(7,043,684,587.34)	11,903,680,533.60
F. Assets Under Capital Lease	S/L	Lease term	0.00	0.00	0.00
G. Construction-in-Progress	N/A	N/A	907,064,654.98	N/A	907,064,654.98
H. Other	N/A	N/A	0.00	0.00	0.00
Total General P&E			$ 19,854,429,775.92	$ (7,043,684,587.34)	$ 12,810,745,188.58

Legend for Valuation Methods:

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.

United States Special Operations Command's (USSOCOM) General Property, Plant, and Equipment (GPP&E) is comprised of General Equipment (GE) and Construction-in-progress. With the exception of real property construction-in-progress, USSOCOM does not report any real property.

USSOCOM does not have acquisition values and acquisition dates for all GPP&E and uses deemed cost methodologies to provide GPP&E values for financial statement reporting purposes. The Federal Accounting Standards Advisory Board (FASAB) issued Statement of Federal Financial Accounting Standard (SFFAS) No. 50, "Establishing Opening Balances for General Property, Plant and Equipment" permitting alternative methods in establishing opening balances for GPP&E. USSOCOM has valued some of its GPP&E using Deemed Cost methodologies as described in SFFAS 50. However, systems required to account for historical cost for PP&E in accordance with SFFAS 6 are not yet fully in place. Therefore, USSOCOM is not currently making an unreserved assertion with respect to this line item.

Significant accounting adjustments have been made to USSOCOM's GE assets to ensure accuracy of values based on ongoing audit remediation efforts. These accounting adjustments were recognized in current year gain/loss accounts when auditable data was not available to support restatement of prior period financial statements. Specifically, in fiscal year (FY) 2019, there was a change to the useful life tables for Army assets reported through the Army Enterprise Systems Integration Program (AESIP) system. For example, some rotary wing assets useful life per Office of the Under Secretary of Defense (OUSD) tables should be 25 years, but AESIP reports it as 10 years. USSOCOM asset database utilizes the OUSD useful life tables to calculate depreciation for all assets other than assets reported in the Reliability and Maintainability Information System (REMIS) accountable property system of record (APSR). REMIS assets are separated due to Air Force's validation of valuation and service lives of REMIS assets.

USSOCOM's and the Services' financial statements will be impacted by the OUSD memorandum "Financial Reporting Responsibilities for General Equipment", dated July 2018. Through coordination with OUSD and the Services, USSOCOM developed a position on the future reporting of GE as a result of the OUSD memorandum. USSOCOM is reaching out to each Service to coordinate implementation of this interpretation of the guidance.

Previously, USSOCOM financially reported GE assets that were accountable to the Service Components and Theater Special Operations Commands (TSOC). The new interpretation of the guidance is that USSOCOM will financially report all assets procured with Major Force Program (MFP)-11 funds. Assets currently reported by USSOCOM procured with MFP-2 funds (i.e. Service-common assets) and assets initially procured with MFP-2 and modified with MFP-11 funds will be transferred to the Military Services for financial reporting, unless the Service transfers asset ownership to USSOCOM. USSOCOM is coordinating with the Services to develop the population of assets that will be transferred to the Services for financial reporting and those that will remain with USSOCOM for financial reporting. USSOCOM will continue to work with the Services to implement this guidance over FYs 2019 and 2020.

For quarter (Q)1 FY 2019, with Air Force concurrence, MFP-2 funded assets reported in REMIS by AFSOC were transferred to the Air Force for financial reporting. This resulted in a decrease of GE acquisition value by $9.56 billion, a decrease of accumulated depreciation of $2.99 billion, for a net decrease of the GPP&E line item by $6.57 billion.

For Q1 FY 2019, with the Marine Corps Forces Special Operations Command (MARSOC) concurrence, USSOCOM is currently only reporting MFP-11 funded assets. Therefore, USSOCOM reporting of MARSOC assets is in compliance with USSOCOM's implementation position. No change in asset reporting will result from this.

For Q1 FY 2019, with the Naval Special Warfare Command (NAVSOC) concurrence, USSOCOM will report all assets at NAVSOC. Navy transfers ownership of any Navy-procured MFP-2 funded assets to USSOCOM for financial and logistical reporting. This is consistent with the assets currently reported for NAVSOC. Therefore, USSOCOM reporting of NAVSOC assets is in compliance with USSOCOM's implementation position. No change in asset reporting will result from this.

For Q2 FY 2019, MFP-2 funded assets reported in Global Combat Support System-Army (GCSS-Army) by USASOC and the Army TSOCs were no longer reported by USSOCOM. Army has already been reporting these assets through duplicate reporting. For USSOCOM, this removal resulted in a decrease of GE acquisition value by $3.85 billion, a decrease of accumulated depreciation of $1.17 billion, for a net decrease of the GPP&E line item by $2.68 billion.

For Q3 FY 2019, Air Force sunset the AFEMS APSR and implemented DPAS as its replacement.

While some Components and TSOCs identify only reporting SOF-Peculiar assets, the Component and the Service must validate their asset population before USSOCOM will consider the policy to be fully implemented.

USSOCOM's GPP&E capitalization threshold is $250 thousand. Previously, the capitalization threshold applied to asset acquisitions and modifications/improvements placed into service after September 30, 2013; GPP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels ($100 thousand for equipment and $20 thousand for real property). Guidance from the Office of the Under Secretary of Defense (OUSD) enacted a retroactive $250 thousand threshold, which was implemented in Q2 FY 2019. This had an immaterial financial impact in Q2 FY 2019 by reducing GE net book value by $37 million (0.7% of the Q1 FY 2019 GE net book value); 5,912 assets were removed from financial accountability in Q2, 54% of Q1 FY 2019 11,004 assets

Table 9B. Heritage Assets

For the Period Ended September 30	2019			
(physical count)				
Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Buildings and Structures	2	0	0	2
Archeological Sites	0	0	0	0
Museum Collection Items (Objects, Not Including Fine Art)	7,520	0	80	7,440
Museum Collection Items (Objects, Fine Art)	546	2	0	548

Heritage Assets

USSOCOM’s policy focuses on the preservation of its heritage assets, which are items of historical, cultural, educational or artistic importance. Heritage assets consist of buildings and structures, and museum collections. The heritage assets do not relate to USSOCOM mission and are not reported on financial statements. Heritage assets are memorabilia and items brought back from overseas missions and placed in the museum.

Buildings and Structures

Buildings and structures listed on or eligible for listing on the National Register of Historic Places, including multi-use heritage assets.

Museum Collection Items

Museum collection items are items that have historical or natural significance; cultural, educational, or artistic (including fine art, items such as portraits and artist depictions or historical value); or significant technical or architectural characteristics.

Note 10. Other Assets - Unaudited

Table 10. Other Assets

As of September 30		2019		2018
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	0.00	$	0.00
B. Other Assets		45,386.00		45,386.00
Total Intragovernmental Other Assets	$	45,386.00	$	45,386.00
2. Non-Federal Other Assets				
A. Outstanding Contract Financing Payments	$	192,574,178.12	$	184,735,942.76
B. Advances and Prepayments		15,452,648.04		8,655,233.42
C. Other Assets (With the Public)		0.00		0.00
Total Non-Federal Other Assets	$	208,026,826.16	$	193,391,176.18
Total Other Assets	$	208,072,212.16	$	193,436,562.18

Contract terms and conditions for certain types of contract financing payments convey certain rights to USSOCOM protecting the contract work from state or local taxation, liens or attachment by the contractors' creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of the contractor's work has transferred to USSOCOM. USSOCOM does not have the right to take the work, except as provided in contract clauses related to termination or acceptance. USSOCOM is not obligated to make payment to the contractor until delivery and acceptance. Outstanding Contract Financing Payments are estimated future payments to contractors upon delivery and government acceptance.

Advances and Prepayments are made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures, or receipt of other assets, excluding those made as Outstanding Contract Financing Payments.

Note 11. Liabilities Not Covered by Budgetary Resources - Unaudited

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2019	2018
1. Intragovernmental Liabilities		
A. Accounts Payable	$ (1,290,886.41)	$ 51,009.71
B. Debt	0.00	0.00
C. Other	0.00	0.00
Total Intragovernmental Liabilities	$ (1,290,886.41)	$ 51,009.71
2. Non-Federal Liabilities		
A. Accounts Payable	$ 161,903,374.32	$ 34,663,206.46
B. Military Retirement and Other Federal Employment Benefits	0.00	0.00
C. Environmental and Disposal Liabilities	0.00	0.00
D. Other Liabilities	34,616,846.53	35,203,755.29
Total Non-Federal Liabilities	$ 196,520,220.85	$ 69,866,961.75
3. Total Liabilities Not Covered by Budgetary Resources	$ 195,229,334.44	$ 69,917,971.46
4. Total Liabilities Covered by Budgetary Resources	$ 1,395,258,663.79	$ 1,685,980,342.27
5. Total Liabilities Not Requiring Budgetary Resources	$ 0.00	$ 0.00
Total Liabilities	$ 1,590,487,998.23	$ 1,755,898,313.73

Liabilities Not Covered by Budgetary Resources includes liabilities for which congressional action is needed before budgetary resources can be provided. These liabilities will require resources funded from future year appropriations. USSOCOM fully expects to receive the necessary resources to cover these liabilities in future years.

Non-federal accounts payable not covered by budgetary resources represent amounts that are related to cancelled appropriations. The abnormal $1.3M is for intragovernmental canceled payables reported on the Air Force trial balance. Non-federal other liabilities are related to unfunded employee leave. These amounts will require resources that are funded from future-year appropriations.

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

Note 12.	Debt - Unaudited

USSOCOM does not have any debt.

Note 13.	Military Retirement and Other Federal Employment Benefits - Unaudited

USSOCOM does not report any military retirement and other federal employment benefits.

Note 14.	Environmental and Disposal Liabilities - Unaudited

USSOCOM does not report any environmental and disposal liabilities.

Note 15. Other Liabilities - Unaudited

Table 15. Other Liabilities

As of September 30	2019		
	Current Liability	Non-Current Liability	Total
1. Intragovernmental			
A. Advances from Others	$ 10,231,871.81	$ 0.00	$ 10,231,871.81
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00
F. Custodial Liabilities	25,112.26	4,649.63	29,761.89
G. Employer Contribution and Payroll Taxes Payable	3,410,744.71	0.00	3,410,744.71
H. Other Liabilities	0.00	694,981.59	694,981.59
Total Intragovernmental Other Liabilities	$ 13,667,728.78	$ 699,631.22	$ 14,367,360.00
2. Non-Federal			
A. Accrued Funded Payroll and Benefits	$ 35,871,676.44	$ 0.00	$ 35,871,676.44
B. Advances from Others	(202,374.25)	0.00	(202,374.25)
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Non-Environmental Disposal Liabilities			
(1) Military Equipment (Non-Nuclear)	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	34,616,733.52	0.00	34,616,733.52
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	1,406,797.58	137,097.33	1,543,894.91
J. Employer Contribution and Payroll Taxes Payable	1,221,323.92	0.00	1,221,323.92
K. Contingent Liabilities	0.00	113.00	113.00
L. Other Liabilities	(694,981.58)	0.00	(694,981.58)
Total Non-Federal Other Liabilities	$ 72,219,175.63	$ 137,210.33	$ 72,356,385.96
Total Other Liabilities	$ 85,886,904.41	$ 836,841.55	$ 86,723,745.96

As of September 30	2018		
	Current Liability	Non-Current Liability	Total
1. Intragovernmental			
A. Advances from Others	$ 4,342,675.65	$ 0.00	$ 4,342,675.65
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00
F. Custodial Liabilities	46,398.12	5,075.47	51,473.59
G. Employer Contribution and Payroll Taxes Payable	3,029,210.89	0.00	3,029,210.89
H. Other Liabilities	0.00	0.00	0.00
Total Intragovernmental Other Liabilities	$ 7,418,284.66	$ 5,075.47	$ 7,423,360.13
2. Non-Federal			
A. Accrued Funded Payroll and Benefits	$ 29,645,082.28	$ 0.00	$ 29,645,082.28
B. Advances from Others	887,663.89	0.00	887,663.89
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Non-Environmental Disposal Liabilities			
(1) Military Equipment (Non-Nuclear)	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	35,203,642.29	0.00	35,203,642.29
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	2,497,522.47	137,478.17	2,635,000.64
J. Employer Contribution and Payroll Taxes Payable	1,064,218.92	0.00	1,064,218.92
K. Contingent Liabilities	8,349,504.44	43,961,375.95	52,310,880.39
L. Other Liabilities	255.03	0.00	255.03
Total Non-Federal Other Liabilities	$ 77,647,889.32	$ 44,098,854.12	$ 121,746,743.44
Total Other Liabilities	$ 85,066,173.98	$ 44,103,929.59	$ 129,170,103.57

Advances from Others

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

Custodial Liabilities
Custodial liabilities represents liabilities for collections reported as non-exchange revenues where USSOCOM is acting on behalf of another Federal entity. For balances reported this quarter, USSOCOM is reporting penalties, fines, interest as non-entity assets that are payable to the Department of Treasury.

Employer Contribution and Payroll Taxes Payable (Intragovernmental)
Employer Contribution and Payroll Taxes Payable are for employee benefits related to health, life insurance, and retirement for civilian employees.

Accrued Funded Payroll and Benefits
Accrued Funded Payroll and Benefits consist of amount for civilian employee's payroll and benefits that are funded out of the current year appropriations.

Accrued Unfunded Annual Leave
Accrued Unfunded Annual Leave liabilities are related to unfunded employee leave. These amounts will require resources that are funded from future-year appropriations. Unfunded civilian leave is funded as leave is taken.

Contingent Liabilities
USSOCOM recognized a contingent liability for the estimated unpaid costs that were considered conditional for payment pending delivery and government acceptance, due to the probability the contractors would complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid were estimable. Beginning in QTR 3 FY 2019, the liabilities for progress payment are included in Accounts Payable instead of Contingent Liabilities.

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

Non-Federal Other Liabilities
Primarily consists a journal voucher to resolve a cancel year balance. The cancel year balance resolved within the source system. Departmental reporting will need to reverse the correcting entry.

Note 16. Leases - Unaudited

Operating Leases:
Table 16F. Future Payments Due for Non-Cancelable Operating Leases

As of September 30	2019			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2020	6,247,646.00	0.00	0.00	6,247,646.00
2021	5,991,627.00	0.00	0.00	5,991,627.00
2022	4,754,996.00	0.00	0.00	4,754,996.00
2023	2,658,428.00	0.00	0.00	2,658,428.00
2024	56,127.00	0.00	0.00	56,127.00
After 5 Years	0.00	0.00	0.00	0.00
Total Federal Future Lease Payments	$ 19,708,824.00	$ 0.00	$ 0.00	$ 19,708,824.00
2. Non-Federal				
Fiscal Year				
2020	5,532,178.00	860,068.00	0.00	6,392,246.00
2021	5,515,831.00	697,617.00	0.00	6,213,448.00
2022	5,515,831.00	314,127.00	0.00	5,829,958.00
2023	3,481,818.00	273,360.00	0.00	3,755,178.00
2024	731,543.00	22,780.00	0.00	754,323.00
After 5 Years	0.00	0.00	0.00	0.00
Total Non-Federal Future Lease Payments	$ 20,777,201.00	$ 2,167,952.00	$ 0.00	$ 22,945,153.00
Total Future Lease Payments	$ 40,486,025.00	$ 2,167,952.00	$ 0.00	$ 42,653,977.00

The future payments due for operating leases disclosed in the “Future Payments Due for Non-Cancelable Operating Leases” Table are for non-cancelable leases only. Payments due for cancelable leases should not be included in the footnote account amounts, which populate this table.

USSOCOM gathers operating lease information from all of its components and TSOCs via a data call and uses the information to populate Note 16. With this data call, it was found that USSOCOM does not have any leases related to the “Other” category in FY 2020.USSOCOM only has leases related to buildings, land, and equipment. Leases related to land and buildings range in date from June 1, 2006 to August 1, 2024. Equipment leases range in date March 31, 2016 to October 31, 2023.

USSOCOM uses the escalation clauses for the future year payments. The escalation clauses are retrieved from the FY2020 President's Budget. The escalation clauses are percentages that reflect the annual future inflation rates. Each future year operating lease balance is multiplied by the percentage to calculate the future lease payments.

USSOCOM financial reporting will be working with the Components and TSOCs to obtain additional lease arrangement information.

Note 17. Commitments and Contingencies - Unaudited

USSOCOM is a party in various administrative proceedings, legal actions, and other claims awaiting adjudication that 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, USSOCOM 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 No. 5, Accounting for Liabilities of the Federal Government, as amended by SFFAS No. 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. USSOCOM would accrue contingent liabilities for material contingencies where an unfavorable outcome is considered probable and the amount of potential loss is measurable. 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. Any presented amounts accrued for legal contingent liabilities would be included within the contingent liabilities amount reported in Note 15, Other Liabilities.

Table 17. Summary of Legal Contingent Liabilities*

As of September 30	2019		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 0.00	$ 0.00	$ 0.00
Reasonably Probable	$ 0.00	$ 2,295,953.93	$ 4,795,953.93

As of September 30, 2019, legal claims exists for which the estimated loss amount or the range of loss cannot be reasonable measured. The ultimate outcomes in these matters cannot be predicted at this time. Sufficient information is not currently available to determine if the ultimate resolution of the proceeding, actions, and claims will materially affect USSOCOM’s financial position or results of operation.

Note 18.	Funds from Dedicated Collections - Unaudited

USSOCOM does not have any funds from dedicated collections.

Note 19. General Disclosures Related to the Statement of Net Cost - Unaudited

Table 19. Costs and Exchange Revenue by Major Program

As of September 30	2019	2018
Military Retirement Benefits		
1. Gross Cost	$ 0.00	$ 0.00
2. Less: Earned Revenue	0.00	0.00
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.00	$ 0.00
Net Program Costs	$ 0.00	$ 0.00
Civil Works		
1. Gross Cost	$ 0.00	$ 0.00
2. Less: Earned Revenue	0.00	0.00
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.00	$ 0.00
Net Program Costs	$ 0.00	$ 0.00
Military Personnel		
1. Gross Cost	$ 0.00	$ 0.00
2. Less: Earned Revenue	0.00	0.00
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.00	$ 0.00
Net Program Costs	$ 0.00	$ 0.00
Operations, Readiness & Support		
1. Gross Cost	$ 9,209,372,703.62	$ 9,168,816,166.90
2. Less: Earned Revenue	(338,104,844.67)	(335,111,161.11)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.00	$ 0.00
Net Program Costs	$ 8,871,267,858.95	$ 8,833,705,005.79
Procurement		
1. Gross Cost	$ 2,703,964,054.20	$ 2,032,281,570.58
2. Less: Earned Revenue	(5,499,541.83)	(12,011,385.43)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.00	$ 0.00
Net Program Costs	$ 2,698,464,512.37	$ 2,020,270,185.15

As of September 30		2019		2018
Research, Development, Test & Evaluation				
1. Gross Cost	$	665,256,497.58	$	671,357,494.82
2. Less: Earned Revenue		(28,457,104.57)		(26,620,221.42)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0.00	$	0.00
Net Program Costs	$	636,799,393.01	$	644,737,273.40
Family Housing & Military Construction				
1. Gross Cost	$	30,313,681.74	$	90,497,971.69
2. Less: Earned Revenue		0.00		0.00
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0.00	$	0.00
Net Program Costs	$	30,313,681.74	$	90,497,971.69
Consolidated				
1. Gross Cost	$	12,608,906,937.14	$	11,962,953,203.99
2. Less: Earned Revenue		(372,061,491.07)		(373,742,767.96)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0.00	$	0.00
4. Costs Not Assigned to Programs	$	0.00	$	0.00
5. (Less: Earned Revenues) Not Attributed to Programs	$	0.00	$	0.00
Total Net Cost	$	12,236,845,446.07	$	11,589,210,436.03

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of USSOCOM that are 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. USSOCOM's current processes and systems capture costs based on appropriations groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 55, Amending Inter-Entity Cost Provisions.

Note 20. Disclosures Related to the Statement of Changes in Net Position - Unaudited

The FASAB issued SFFAS No. 48, “Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials” and SFFAS No. 50, “Establishing Opening Balances for General Property, Plant and Equipment.” These standards permit alternative methods in establishing opening balances and are effective for periods beginning after September 30, 2016. USSOCOM has valued some of its GPP&E using Deemed Cost methodologies as described in SFFAS 50. With the adoption of this methodology, USSOCOM utilizes other gains and losses to capture the prior year adjustments within the Statement of Changes in Net Position (SCNP). However, systems required to account for historical cost for PP&E in accordance with SFFAS 6 are not yet fully in place. Therefore, USSOCOM is not currently making an unreserved assertion with respect to this line item.

The Appropriations Received on the SCNP does not agree with Appropriations (Discretionary and Mandatory) on the Statement of Budgetary Resources (SBR). The difference is due to transfers of current year authority.

Table 20. Reconciliation of Appropriations on the Statement of Budgetary Resources to Appropriations Received on the Statement of Changes in Net Position

As of September 30	2019	2018
Appropriations, Statement of Budgetary Resources (SBR)	$ 13,475,364,804.00	$ 12,714,544,834.00
Permanent and Temporary Reductions	$ 0.00	$ 0.00
Trust and Special Fund Receipts	0.00	0.00
Miscellaneous Items - Transfers of Current	165,743,000.00	285,334,334.00
Total Reconciling Difference	$ 165,743,000.00	$ 285,334,334.00
Appropriations Received, Statement of Changes in Net Position	$ 13,309,621,804.00	$ 12,429,210,500.00

Note 21. Disclosures Related to the Statement of Budgetary Resources - Unaudited

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

Undelivered Orders at the End of the Period

Table 21B. Budgetary Resources Obligated for Undelivered Orders at the End of the Period

As of September 30	2019	2018
1. Intragovernmental:		
A. Unpaid	535,034,196.91	1,341,328,450.69
B. Prepaid/Advanced	0.00	0.00
Total Intragovernmental	$ 535,034,196.91	$ 1,341,328,450.69
2. Non-Federal:		
A. Unpaid	7,614,386,317.86	5,657,606,476.74
B. Prepaid/Advanced	208,026,826.16	141,080,408.79
Total Non-Federal	$ 7,822,413,144.02	$ 5,798,686,885.53
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 8,357,447,340.93	$ 7,140,015,336.22

Explanation of Differences between the SBR and the Budget of the U.S. Government

The Appropriations Received on the SCNP does not agree with Appropriations (Discretionary and Mandatory) on the SBR. For additional details on the difference between the SCNP and SBR, see Note 20.

USSOCOM reported no net adjustments related to unobligated balances bought forward.

USSOCOM does not have any permanent indefinite appropriations.

USSOCOM does not report any Contributed Capital.

USSOCOM has no legal arrangements affecting the use of unobligated balances.

Note 22.	Disclosures Related to Incidental Custodial Collections - Unaudited

USSOCOM does not have any disclosures related to incidental custodial collections.

Note 23.	Fiduciary Activities - Unaudited

USSOCOM does not have any fiduciary activities.

Note 24. Reconciliation of Net Cost to Net Outlays - Unaudited

Table 24. Reconciliation of the Net Cost of Operations to Net Outlays

As of September 30	2019		
	Intragovernmental	With the public	Total
1. Net Cost of Operations (SNC)	$ 1,261,163,762.27	$ 10,975,681,683.80	$ 12,236,845,446.07
Components of Net Cost That are Not Part of Net Outlays:			
2. Property, plant, and equipment depreciation	$ 0.00	$ (529,907,948.18)	$ (529,907,948.18)
3. Property, plant, and equipment disposal & revaluation	0.00	(7,425,902.18)	(7,425,902.18)
4. Year-end credit reform subsidy re-estimates	0.00	0.00	0.00
5. Unrealized valuation loss/(gain) on investments	0.00	0.00	0.00
6. Other	0.00	(8,083,210.82)	(8,083,210.82)
7. Increase/(decrease) in assets:			
7a. Account Receivable	19,484,310.59	(87,022.13)	19,397,288.46
7b. Loans Receivable	0.00	0.00	0.00
7c. Investments	0.00	0.00	0.00
7d. Other assets	0.00	14,635,649.98	14,635,649.98
8. (Increase)/decrease in liabilities:			
8a. Accounts payable	216,714,110.58	17,890,540.49	234,604,651.07
8b. Salaries and benefits	(381,533.82)	(6,383,699.16)	(6,765,232.98)
8c. Insurance guarantee program liabilities	0.00	0.00	0.00
8d. Environmental and disposal liabilities	0.00	0.00	0.00
8e. Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	668,626.23	(73,647,255.09)	(72,978,628.86)
9. Other financing sources:			
9a. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(24,571,846.32)	0.00	(24,571,846.32)
9b. Transfers out (in) without reimbursement	0.00	0.00	0.00
9c. Other imputed financing	0.00	0.00	0.00
10. Total Components of Net Cost That Are Not Part of Net Outlays	$ 211,913,667.26	$ (593,008,847.09)	$ (381,095,179.83)

As of September 30	2019		
	Intragovernmental	With the public	Total
Components of Net Outlays That Are Not Part of Net Cost:			
11. Effect of prior year agencies credit reform subsidy re-estimates	$ 0.00	$ 0.00	$ 0.00
12. Acquisition of capital assets	0.00	505,702,500.27	505,702,500.27
13. Acquisition of inventory	0.00	0.00	0.00
14. Acquisition of other assets	0.00	0.00	0.00
15. Other	547.10	2,219.64	2,766.74
16. Total Components of Net Outlays That Are Not Part of Net Cost	$ 547.10	$ 505,704,719.91	$ 505,705,267.01
17. Other Temporary Timing Differences	$	$	$
18. Net Outlays	$ 1,473,077,976.63	$ 10,888,377,556.62	$ 12,361,455,533.25
19. Agency Outlays, Net, Statement of Budgetary Resources			$ 12,362,086,217.62
20. Reconciling Difference			$ (630,684.37)

In accordance with SFFAS 53, in the initial year of implementation, the disclosure requirements applicable to prior reporting periods are not required for comparative presentations.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

The Property, plant, and equipment depreciation on the reconciliation is related to USSOCOM Army component’s equipment balance. The large decrease in accounts payable is attributable to various system generated journal vouchers to migrate USSOCOM military construction (MILCON) data in support of the single audit concept for the construction account. The acquisition of capital assets includes MILCON transactions submitted from United States Army Corps of Engineers (USACE) and Naval Facilities (NAVFAC).

The remaining reconciling amount is due to system limitations that may cause timing differences between the budgetary and proprietary data. On-going research will need to be conducted to resolve the remaining difference.

Note 25.	Public-Private Partnerships - Unaudited

USSOCOM is not party to any public-private partnerships.

Note 26.	Disclosure Entities and Related Parties - Unaudited

USSOCOM does not have any disclosure entities and related parties.

Note 27.	Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for Compilation in the U.S. Government-wide Financial Report - Unaudited

USSOCOM does not have any reclassifications.

Note 28.	Restatements - Unaudited

USSOCOM does not have any restatements.

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

November 8, 2019

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DOD
COMMANDER, U.S. SPECIAL OPERATIONS COMMAND
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Transmittal of the Independent Auditor's Reports on the U.S. Special Operations Command Financial Statements and Related Notes for FY 2019 and FY 2018 (Project No. D2019-D000FP-0089.000, Report No. DODIG-2020-013)

We contracted with the independent public accounting firm of Grant Thornton to audit the U.S. Special Operations Command (USSOCOM) Financial Statements and related notes as of and for the fiscal years ended September 30, 2019, and 2018. The contract required Grant Thornton to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether USSOCOM's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The contract required Grant Thornton 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 Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018. Grant Thornton's Independent Auditor's Reports are attached.

Grant Thornton's audit resulted in a disclaimer of opinion. Grant Thornton could not obtain sufficient, appropriate audit evidence to support the reported amounts within USSOCOM's financial statements. As a result, Grant Thornton could not conclude whether the financial statements and related notes were presented fairly in accordance with generally accepted accounting principles. Accordingly, Grant Thornton did not express an opinion on the USSOCOM FY 2019 and FY 2018 Financial Statements and related notes.

Grant Thornton's separate report, "Internal Control over Financial Reporting and Compliance and Other Matters," discusses five material weaknesses related to USSOCOM's internal controls over financial reporting.* Specifically, Grant Thornton's report describes the following material weaknesses:

- USSOCOM did not design, implement, and place into operation the five components of internal control that include an effective control environment, risk assessment, control activities, information and communication, and monitoring activities.

- USSOCOM placed reliance on the Military Departments and other service organizations for the performance of processes and internal controls but did not have its own appropriate monitoring controls in place.

- USSOCOM lacked appropriate management controls over financial reporting and delegated its responsibilities for the design, performance, and oversight of internal controls over financial reporting to others and did not have its own effective monitoring controls in place.

- USSOCOM did not have sufficient controls over its Fund Balance with Treasury reconciliation to the U.S. Treasury and lacked monitoring over its financial reporting service organizations Fund Balance with Treasury reconciliation process.

- USSOCOM lacked adequate policies, procedures, internal controls, and supporting documentation, which prevented USSOCOM from substantiating the balance and presentation of the General Equipment and Construction in Progress accounts.

Grant Thornton's report on internal controls and compliance and other matters discusses two instances of noncompliance, which included noncompliance with the Federal Managers' Financial Integrity Act of 1982 and FFMIA. USSOCOM did not have internal controls in place to comply with the Federal Managers' Financial Integrity Act. USSOCOM did not comply with the FFMIA because it relied on each of the Military Departments financial systems, which were not compliant with the requirements of the FFMIA. In addition, USSOCOM financial systems did not comply with the FFMIA.

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* 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 timely manner.

In connection with the contract, we reviewed Grant Thornton's report and related documentation and discussed them with Grant Thornton's representatives.
Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on USSOCOM's FY 2019 and FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control over financial reporting, or conclusions on whether USSOCOM's financial systems substantially complied with FFMIA requirements, or on compliance with laws and other matters. Our review disclosed no instances where Grant Thornton did not comply, in all material respects, with GAGAS. Grant Thornton is responsible for the attached reports, dated November 8, 2019, and the conclusions expressed within the reports.

We appreciate the cooperation and assistance received during the audit. Please direct questions to me.

Lorin T. Venable

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

Attachments:
As stated

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

General Richard D. Clarke
Commander
United States Special Operations Command

We were engaged to audit the accompanying financial statements of the United States Special Operations Command (USSOCOM), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of net cost, changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on conducting the audits 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 guidance included within the Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion
USSOCOM management was unable to provide sufficient appropriate audit evidence to conclude that the financial statements taken as a whole are free of material misstatements. Specifically, USSOCOM was unable to:

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- provide a complete universe of transactions including adjustments and reclassifications to support balances on its financial statements;
- provide a comprehensive listing of, and explanation for, systematic adjustments and reclassifications made during the USSOCOM financial statement compilation process;
- provide an audit trail that would allow auditors to reconcile non-standard general ledger balances to its unadjusted trial balance;
- reconcile the Fund Balance with Treasury account balance;
- validate the valuation of its general equipment and construction in progress; and,
- provide adequate explanations for the nature of and adequate support for certain transaction types, including apportioned balances, contract holdbacks, and revenue.

In addition, USSOCOM uses accounting systems, applications, and micro-applications owned and maintained by military departments and other defense organizations to account for the majority of its transactions. We were unable to obtain sufficient appropriate audit evidence for these accounting systems, applications, and micro-applications.

Disclaimer of opinion
Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other reporting required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report, dated November 8, 2019, on our considerations of USSOCOM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report 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 the effectiveness of USSOCOM's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USSOCOM's internal control over financial reporting and compliance.

Grant Thornton LLP

Arlington, VA
November 8, 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

General Richard D. Clarke
Commander
United States Special Operations Command

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. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the United States Special Operations Command (USSOCOM), which comprise the consolidated balance sheet as of September 30, 2019, and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the year then ended, and the related notes to the financial statements. We have issued our report, dated November 8, 2019, on these financial statements. That report states that because of matters described in the Basis for Disclaimer of Opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Internal control over financial reporting

Management's responsibility

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

Auditor's responsibility

In planning and performing our audit of the financial statements, we considered USSOCOM's internal control as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we do not express an opinion on the effectiveness of USSOCOM's internal control. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

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

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

Results of our consideration of internal control
Our consideration of internal control was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency in USSOCOM's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of USSOCOM'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 and responses as items I, II, III, IV and V to be material weaknesses in USSOCOM's internal control.

A significant deficiency is a deficiency, or a 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 deficiency described in the accompanying schedule of findings and responses as item VI to be a significant deficiency in USSOCOM's internal control.

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Compliance and other matters

As part of obtaining reasonable assurance about whether USSOCOM's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements consistent with the auditor's responsibility discussed below, in accordance with *Government Auditing Standards*. Noncompliance may occur that is not detected by these tests.

Management's responsibility
Management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to USSOCOM.

Auditor's responsibility
Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and disclosures, and perform certain other limited procedures. We did not test compliance with all laws, regulations, contracts, and grant agreements.

Results of our tests of compliance
Due to the matters described in the basis for disclaimer opinion paragraphs, included in our financial statement audit report dated November 8, 2019, we were not able to obtain sufficient appropriate audit evidence related to management's compliance with laws, regulations, contracts and grant agreements which could have a direct and material effect on the determination of financial statement amounts and disclosures. However, the results of our tests disclosed instances of noncompliance, described in the accompanying schedule of findings and responses as items VII and VIII that are required to be reported under *Government Auditing Standards*. The objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to USSOCOM. Accordingly, we do not express such an opinion.

Under the Federal Financial Management Improvement Act (FFMIA), we are required to report whether USSOCOM's financial management systems substantially comply with FFMIA Section 803(a) requirements. Because of matters described in the Basis for Disclaimer of Opinion paragraphs, included in our financial statement audit report dated November 8, 2019, we were not able to obtain sufficient appropriate audit evidence related to management's substantial compliance with FFMIA Section 803(a) requirements. However, our audit procedures disclosed instances, in which USSOCOM's financial management systems did not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards and the application of the United States Standard General Ledger (USSGL) at the transaction level, as required by FFMIA. The objective of our tests was not to provide an opinion on compliance with FFMIA. Accordingly, we do not express such an opinion.

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USSOCOM's response to findings

USSOCOM's response to our findings, which is described in the accompanying schedule of findings and responses, was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on USSOCOM's response.

Intended purpose

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of USSOCOM's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USSOCOM's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Arlington, Virginia
November 8, 2019

Schedule of Findings and Responses

I. Material Weakness - Lack of Adequate Entity Level Controls

The United States Special Operations Command (USSOCOM) was established pursuant to Title 10 Section 167 of the United States Code (USC Title 10) as the unified combatant command for special operations forces (SOF). In accordance with the USC Title 10, all active and reserve SOF of the armed forces (referred to hereafter as military departments) stationed in the United States (US) are assigned to USSOCOM. The principal function of the command is to prepare SOF to carry out assigned missions. Pursuant to USC Title 10, USSOCOM has the authority to train assigned SOF as well as monitor SOF officers' promotions, assignments, and professional military education. In addition, USSOCOM has the authority to conduct development and acquisition of special operations peculiar equipment, materials, supplies, and services. USSOCOM also has the authority to enter into agreements with the military departments to carry out such acquisitions on behalf of the USSOCOM. The USSOCOM organization is composed of USSOCOM Headquarters, four service component commands, and eight sub-unified commands, which include seven Theater Special Operations Commands (TSOCs).

Department of Defense (DoD) Instruction 5010.40 requires DoD entities to comply with the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB A-123). FMFIA requires federal entities to establish internal controls in accordance with the Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (the GAO Green Book). The GAO Green Book defines entity-level controls as controls that have a pervasive effect on an entity's internal control. It establishes five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. In accordance with the GAO Green Book, management must effectively design, implement, and operate each of the components of internal control in order for the components to be effective. The GAO Green Book outlines 17 principles that support the effective design, implementation, and operation of the associated components. To determine if an internal control system is effective, the GAO Green Book requires management to assess the design, implementation, and operating effectiveness of the five components and 17 principles (as applicable) of the entity's internal control system.

1. **Control Environment**
   The GAO Green Book defines control environment as the foundation for an internal control system. An entity's control environment provides the discipline and structure to help the entity achieve its objectives. The GAO Green Book identifies five principles associated with an entity's control environment, two of which are: a) Demonstrate Commitment to Integrity and Ethical Values, and (b) Establish Structure, Responsibility, and Authority, which includes Documentation of the Internal Control System.

a. **Demonstrate Commitment to Integrity and Ethical Values**
According to the GAO Green Book, management should establish standards of conduct to communicate expectations concerning integrity and ethical values. Management should also establish processes to evaluate performance against the entity's expected standards of conduct and address any deviations in a timely manner. While management is working to establish the oversight of ethics and is initiating a comprehensive review of culture and ethics, USSOCOM has not yet established standards of conduct related to integrity and ethical values, nor does it have a process in place to evaluate performance against expectations.

b. **Establish Structure, Responsibility and Authority**
According to the GAO Green Book, the entity's oversight body is responsible for overseeing the strategic direction of the entity and responsibilities related to the accountability of the entity. This includes overseeing management's design, implementation, and operation of an internal control system.

The majority of USSOCOM financial activities occur within its commands, resulting in a decentralized environment. In addition, USSOCOM does not own the majority of the systems it uses to process its financial transactions, as those systems are owned by the military departments or DoD service organizations. DoD Financial Improvement and Audit Readiness (FIAR) Guidance defines service organizations as an organization or segment of an organization that provides services to user entities, which are likely to be relevant to those user entities' internal control over financial reporting. The FIAR guidance also notes that the DoD relies on both traditional service organizations, which provide accounting, personnel, or logistical support, and non-traditional service organizations, including other DoD components, such as the military departments. During our audit, we noted that members of USSOCOM headquarters oversight body did not have a process in place to appropriately design, implement, and operate the majority of the entity's internal control system. Instead, those functions reside with the military departments or DoD service organizations. In addition, we noted that personnel lacked a comprehensive understanding of existing financial processes, information systems, and financial data utilized and/or executed by USSOCOM's commands and service organizations to develop internal and external reports, including the financial statements.

Our testing indicates that USSOCOM's oversight body has placed reliance for the design, implementation, and operation of the majority of its internal control system to the military departments and DoD service organizations, without appropriate monitoring controls in place. In order to ensure that financial reporting internal control objectives are met, including internal controls over reporting, an entity's Chief Financial Officer (CFO) organization should include individuals possessing the right organizational experience, knowledge, and skills related to the process, financial systems, and accounting transactions executed throughout the organization. In addition, entities typically have established working groups that include experienced members of their CFO organizations. The working groups often include leaders from the operations and information systems divisions who collaborate in the execution of internal control activities that ensure the organization’s internal control objectives are met. USSOCOM should continue to expand its personnel’s knowledge of USSOCOM’s end-to-end financial reporting process. Inadequate understandings of processes, financial systems, and financial data supporting the financial statements could lead to misstatements on the financial statements and related disclosures, which go undetected.

c. **Documentation of the Internal Control System**
According to the GAO Green Book, in order to be effective, management’s documentation of the design of internal control should communicate to personnel the “who, what, when, where, and why” of internal control execution. The GAO Green Book further states that this type of documentation provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel. The documentation also provides a means to communicate, as needed, that knowledge to third parties, such as external auditors. In addition, lack of documentation identifying process controls can lead to inadequate communication to those responsible for control performance, as well as inappropriate execution and monitoring of controls.

USSOCOM management has not fully documented financially relevant processes and procedures including internal controls, as it has delegated this responsibility to the commands. Although documentation exists at the command-level, in some cases, existing documentation relates to the military department to which the command is aligned and has not been tailored to USSOCOM. Our audit also noted that in some cases documentation of financially relevant process and procedures, including internal controls, did not exist.

2. **Risk Assessment**
The GAO Green Book states that management should define objectives clearly to enable the identification of risks and define risk tolerance. The GAO Green Book lists four principles that allow management to address risk assessment internal control objectives as follows: a) Define Objectives and Risk Tolerances, b) Identify, Analyze, and Respond to Risks (related to achieving the defined objectives), c) Assess Fraud Risk, and d) Identify, Analyze, and Responding to Change.

USSOCOM management has begun to document USSOCOM’s strategic objectives, including mission-critical objectives and related risks, as well as fraud, reporting, and compliance objectives and related risks associated with its service components, sub-unified commands/TSOCs, and service organizations. However, while guidance has been issued to the components to assess their own risks, USSOCOM management has not fully implemented a comprehensive entity-level risk assessment that is tailored to USSOCOM. For example, USSOCOM has not yet considered interactions with external parties, changes in the entity’s external environment, and/or other external factors to identify risks throughout the entity. The lack of a comprehensive entity-wide risk assessment could inhibit USSOCOM’s ability to respond to significant risks to the organization to include material misstatements to its financial statements, inaccurate and/or

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inadequate internal reports used by stakeholders to make decisions, fraud schemes going undetected, and non-compliance with laws and regulations.

3. **Control Activities**
The GAO Green Book states that control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information systems. The GAO Green Book identifies three principles of control activities that management should execute to achieve objectives and respond to risk in the internal control system, as follows: a) Design Control Activities, b) Design Activities for the Information System, and c) Implement Control Activities.

As previously noted, the majority of USSOCOM's activities occur within its commands resulting in a decentralized environment. In addition, USSOCOM does not own the majority of the systems it uses to process its transactions; those systems are owned by the military departments or DoD service organizations. The majority of existing control activities, including information systems controls, have been designed by the military departments rather than USSOCOM. Our testing indicates that USSOCOM's oversight body has placed reliance on the military departments and service organizations for the design, implementation, and operation of the majority of its internal control system to the military departments and DoD service organizations without the proper monitoring controls in place. This represents a significant risk for USSOCOM given previously identified weaknesses reported by DoD auditors over the systems used by the military departments and DoD service organizations supporting USSOCOM transactions. USSOCOM management's lack of involvement in the design of control activities can lead to a failure to achieve its objectives and mitigate risks.

4. **Information and Communication**
The GAO Green Book identifies three principles of Information and Communication: a) Use Quality Information, b) Communicate Internally, and c) Communicate Externally. USSOCOM records its financial transactions using 12 general ledger (GL) accounting systems owned by the military departments. In addition to the GL accounting systems, there are myriad other systems (i.e. feeder systems) where these transactions originate and/or are adjusted. In order to facilitate the compilation of USSOCOM's financial statements, USSOCOM's financial reporting service organization systematically adjusts and/or reclassifies (via crosswalks, exclusions, mapping, and overlays) financial data received from the various GLs and feeder systems. During our audit, we noted that due to lack of internal controls over the compilation process, USSOCOM management could not verify the completeness or validity of financial information resulting from the compilation process executed by its service organization. According to the GAO Green Book, management should use quality information to communicate internally and externally as well as to achieve the entity's objectives. Lack of controls over the financial statement compilation process can result in a degradation of the quality of the financial data that could lead to misstatements to the financial statements.

5. **Monitoring**
   The GAO Green Book identifies two principles of Monitoring: a) Perform Monitoring Activities and b) Evaluate Issues and Remediate Deficiencies. Given the decentralized environment in which USSOCOM operates, monitoring activities are a critical factor in management's ability to meet its internal control objectives. According to the GAO Green Book, management should establish a baseline understanding of the current state of the internal control system compared against management's design of the internal control system. Furthermore, they should evaluate and document results of ongoing monitoring and separate evaluations of the internal control system. USSOCOM personnel should report, evaluate, and document internal control issues and its corresponding corrective actions to the appropriate internal and external parties on a timely basis.

   USSOCOM management has not yet finalized the formal internal control program, Manager's Internal Control Program, that would allow them to properly monitor internal control and meet the requirements for compliance with the FMFIA and the related OMB Circular A-123. During our audit, we noted a lack of management monitoring activities over the execution of financial reporting by USSOCOM's commands and DoD service organizations.

As noted above, USSOCOM management has not effectively designed, implemented, and placed into operation the five components of internal control. This lack of controls inhibits USSOCOM management's ability to ensure accurate financial reporting as required by Federal Accounting Standards Advisory Board (FASAB) and Treasury Guidelines and represents a non-compliance with the FMFIA and OMB Circular A-123.

<u>Recommendations</u>

USSOCOM management should consider taking the following actions:

1. **Control Environment**

   a. **Demonstrate Commitment to Integrity and Ethical Values**: Establish and document standards of conduct related to integrity and ethical values. USSOCOM should develop a process for communication, training, and evaluation against expectations.

   b. **Establish Structure, Responsibility and Authority**: After executing a comprehensive entity-wide risk assessment that includes the identification of entity objectives, obtain and document an understanding of existing internal controls and related weaknesses and appropriately design controls to mitigate those weaknesses. In addition, USSOCOM management should consider assigning individuals with the right organizational knowledge, experience, and skills to be dedicated to the entity-wide oversight of the financial reporting process to include processes executed by the service components, sub-unified commands/TSOCs, and service organizations. These individuals should lead working groups that include members of USSOCOM operations and information technology organizations.

c. **Documentation of the Internal Control System**: Ensure that end-to-end processes documentation exists and includes specific control activities performed by its service components, sub-unified commands/TSOCs, and service organizations. These narratives should be tailored to USSOCOM and should be detailed enough so as to provide USSOCOM the ability to identify operational processes and risks, and communicate controls and objectives to the people responsible for performance of the controls.

2. **Risk Assessment:** Fully implement the Manager's Internal Control Program to identify, analyze, and respond to risks at the entity-wide level and ensure that the assessment complies with the GAO Green Book.

3. **Control Activities:** After executing a comprehensive entity-wide risk assessment that includes the identification of entity objectives, obtain and document an understanding of existing internal control activities and related weaknesses at each service component, sub-unified command/TSOC, and service organization. USSOCOM management should then identify control gaps and develop corrective action plans.

4. **Information and Communication:** Given the long-standing control weaknesses of the military departments' systems, USSOCOM management should consider transitioning to a stand-alone general ledger accounting system that complies with the requirements of Federal Financial Management Improvement Act of 1996 (FFMIA). A move to a modern and compliant system would eliminate USSOCOM dependency on military systems that are non-compliant with federal financial system requirements, federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. It would also eliminate the need for extensive and complex adjustments/reclassifications of financial data, which are prone to errors. USSOCOM management should also continue to work with the Office of the Undersecretary of Defense, Comptroller (OUSD(C)) to develop alternative methods of producing its financial statements. Alternatively, USSOCOM management should work with its financial reporting service organization and the military departments to develop corrective actions for long-standing system control weaknesses as well as to ensure controls are in place over the compilation process executed by its financial reporting service organization.

5. **Monitoring Activities:** Continue to design, implement, and finalize an internal control monitoring program that meets the requirements of FMFIA, OMB Circular A-123, and the GAO Green Book.

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II. Material Weakness - Inappropriate Reliance on Service Organizations

In accordance with OMB Circular A-123 issued under the authority of FMFIA and the Government Performance and Results Act Modernization Act, management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. According to the GAO Green Book, management may engage service organizations to perform certain operational processes for the entity; however, management remains responsible for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. Therefore, management needs to understand the controls each service organization has designed, implemented, and operated for the process as well as how the third-party internal control system impacts the entity's internal control system. According to DoD's FIAR Guidance, military departments performing services for other defense organizations (such as USSOCOM) are considered service organizations.

An entity's ability to achieve its internal control objectives is directly impacted by the reliability of its information systems. USSOCOM relies on feeder systems and general ledgers owned by the military departments or DoD service organizations to process the majority of its transactions. The responsibility for the design and execution of those systems, including internal controls and responses to risks, is held largely by the military departments and/or service organizations with minimal input or monitoring from USSOCOM management. USSOCOM management has not:

1. **Documented Memorandums of Understanding (MOUs) outlining mutual responsibilities and expectations between USSOCOM and the military departments related to the execution of processes and transactions through third-party systems**. While there are MOUs between USSOCOM and the military departments regarding FIAR activities, due to the cumbersome nature of tailoring each MOU with the appropriate military department, the agreements do not outline specific responsibilities for authorization, initiation, processing, and recording of transactions as required by the FIAR Guidance. This can lead to inconsistencies between USSOCOM's expectations and actions taken by the military departments/service organizations that could result in misstatements to the financial statements.

2. **Developed a monitoring program that consistently evaluates/assesses actions taken by service organizations on USSOCOM's behalf.** USSOCOM management has not implemented a comprehensive monitoring program to ensure service organizations meet USSOCOM expectations and fulfill their responsibilities as outlined within existing MOUs. For example:
    - The majority of Journal Vouchers (JVs), including systematic JVs, that impact the USSOCOM financial statements are initiated and posted by USSOCOM's financial reporting service organization without direct input or validation by USSOCOM.
    - Exclusions of feeder file activity from USSOCOM financial statements by the USSOCOM financial reporting service organization are not reviewed for validity and/or impact to the USSOCOM financial statements by USSOCOM personnel.
    - USSOCOM management is unable to demonstrate that all relevant financial activity recorded within its general ledger and feeder systems is appropriately included within the financial statements prepared by its financial reporting service organization.

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- USSOCOM management has not obtained and reviewed annual Statements of Assurance from the military departments to determine their compliance with internal control standards, as outlined within the respective FIAR MOUs.

3. **Taken action to mitigate risks affecting USSOCOM identified by service organizations or service organizations' auditors**. In most cases, service organizations undergo examinations of internal controls over systems and processes supporting their customers. The results of these examinations are documented in Service Organization Controls (SOC) 1 reports and include the independent service auditor's report, the service organization's management assertions, and identified Complimentary User Entity Controls (CUECs) that users of the service organization (e.g., USSOCOM) should have in place in order for the service organization's internal controls to be effective and relied upon. The SOC 1 reports are made available to the user entities for their analysis and action. However, not all service organizations undergo examinations of their controls. In the absence of an examination, service organization management annual assertions, and the results of the auditor's evaluation of the service organization's control environment, including relevant systems, are available within the organization's annual statement of assurance or service organization's financial statement audit reports. USSOCOM has not developed a process for the review of statements of assurance or results of financial statement audits for those service organizations (e.g., military departments) for which SOC 1 reports are not available.

4. **Identified and evaluated user entity controls that must be in place for placing reliance on third-party execution of controls.** USSOCOM has not yet completed a comprehensive review of relevant SOC 1 reports to include an analysis of CUECs in place that have been validated by USSOCOM management as operating effectively. Therefore, USSOCOM is unable to assess whether current controls at USSOCOM Headquarters, service components, and sub-unified commands/TSOCs are sufficient to mitigate financial reporting risks.

Our testing indicates that USSOCOM's oversight body has placed reliance on the military departments and other service organizations for the performance of processes and internal controls without having appropriate monitoring controls in place. This presents a significant risk to the entity, especially given weaknesses identified in the past by various auditors related to controls over the military department and service organization systems. The lack of processes, procedures, and controls at USSOCOM to monitor the execution by third parties of processes and related transactions, which form the basis for USSOCOM financial statements, could lead to misstatements in their financial statements.

Additionally, due to the decentralized fashion in which USSOCOM financial data is stored across multiple service organization owned accounting and non-accounting systems, USSOCOM has been unable to produce a comprehensive listing of transactions which support the financial statements. This has hindered USSOCOM management from identifying the nature of and providing adequate support for activity recorded within the USSOCOM financial statements.

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Recommendations

USSOCOM management should consider taking the following actions:

1. Update existing MOUs between USSOCOM and the military departments. The MOUs should include specific responsibilities for the authorization, initiation, processing, and recording of transactions as well as the preparation of financial reports as required by FIAR Guidance.

2. Develop a monitoring program over the activities executed by third parties on behalf of USSOCOM. The program should be tailored to each third party based on the type of service provided including the execution of routine financial transactions in military department accounting and non-accounting systems.

3. Continue to develop procedures and processes surrounding review of all relevant SOC 1 evaluations. These procedures should include a determination of the design and implementation of user entity controls that must be in place and an assessment of those controls on an annual or periodic basis depending on their impact to the organization's ability to meets its internal control objectives.

4. Obtain the military departments' annual statements of assurance as well as Financial Statement Audit Opinion reports and review the information to determine if control weaknesses exist that may impact USSOCOM.

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III. Material Weakness - Lack of Appropriate Management Controls over Financial Reporting

In accordance with OMB Circular A-123 issued under the authority of FMFIA and the Government Performance and Results Act Modernization Act, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. According to the GAO Green Book, management is responsible for implementing and evaluating its internal control system, including internal controls to meet reporting objectives related to the preparation of reports for use by the entity, its stakeholders, or other external parties. Furthermore, USSOCOM does not own the majority of systems it uses to process its transactions; those systems are owned by the military departments or service organizations. According to the GAO's Green Book, management may engage external parties to perform certain operational processes for the entity; however, management retains responsibility for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. USSOCOM management has delegated its responsibilities for the design, performance, and oversight of internal controls over financial reporting to others without having effective monitoring controls in place, resulting in the following control weaknesses over the USSOCOM financial reporting process, which can lead to misstatements of USSOCOM's financial statements:

1. **Lack of Comprehensive Understanding of Information Systems and Financial Data**. USSOCOM management does not have a full understanding of the nature of, and factors impacting, specific line items within their financial statements, and often needs to conduct significant research in order to explain internal and external factors impacting financial statement line item balances as well as fluctuations between current and prior years' financial disclosures. In addition, USSOCOM management was unable to readily provide an accurate description of the data within the tool used to analyze the entity's financial transactions.

2. **Inadequate Documentation Describing the Entity's Significant Processes Including Related Accounting Policies and Controls**. USSOCOM management has not fully documented financially relevant processes and policies, including internal controls. Documentation exists at the command-level, however, in some cases existing documentation relates to the military department to which the command is aligned and has not been tailored to USSOCOM. Our audit also noted that in some cases documentation of financially relevant processes and policies, including internal controls, did not exist.

3. **Lack of Validation Controls over Financial Transactions and Related Data.** USSOCOM management lacked validation controls (i.e., control activities and/or monitoring activities), in areas including:
   - Recording of journal vouchers;
   - Exclusions of data during financial statement preparation;
   - Manual inclusion of data provided by others into the financial statement footnotes by USSOCOM management;
   - Recording of routine transactions by USSOCOM's components;
   - Completeness of payroll transactional data;
   - Accuracy and completeness of funding received;
   - Receipt and acceptance of goods and services; and,
   - Completeness and accuracy of the data included within the tool used to analyze USSOCOM's transactional financial data.

The lack of validation controls may have contributed to misstatements, including:
- Journal vouchers executed using improper accounting treatment;
- Delays in posting correcting entries and omission of component data;
- Errors in the initial posting of expenses; and,
- Recording obligations to incorrect periods.

In addition, we noted instances where controls were inappropriately designed as evidence of the control execution is not consistently retained or does not exist. We also noted instances where management inconsistently executed existing validation controls, which led to approval of manual journal vouchers by inappropriate personnel.

4. **Lack of or Inadequate Support Related to the Existence/Occurrence, Accuracy, or Completeness of Recorded Transactions or Balances**. USSOCOM management was unable to provide sufficient and adequate supporting documentation related to at least one of our testing attributes for 11 percent of samples selected across the following testing areas:
   - Obligations and Upward Adjustments;
   - Downward Adjustments;
   - Gross Cost;
   - Civilian Payroll;
   - General Equipment;
   - Construction in Progress;
   - Accounts Payable;
   - Revenue; and,
   - Manual Journal Vouchers.

5. **Control Deficiencies over Accounts Payable**. USSOCOM is unable to record accounts payable transactions in an accurate, complete, and timely manner because of a lack of appropriate business processes and certain system limitations. Additionally, neither USSOCOM nor, its service organization, is able to generate sufficiently detailed accounts payable information which would allow for an effective risk analysis based on aged invoices, or abnormal balances, at the invoice or vendor level. Furthermore, there are not comprehensive processes in place to consistently accrue accounts payable, where appropriate.

6. **Improper Reporting of Revenue.** USSOCOM management has not established a formal revenue recognition policy resulting in the majority of the Earned Revenue balance on the financial statements not meeting the definition of “exchange revenue” as defined by federal accounting standards. Specifically, Earned Revenue includes activity between USSOCOM components, which is not properly eliminated on the face of the Statement of Net Cost in accordance with Statements of Federal Financial Accounting Standards (SFFAS) No.7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.

7. **Insufficiently Supported Adoption of Purchases Method.** USSOCOM elected to account for Operating Materials and Supplies (OM&S) following the purchases method of accounting. While the USSOCOM OM&S Accounting Methodology concludes multiple conditions were met, USSOCOM was unable to demonstrate sufficient support for this election by providing an analysis supporting this conclusion, as required by the DoD Financial Management Regulation (FMR). USSOCOM does not have a mechanism in place to identify all of the OM&S held for use across the USSOCOM enterprise. Therefore, USSOCOM is unable to

complete the analysis to support the selection of the purchases method at this time.

8. **Lack of Compliance with the Accrual Basis of Accounting.** Some USSOCOM components use legacy accounting systems for the recording of their daily accounting transactions. These systems were designed for execution and reporting of Agency budgets but not necessarily for financial reporting in compliance with U.S. generally accepted accounting principles, including the accrual basis of accounting. Upon review of the posting logic of one of the legacy systems, Grant Thornton noted that certain codes record an obligation, expense, liability, and disbursement simultaneously. Through our testing we noted that USSOCOM components sometimes use these codes upon receipt of signed contracts, reimbursable work orders, or other obligating documents, before any goods or services have been received or accepted. We noted that recordation of the expense and liability before the government has received value in return for a promise to provide money or other resources, may materially overstate the gross costs and accounts payable line items.

9. **Lack of Controls over Financial Statement Compilation**. USSOCOM management and its financial reporting service organization lack adequate controls over the financial statement compilation process, as follows:

   a. **Data Collection:** In order to compile USSOCOM financial statements, USSOCOM's financial reporting service organization obtains financial data from the various accounting and non-accounting systems used by USSOCOM, commonly referred to as feeder systems. Although the service organization obtains and ingests relevant USSOCOM financial data into its Defense Departmental Reporting System – Budgetary (DDRS-B), the data obtained and ingested is at a trial balance-level and not at the transaction level. USSOCOM was not able to provide a complete population of transactional data supporting the financial statements.

   b. **Reconciliation:** USSOCOM does not have a single, centralized accounting system and instead has financial information recorded across multiple accounting and non-accounting systems owned by various DoD components. Monthly, these systems owners submit summary financial information to USSOCOM's financial reporting service organization for data normalization and summarization, referred to as pre-processing, within DDRS-B. Presently, there are no comprehensive reconciliations performed between the DDRS-B standardized data (post-processing) and the originally obtained summarized feeder data.

   c. **Manual Pre-Processing:** Certain pre-processing actions require manual action by service organization personnel. For example, DDRS-B produces a report that displays feeder file records that have been excluded from pre-processing. Records may be excluded either manually, if an accountant recognizes an invalid attribute, or automatically (i.e., auto-excludes) if DDRS-B has previously been programmed to systematically exclude the record due to an invalid attribute. Through our testing we noted a variety of issues with the internal controls over data exclusions, including instances of: failure to review whether omitting the excluded activity was appropriate, failure to review the related impact to the USSOCOM financial statements, and failure to review all instances of auto-excludes.

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d. **Unsupported Adjustments:** USSOCOM's financial reporting service organization creates JVs for a multitude of reasons (e.g., as a result of a reconciliation, reclassification, identified errors, etc.). JVs posted within DDRS-B and DDRS – Audited Financial Statements (DDRS-AFS) are designated as either "Supported" or "Unsupported." Generally, JVs are designated as supported when transactional details or other appropriate evidence supporting the amount of the JV are available. Alternatively, transactional details or other appropriate supporting documentation for JVs designated as unsupported are either unobtainable or unavailable. We noted that unsupported JVs are routinely recorded within DDRS-B and DDRS-AFS.

e. **Validation of Disclosures:** While much of the USSOCOM financial statement preparation process is executed by a service organization, USSOCOM management is responsible for the preparation and review of certain disclosures within the financial statements. Controls in place at USSOCOM and its service organization responsible for financial reporting are insufficient to validate the accuracy of information manually included within the financial statements and footnotes by USSOCOM management, or to prevent manual errors from causing misstatements.

10. **Nonconformance with Requirements of OMB Circular A-136**. OMB Circular A-136, *Financial Reporting Requirements*, specifies requirements for the form and content of federal financial statements and related disclosures. USSOCOM financial statements are not in conformity with the requirements of OMB Circular A-136 as the Statement of Net Cost is presented by appropriation group, rather than major program, as required.

11. **Inability to Create a Universe of Transactions.** In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. According to GAO's Green Book, issued under the authority of FMFIA, management should design control activities over the information technology infrastructure to support completeness, accuracy, and validity of information processing by information technology**.** We performed an evaluation over the Advanced Analytics (Advana) tool, which supports the creation of the universe of transactions (UoT). We noted the following weaknesses:

a. **Logical Access and Segregation of Duties (SoD).** Access controls limit or detect inappropriate access to computer resources, protecting them from unauthorized modification, loss, and disclosure. Such controls include authentication requirements and limiting access to perform actions, which can be executed on files and other resources. We noted the following deficiencies during our testing:

- Comprehensive SoD matrix, which outlines the population of user roles including those that conflict with one another across the platforms and tools that comprise the application, was not documented.
- Comprehensive recertifications of end users and system users was not conducted to determine appropriateness of access.
- Processes to remove unauthorized users in a timely manner were not in place.
- Documentation to support the review of audit logs could not be provided.

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- Operating system passwords were not configured in accordance with the Defense Information Systems Agency Security Technical Implementation Guides (DISA STIGS).

Incomplete documentation that outlines systematic roles and responsibilities, as well as SoD conflicts, present the risk that individuals are provided access to functions or data that is not required to perform their job responsibilities, allowing them to potentially circumvent internal controls. Further, lack of a comprehensive recertification and the untimely removal of access presents the risk that individuals maintain unauthorized access to the application. Lack of review of audit logs presents the risk that individuals perform unauthorized actions within the application without investigation and recourse. Furthermore, weak passwords present the risk that unauthorized individuals can gain access to the application. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

b. **Configuration Management.** Appropriate configuration management controls provide reasonable assurance that changes to information system resources are authorized and systems are configured and operating securely and as intended. Such controls include effective configuration management policies, plans, and procedures and proper authorization, testing, approval, and tracking of all configuration changes. We noted the following deficiencies during our testing:
   - Access to the development and production environments was not appropriately separated. Additionally, compensating controls to detect if a user develops and migrates the same change are not implemented.
   - A complete and accurate listing of changes to configurable items related to key platforms and tools that comprise the application could not be provided.

   Conflicting configuration management duties and the inability to generate a complete and accurate listing of changes to configurable items related to key platforms and tools increases the risk that unauthorized or erroneous changes to applications may be introduced without detection by system owners. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

c. **Security Management.** Appropriate security management controls provide reasonable assurance of the efficacy of the security of an information system control environment. Such controls include, among others, security management programs, periodic assessments, and validation of risks and security control policies and procedures. We noted the following deficiencies during our testing:
   - The application System Security Plan (SSP) was incomplete and was not reflective of current operating conditions.
   - Continuous monitoring and risk assessment activities were not conducted in a comprehensive and consistent manner.

- A complete listing of weaknesses pertaining to the application and authorization boundary was not created and maintained.
- Oversight of third parties, to validate that requirements outlined within service level agreements were met, was not conducted.
- Vulnerability scans and patch management activities were not performed in a consistent manner.

Incomplete and inaccurate system documentation presents the risk that personnel do not adhere to required controls. Further, lack of comprehensive and consistent continuous monitoring activities and risk assessments presents the risk that personnel do not identify and remediate weaknesses in their environment in a timely manner. Additionally, lack of a complete listing of weaknesses pertaining to boundaries present the risk that vulnerabilities may not be remediated in a timely manner. Finally, inconsistent vulnerability scans and patch management activities presents the risk that vulnerabilities may be exploited without system personnel awareness. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

d. **Interface Controls.** Appropriate interface controls provide reasonable assurance that the processing of data between applications is complete, accurate, and timely. Such controls include effective interface design, strategy documentation, and error handling procedures**.** We noted the following deficiencies during our testing:

- A complete and accurate listing of interface partners was not documented.
- Memorandums of Understanding (MOUs) for all interface partners were not documented.
- Documentation that describes the way that data is mapped from source systems to Advana was not documented for all interface partners.
- Configurations, to prohibit the ingestion of duplicate files, were not in place for all interface partners.
- Users had the ability to modify source files prior to them being ingested into the application.
- Data within Advana does not completely and accurately reconcile to data within DDRS, the USSOCOM financial reporting service organization owned system from which financial statements are generated.

Lack of documentation outlining interface partners, requirements, and data mapping structures may impact the completeness, accuracy, and validity of data. Lack of configurations that identify instances of duplicate file ingestion may impact the accuracy of data. The ability of users to modify data prior to being ingested into the application may impact the completeness, accuracy, and validity of data.

12. **Inadequate Controls for Information Systems used for Funds Distribution.** In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient

operations, reliable financial reporting, and compliance with applicable laws and regulations. According to GAO's Green Book issued under the authority of FMFIA, management should design control activities over the information technology infrastructure to support completeness, accuracy, and validity of information processing by information technology. We performed an evaluation over systems owned by USSOCOM's service organizations, specifically the Program Budget Accounting System (PBAS) and the Enterprise Funds Distribution (EFD) system, which, among other applications, support the funds distribution process. We noted the following weaknesses:

a. **Logical Access and Segregation of Duties.** Appropriate access controls limit or detect inappropriate access to computer resources, protecting them from unauthorized modification, loss, and disclosure. Such controls include authentication requirements and limiting access to and actions which can be executed on files and other resources**.** We noted the following deficiencies during our testing:

- PBAS
  - i. A complete and accurate listing of users with access to the application was not provided.
  - ii. Reviews of audit logs did not comply with internal processes.

- EFD
  - i. Comprehensive documentation outlining roles and associated privileges is not complete. Furthermore, a comprehensive SoD matrix, which outlines the population of user roles and privileges that conflict with one another, was not documented.
  - ii. Documentation of the monthly access review was not retained.
  - iii. Policies and procedures do not specify timelines for which separated users must have their access revoked.
  - iv. Documentation of the review of audit logs is not retained.

Incomplete documentation that outlines systematic roles and responsibilities as well as SoD conflicts present the risk that individuals are provided access to functions or data that is not required to perform their job responsibilities, allowing them to potentially circumvent internal controls. Further, lack of a comprehensive recertification and the untimely removal of access presents the risk that individuals maintain unauthorized access to the application. Lack of review of audit logs presents the risk that individuals perform unauthorized actions within the application without investigation and recourse. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

b. **Configuration Management.** Appropriate configuration management controls provide reasonable assurance that changes to information system resources are authorized and systems are configured and operating securely and as intended. Such controls include effective configuration management policies, plans, and procedures and proper authorization, testing, approval, and tracking of all configuration changes**.** We noted the following deficiencies during our testing:

- PBAS
  i. A sample of changes was not approved prior to migration to production.

- EFD
  i. Configuration management policies and procedures did not reflect current operating conditions.
  ii. A complete and accurate listing of changes to configurable items related to the application could not be provided. Further, controls to validate that changes migrated to production were authorized and validated were not designed and implemented.

The inability to generate a complete and accurate listing of changes to configurable items related to key platforms and tools increases the risk that unauthorized or erroneous changes to applications may be introduced without detection by system owners. Policies and procedures that are not reflective of current operating conditions presents the risk that personnel do not adhere to required controls. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized use, modification, or disclosure of financially relevant transactions or data.

c. **Security Management.** Appropriate security management controls provide reasonable assurance of the efficacy of the security of an information system control environment. Such controls include, among others, security management programs, periodic assessments, and validation of risks and security control policies and procedures**.** We noted the following deficiencies during our testing:

- EFD
  i. The application System Security Plan was incomplete and was not reflective of current operating conditions.

Incomplete and inaccurate system documentation presents the risk that personnel do not adhere to required controls. The issue presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

<u>Recommendations</u>

USSOCOM management should consider taking all necessary actions to establish an appropriate internal control structure including the following:

1. **Lack of Comprehensive Understanding of Information Systems and Financial Data:** USSOCOM management should consider assigning individuals with the right organizational knowledge, experience, and skills to be dedicated to the entity-wide oversight of the financial reporting process, to include processes executed by the service components, sub-unified commands/TSOCs, and service organizations. These individuals should lead working groups that include members of USSOCOM operations and information technology organizations. USSOCOM management should also formally document and maintain

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documentation detailing the nature of external and internal factors impacting all financial statement line items, perform a periodic review of these factors and update documentation accordingly. USSOCOM management should also develop a formalized fluctuation analysis methodology to include analysis of factors impacting fluctuations deemed to be significant. Lastly, USSOCOM management should document the process for ingesting transactional data within the tool used to analyze the entity's financial transactions and develop controls to ensure that the information is complete.

2. **Inadequate Documentation Describing the Entity's Significant Processes Including Related Accounting Policies and Controls.** USSOCOM management should ensure the existence of end-to-end process documentation, including specific control activities performed by its service components, sub-unified commands/TSOCs, and service organizations. These narratives should be tailored to USSOCOM and should be detailed enough so as to provide USSOCOM the ability to identify operational processes and risks, and communicate controls and objectives to the people responsible for performance of the controls.

3. **Lack of Validation Controls over Financial Transactions and Related Data.** USSOCOM management should expand its FIAR-related activities to include an evaluation of all USSOCOM financial reporting transactions from inception to reporting, including the exclusion of transactions during financial statement preparation, as well as activities executed by USSOCOM's service organizations, and USSOCOM accountants which impact the financial statements. USSOCOM management should obtain an understanding of existing financial reporting controls and monitoring activities, as well as related weaknesses, and appropriately design and implement controls to mitigate those deficiencies.

4. **Lack of or Inadequate Support Related to the Existence/Occurrence, Accuracy, or Completeness of Recorded Transactions or Balances.** USSOCOM management should continue to work with its service components, sub-unified commands/TSOCs, and service organizations to ensure supporting documentation is readily available for inspection by management for the purposes of performing monitoring controls as well as for audit and other compliance-related oversight functions. Additionally, USSOCOM should further develop monitoring controls over recorded transactions to ensure sufficient supporting documentation exists. Policy and procedures should also address establishing controls to retain evidence. USSOCOM should also ensure controls surrounding system generated evidence provide management assurance that transactions were executed properly and are substantiated.

5. **Control Deficiencies over Accounts Payable.** USSOCOM management should enhance processes and procedures and increase understanding of transactions throughout the various accounting systems. There should be routine preparation and analysis of an aging schedule of accounts payable that can be summarized at the vendor and/or invoice level. USSOCOM management should develop a strategy, recognizing system limitations, to enable USSOCOM to record Accounts Payable transactions timely, completely, and accurately, with appropriate compensating controls. Initiatives should be undertaken in cooperation with service organizations and system owners, including obtaining Accounts Payable data and related support.

6. **Improper Reporting of Revenue.** USSOCOM management should establish a revenue recognition policy and perform a detailed analysis of the Earned

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Revenue line item balance that provides sufficient documentation to support any necessary adjustments to USSOCOM's financial statements.

7. **Insufficiently Supported Adoption of Purchase Method.** USSOCOM management should continue efforts to identify and record OM&S within Accountable Property Systems of Record (APSR). Additionally, USSOCOM should develop and implement processes to ensure Service Components and Theater Special Operations Commands (TSOC) account for USSOCOM OM&S within APSRs that would allow for the identification of a complete population of USSOCOM's OM&S assets. USSOCOM should also perform and document an analysis over the entire population of USSOCOM OM&S, in accordance with the DoD FMR.

8. **Lack of Compliance with the Accrual Basis of Accounting.** USSOCOM management should adopt policies and procedures to recognize expenses and liabilities only upon receipt and acceptance of goods and/or services. Additionally, USSOCOM should adopt general ledger systems designed to comply at the transaction level with U.S. generally accepted accounting principles, including the accrual basis of accounting. Furthermore, until compliant systems can be adopted, USSOCOM should evaluate whether legacy systems can be used without modification or be modified to comply with the accrual basis of accounting.

9. **Lack of Controls over Financial Statement Compilation.** USSOCOM management should continue to work with the entity's financial reporting service organization to obtain an understanding of all actions taken by the organization for the compilation and preparation of USSOCOM financial statements. USSOCOM management should identify related risks, and design monitoring activities, which would allow them to perform appropriate oversight over service organization actions. Additionally, USSOCOM management should design and implement controls which validate the accuracy of information manually included within the financial statements and related notes by USSOCOM management.

10. **Nonconformance with Requirements of OMB Circular A-136.** USSOCOM should work with its financial reporting service organization to present the Statement of Net Cost by major programs as required by OMB Circular A-136.

11. **Inability to Create a Universe of Transactions**. USSOCOM management, including USSOCOM's Chief Information Officer (CIO) and system service organizations, should work to enforce and monitor the implementation of corrective actions as follows:

    a. **Logical Access and SoD**
        - Document access rights to include roles, role descriptions, and privileges or activities associated with each role. Further, document role assignments that may cause a SoD conflict.
        - Perform a comprehensive periodic review of the appropriateness of personnel with access to the application.
        - Develop processes to validate that users separating from the organization have systems access revoked in a timely manner.
        - Review audit logs on a periodic basis for violations or suspicious activity and identify individuals responsible for performing follow-up and

remediation actions. The review of audit logs should be documented for record retention purposes.

- Configure password settings to align with DISA STIGS.

b. **Configuration Management**

- Separate individuals with access to develop changes, from individuals with access to migrate changes to production, or develop compensating controls to identify instances when an individual develops and migrates the same change.
- Establish a methodology to systematically track all configuration items that are migrated to production to be able to produce a complete and accurate listing of all configuration items for both internal and external audit purposes, which will in turn support closer monitoring and management of the configuration management process.

c. **Security Management**

- Review and update the SSP to align with National Institute of Standards and Technology (NIST) standards and to be reflective of current operating conditions.
- Perform continuous monitoring and risk assessment activities for the application boundary in a consistent manner.
- Develop mechanisms to track weaknesses pertaining to the application boundary to remediation.
- Develop a process to validate that third parties are performing responsibilities outlined in service level agreements.
- Develop a process to perform vulnerability scans in a consistent manner. Further, develop a process to patch the environment in a timely manner.

d. **Interface Controls**

- Document a complete and accurate listing of interface partners.
- Work with interface partners to document MOUs, which outline responsibilities.
- Document rules which map data from source systems to Advana.
- Configure the system to disallow the ingestion of duplicate files for each interface partner.
- Prohibit the ability for users to have direct access to source file data prior to ingestion, or develop compensating controls to detect when data is modified.
- Develop a process to reconcile data within DDRS to Advana with defined thresholds to support reconciliations. In the case that variances arise, documentation noting the cause of the variance and actions taken to resolve the issue should be documented and retained.

12. **Inadequate Controls for Information Systems used for Funds Distribution.** USSOCOM management, including USSOCOM's CIO and system service organizations, should work to enforce and monitor the implementation of corrective actions as follows:

a. **Logical Access and Segregation of Duties**
- PBAS
  i. Utilize correct instances of databases to generate listings of application users.
  ii. Review audit logs on a periodic basis for violations or suspicious activity and identify individuals responsible for performing follow-up and remediation actions. The review of audit logs should be documented for record retention purposes.

- EFD
  i. Document access rights to include roles, role descriptions, and privileges or activities associated with each role. Further, document role assignments that may cause a SoD conflict.
  ii. Retain documentation of the periodic review that determines the appropriateness of users with access to the application.
  iii. Update access control policies to specify when users' access must be revoked after separation from the project or agency.
  iv. Retain documentation of the periodic review of audit logs, which determines whether users performed inappropriate or suspicious activities.

b. **Configuration Management**
- PBAS
  i. Document approval of changes prior to the migration to production.

- EFD
  i. Update configuration management policies to reflect current operating conditions.
  ii. Establish a methodology to systematically track all configuration items that are migrated to production to be able to produce a complete and accurate listing of all configuration items for both internal and external purposes, which will in turn support closer monitoring and management of the configuration management process.

c. **Security Management**
- EFD
  i. Review and update the SSP to align with NIST standards and to be reflective of current operating conditions.

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IV. Material Weakness – Lack of Adequate Controls over the Fund Balance with Treasury Reconciliation Process

Fund Balance with Treasury (FBwT) represents the aggregate amount of funds on deposit with the U.S. Department of the Treasury (Treasury). Treasury maintains agencies' FBwT account balances in its Central Accounting Reporting System (CARS). Reconciliation of agencies FBwT general ledger accounts to the balances held by Treasury is a key internal control process, which ensures the accuracy of the government's receipt and disbursement data. Therefore, Treasury Financial Manual Chapter 5100, Section 5120, requires agencies to implement effective and efficient reconciliation processes and perform timely reconciliations between their FBwT general accounts and Treasury's CARS Account Statement.

USSOCOM is considered an Other Defense Organization (ODO). ODOs are entities authorized by the Secretary of Defense to perform select consolidated support and service functions to the DoD on a Department-wide basis. ODOs do not receive stand-alone appropriations; rather, their funding is included in various appropriations, including: Operations and Maintenance, Defense-Wide; Procurement, Defense-Wide; and Research, Development, Test, and Evaluation, Defense-Wide, among others. Similarly, Treasury aggregates the FBwT information for ODOs at summary level in a single Treasury account, U.S. Treasury Index (TI) 97. The account does not provide identification of the separate ODOs sharing the U.S. Treasury account.

Disbursing offices across DoD are responsible for processing disbursements and collections on behalf of the ODOs. The disbursements and collections processed by each disbursing office are compiled each month by USSOCOM's financial reporting service organization. The service organization's Headquarters Accounting and Reporting System (HQARS) consolidates the collection and disbursement information received from disbursing stations for each ODO FBwT account. HQARS then reports the collection and disbursement to Treasury's CARS. Because Treasury only identifies the ODOs at the aggregate TI 97-level, the information sent to Treasury is provided at an aggregated-level and does not identify the specific ODO responsible for the disbursements and collections.

To assist ODOs in performing a monthly required FBwT reconciliation between their general ledger FBwT accounts and the information in CARS, the financial reporting service organization developed the Cash Management Report (CMR). This report is an output of Cash Management Reporting Tool/ C#, which takes information gathered from HQARS to generate the CMR. The CMR is composed of consolidated disbursement and collection data from HQARS as well as ODO funding data from the PBAS, EFD and various DOD disbursing offices. The CMR identifies FBwT balances for each ODO or limit-level. Limits are four character codes that help identify, manage, and report the financial activity of each ODO.

Finally, the financial reporting service organization performs a series of reconciliations of the CMR to identify and resolve variances between the general ledger accounting systems and the treasury records for each ODO. These reconciliations are performed using the Department 97 Reconciliation and Reporting Tool (DRRT), and Consolidated Cash Accountability System (CCAS).

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Evaluation of FBwT Reconciliation Results

During our testing of the results of the USSOCOM FBwT reconciliation process, we noted the following matters:

1. **Unidentified Differences.** USSOCOM's financial reporting service organization uses an Access database to prepare the TI-97 Audit Workbooks, which display TI-97 expenditure data and the partially reconciled FBwT balance for each ODO accounting system detail and the CMR. The Audit Workbooks also display unidentified differences/reconciling items and variance balances for each ODO. The service organization uses a number of different terms to distinguish between the different types of unidentified differences (e.g., Unallocated Funds, Processing and Subhead Errors, Unvouchered Intragovernmental Payment and Collection (IPAC), treasury variances, and exclusions). As of September 30, 2019, unidentified differences between the CMR and USSOCOM accounting system detail included within the TI-97 Audit Workbook, amounted to $18.1 Billion. This represents the absolute value of transactions that could not be reconciled between the CMR, which reflects balances at Treasury, and USSOCOM accounting system detail. In addition, the TI-97 Audit Workbooks, as of September 30, 2019 included an amount of $83.9 Billion; this amount is noted as attributable to all ODOs, and therefore it could, at least partially, be attributable to USSOCOM.

2. **Unreconciled Differences.** A significant portion of the USSOCOM FBwT account balance is attributable to appropriated funds prior to FY 2013 or FY 2015, depending on the type of appropriation. Given long-standing issues in reconciling this data, management has discontinued any attempts to reconcile this data and excludes these amounts from their reconciliation. The total value of these unreconciled funds was $209 Million as of Quarter 2 fiscal year (FY) 2019.

3. **Funding (Out-of-Scope Appropriations).** Based on our review of the CMR, we noted that as of Quarter 2 FY 2019, almost $10.4 Billion of funding was identified as "Out-of-Scope" from reconciliation, representing funding included on USSOCOM's FBwT balance to date. USSOCOM management was unable to provide support validating that USSOCOM had the right to that funding.

Unreconciled Differences and out-of-scope funding described above represent Unsupported Balances in the amount of almost $10.6 Billion at Quarter 2 FY 2019, as compared to less than $1.3 Billion at Quarter 2 FY 2018. During FY 2019, changes in the way funding information is tracked, caused by the Sub-Allocation Holder Identifier (SAHI) limit conversion, caused DRRT to lose the ability to determine the impact of out-of-scope funding data to USSOCOM FBwT. This was a major cause of the significant increase in the unsupported balance included within FBwT. FBwT reconciliations for ODOs are extremely complex given the lack of stand-alone appropriations and related stand-alone Treasury accounts, for each ODO, including USSOCOM. This has resulted in the identification of unsupported FBwT transactions. Our testing indicates USSOCOM lacks monitoring over its financial reporting service organizations as it relates to FBwT and that controls and documentation around the process are insufficient. The existence of material unidentified differences between USSOCOM's FBwT balance and balances reported by Treasury, as well as material unsupported balances, increases the risk that USSOCOM's FBwT is misstated.

Evaluation of Information Systems used to Perform the FBwT Reconciliation

In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. According to GAO's Green Book issued under the authority of FMFIA, management should design control activities over the information technology infrastructure to support completeness, accuracy, and validity of information processing by information technology**.** We performed an evaluation over systems owned by USSOCOM's financial reporting service organization, specifically DRRT, HQARS, and the CMR Tool/ C#, which, among other applications, support the FBwT reconciliation. We noted the following weaknesses:

1. **Logical Access and Segregation of Duties.** Access controls limit or detect inappropriate access to computer resources, protecting them from unauthorized modification, loss, and disclosure. Such controls include authentication requirements and limiting access to perform actions which can be executed on files and other resources**.** We noted the following deficiencies during our testing:

   a. HQARS
      - Comprehensive reviews of users were not conducted to determine appropriateness of access.
      - Processes to provision and revoke user access were not followed.

   b. CMR Tools (C#)
      - Access policies and procedures were not formalized and implemented.

   c. DRRT
      - Comprehensive reviews of users were not conducted to determine appropriateness of access.
      - Processes to revoke user access were not followed.

   Lack of a comprehensive recertification and the untimely removal of access presents the risk that individuals maintain unsupported and / or unauthorized access to the application. Policies and procedures that are not formalized and disseminated present the risk that personnel do not adhere to required controls. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

2. **Configuration Management.** Appropriate configuration management controls provide reasonable assurance that changes to information system resources are authorized and systems are configured and operating securely and as intended. Such controls include effective configuration management policies, plans, and procedures and proper authorization, testing, approval, and tracking of all configuration changes**.** We noted the following deficiencies during our testing:

   a. CMR Tools (C#)
      - Configuration management policies and procedures were not formalized and implemented.

   b. DRRT
      - Access to the development and production environments was not appropriately separated. Additionally, compensating controls to detect if a user develops and migrates the same change are not implemented.

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- Configuration items migrated to production were unable to be traced to supporting change management documentation.

Conflicting configuration management duties and the inability to generate a complete and accurate listing of changes to configurable items related to key platforms and tools increases the risk that unauthorized or erroneous changes to applications may be introduced without detection by system owners. Policies and procedures that are not formalized and disseminated present the risk that personnel do not adhere to required controls. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

3. **Security Management.** Appropriate security management controls provide reasonable assurance of the efficacy of the security of an information system control environment. Such controls include, among others, security management programs, periodic assessments, and validation of risks and security control policies and procedures**.** We noted the following deficiencies during our testing:

   a. HQARS
      - Continuous monitoring and risk assessment activities were not conducted in a comprehensive and consistent manner.

   b. CMR Tools (C#)
      - Security management policies and procedures were not formalized and implemented.

   c. DRRT
      - Corrective actions documented in Plans of Actions and Milestones (POA&Ms) were not remediated by established due dates.

   Lack of comprehensive and consistent continuous monitoring activities and risk assessments presents the risk that personnel do not identify and remediate weaknesses in their environment in a timely manner. Policies and procedures that are not formalized and disseminated present the risk that personnel do not adhere to required controls. Additionally, corrective actions documented in POA&Ms that are not remediated in a timely manner presents the risk that vulnerabilities may be exploited without system personnel awareness. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

4. **Interface Controls.** Appropriate interface controls provide reasonable assurance that the processing of data between applications is complete, accurate, and timely. Such controls include effective interface design and strategy documentation and error handling procedures**.** We noted the following deficiencies during our testing:

   a. HQARS
      - Controls to validate that data transmitted to the application is complete and accurate were not in place.

b. CMR Tools (C#)
- Data ingestion policies and procedures were not formalized and implemented.

Policies and procedures that are not formalized and disseminated present the risk that personnel do not adhere to required controls. Lack of systematic controls to validate that data transmitted to the application is complete and accurate may impact the completeness, accuracy, and validity of data ingested into the application.

Recommendations

USSOCOM management should consider taking the following actions:

Evaluation of FBwT Reconciliation Results

USSOCOM management should work with its financial reporting service organization to further investigate and resolve unidentified differences resulting from the FBwT reconciliation process. In addition, USSOCOM management should obtain and maintain adequate support for amounts recorded as funding transactions within the USSOCOM FBwT account.

Recommendations for Information Systems used to Perform the FBwT Reconciliation

USSOCOM management, including USSOCOM's CIO and system service organizations, should work to enforce and monitor the implementation of corrective actions as follows:

1. **Logical Access and Segregation of Duties**

a. HQARS
- Perform a comprehensive review of the appropriateness of personnel with access to the application.
- Provide training to individuals responsible for provisioning and revoking access to validate that all documentation is completed prior to granting access, and to validate that access is revoked in a timely manner.

b. CMR Tools (C#)
- Finalize and implement access policies and procedures.

c. DRRT
- Conduct reviews to determine the appropriateness of access.
- Provide training to individuals responsible for revoking access to validate that access is revoked in a timely manner.

2. **Configuration Management**

a. CMR Tools (C#)
- Finalize and implement configuration management policies and procedures.

b. DRRT
- Separate individuals with access to develop changes, from individuals with access to migrate changes to production, or develop compensating controls to identify instances when an individual develops and migrates the same change.
- Establish a methodology to systematically track all configuration items that are migrated to production to be able to produce a complete and accurate listing of all configuration items for both internal and external audit purposes, which will in turn support closer monitoring and management of the configuration management process.

3. **Security Management**

a. HQARS
- Perform continuous monitoring activities in a comprehensive and consistent manner.

b. CMR Tools (C#)
- Finalize and implement security management policies and procedures.

c. DRRT
- Review POA&Ms on a consistent basis and track corrective actions to remediation. Provide justification and extend due dates for corrective actions that cannot be remediated by established completion dates.

4. **Interface Controls**

a. HQARS
- Configure systematic controls to validate that data transmitted to the application is complete and accurate.

b. CMR Tools (C#)
- Finalize and implement data ingestion policies and procedures.

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V. Material Weakness – Lack of Adequate Controls over General Equipment and Construction in Progress

In accordance with FMFIA, management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. A subset of the categories of objectives is the safeguarding of all assets. Management designs an internal control system to provide reasonable assurance regarding the prevention or prompt detection and correction of unauthorized acquisition, use, or disposition of an entity's assets.

USSOCOM reported in its September 30, 2019, Balance Sheet a total of $3.4 Billion in Property, Plant, and Equipment, Net. The balance represents General Equipment (GE) and Construction in Progress (CIP). USSOCOM is in the process of implementing SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment.* However, USSOCOM management has not yet completed the necessary steps to make an unreserved assertion over its balance of Property, Plant, and Equipment within its Balance Sheet.

In addition, during our testing of existence and completeness of USSOCOM GE, and existence testing for CIP, we noted the following internal control weaknesses:

General Equipment

1. **Lack of Adequate Inventory Procedures.** USSOCOM does not have guidance related to the annual inventory process, including Book-to-Floor and Floor-to-Book count procedures; rather it relies on the individual commands to execute the counts. Additionally, we noted that due to a focus on recording capital assets, USSOCOM's acquisition office did not complete the recording of all of its accountable property within their property system by the end of the fiscal year.

2. **Inability to Support Historical Acquisition Cost.** One of USSOCOM's property accountability systems, the Global Combat Support System-Army (GCSS-Army), as originally designed, does not track historical acquisition cost. Currently the system assigns current sales price as noted within the current asset catalog. An error was noted from testing related to an asset that was accounted for in GCSS-Army with the proper documentation, but the acquisition cost was changed to the Federal Logistics Information System (FLIS) price.

3. **Lack of Adequate Controls over Existence and Completeness.** Errors were identified related to the existence and valuation of GE sampled that included improper identification of assets as capital and acquisition cost not supported by documentation. Additional, errors were identified for the improper exclusion of GE assets from the Property, Plant, and Equipment balance, as well as the inaccurate recording of acquisition cost. Issues were identified for transfers out related to USSOCOM's ability to support the acquisition cost of the transferred asset and a lack of timeliness in recording the disposals.

Construction in Progress

1. **Inadequate Design of Monitoring Control**. On a quarterly basis, management receives a listing from USSOCOM's financial reporting service organization of total CIP values, representing the total Real Property CIP recorded on USSOCOM's Balance Sheet. Although USSOCOM management performs a general analysis (e.g., checking for reasonableness, significant increases and/or decreases, cancelled year balance changes, etc.), the analysis is not formally documented and there is no specific dollar or percentage threshold set to

determine anomalies and required follow-up.

2. **Lack of Adequate Controls over Transfers of Assets**. Upon completion of Real Property CIP projects, USSOCOM transfers the assets to applicable military departments. Controls have not yet been designed and consistently implemented to ensure that CIP project costs are accumulated accurately and removed in a timely manner following acceptance of the asset by the host installation, i.e., military department. Issues were noted in USSOCOM's ability to provide documentation to validate the proper inclusion or exclusion of capitalized construction costs from the CIP balance.

The decentralized nature of USSOCOM operations and long-standing use of property accountability systems that were not designed for financial reporting purposes, coupled with USSOCOM management's reliance on its commands without proper monitoring controls in place, and inadequate property controls at headquarters has led to the control weaknesses noted. These weaknesses could further delay USSOCOM management's efforts to assert to the value of Property, Plant, and Equipment as reported on the Balance Sheet.

The above noted internal control issues could lead to material misstatements to USSOCOM's financial statements.

Recommendations

USSOCOM management should consider taking the following actions:

General Equipment

1. **Lack of Adequate Inventory Procedures.** USSOCOM management should formally document inventory count policies and procedures to be executed across the organization and ensure its acquisition office keeps its property accountability system up to date with accurate counts.

2. **Inability to Support Historical Acquisition Cost.** USSOCOM management should continue efforts towards preparing to assert to its balance of Property, Plant, and Equipment, Net for its eventual implementation of SFFAS 50, to include establishing a reliable method to maintain the acquisition cost data for all USSOCOM GE.

3. **Lack of Adequate Controls over Existence and Completeness.** USSOCOM management should continue to develop and revise its procedures for accurately recording the GE and Accumulated Depreciation account balances. USSOCOM should also develop, document, and implement policies and procedures that ensure GE data in the APSRs is up to date and changes are made in a timely manner; continue efforts to obtain historical acquisition cost documentation for assets; and complete alternative processes to establish acquisition cost and date when historical documentation is not available.

Construction in Progress

1. **Inadequate Design of Monitoring Control**. USSOCOM management should formally document and implement policies and procedures to ensure the CIP listings received from the financial reporting service organization are complete, accurate, and pertain to USSOCOM.

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2. **Lack of Adequate Controls over Transfers of Assets**. USSOCOM management should design and implement controls to ensure the accurate accumulation of CIP project costs and the validation of removal of asset values upon acceptance of the transfers by the military departments.

VI. Significant Deficiency - Lack of Adequate Controls over USSOCOM's Financial Information Systems

In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. According to GAO's Green Book issued under the authority of FMFIA, management should design control activities over the information technology infrastructure to support completeness, accuracy, and validity of information processing by information technology**.** We performed an evaluation over systems owned by USSOCOM that support sensitive activities and noted the following weaknesses:

1. **Logical Access and Segregation of Duties.** Access controls limit or detect inappropriate access to computer resources, protecting them from unauthorized modification, loss, and disclosure. Such controls include authentication requirements and limiting access to and actions which can be executed on files and other resources. We noted the following deficiencies during our testing:

    a. USSOCOM Component # 1 System
    - Comprehensive access control policies and procedures were not documented and formalized.
    - Comprehensive recertification of users was not conducted to determine appropriateness of access.
    - Configurations to disable/remove accounts after a period of inactivity were not implemented.
    - Users had write access to audit logs.
    - Reviews of audit logs were not documented.

    b. USSOCOM Component # 2 Systems
    - Comprehensive access control policies and procedures as well as audit logging and monitoring policies and procedures were not documented and formalized.
    - A complete and accurate listing of users with access to the applications could not be provided.
    - Comprehensive SoD matrix, which outlines the population of user roles including those that conflict with one another, was not documented. Further, users had ability to perform administrator and business process functions.
    - Processes to revoke user access in a timely manner were not followed.
    - Comprehensive recertification of users was not conducted to determine appropriateness of access.
    - Auditable events were not configured, or evidence of review of audit logs was not retained.
    - Users were permitted to sign-on to the network without their Common Access Card (CAC) credentials without undergoing formalized review and approval.

    Policies and procedures that are not formalized and disseminated present the risk that personnel do not adhere to required controls. Incomplete documentation that outlines systematic roles and responsibilities, as well as SoDs, presents the risk that individuals are provided access to functions or data that is not required to perform their job responsibilities, allowing them to circumvent internal controls. Further, lack of a comprehensive recertification and the untimely removal of access presents the risk that individuals maintain unauthorized access to the application. Lack of review of audit logs presents the risk that individuals perform unauthorized actions within the application without investigation and recourse. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized use, modification, or disclosure of financially relevant transactions or data.

2. **Configuration Management.** Appropriate configuration management controls provide reasonable assurance that changes to information system resources are authorized and systems are configured and operating securely and as intended. Such controls include effective configuration management policies, plans, and procedures and proper authorization, testing, approval, and tracking of all configuration changes. We noted the following deficiencies during our testing:

    a. USSOCOM Component # 1 System
        - Comprehensive configuration management policies and procedures were not documented and formalized.

    b. USSOCOM Component # 2 Systems
        - Comprehensive configuration management policies and procedures were not documented and formalized.

    Policies and procedures that are not formalized and disseminated present the risk that personnel do not adhere to required controls. This may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

3. **Security Management.** Appropriate security management controls provide reasonable assurance of the efficacy of the security of an information system control environment. Such controls include, among others, security management programs, periodic assessments, and validation of risks and security control policies and procedures. We noted the following deficiencies during our testing:

    a. USSOCOM Component # 2 Systems
        - The authority to operate (ATO) was expired.
        - The application SSP did not align with NIST standards.
        - Continuous monitoring and risk assessment activities were not conducted in a comprehensive and consistent manner.
        - A complete listing of weaknesses pertaining to the application and authorization boundary was not created and maintained.

    Incomplete and inaccurate system documentation presents the risk that personnel do not adhere to required controls. Further, lack of comprehensive and consistent continuous monitoring activities and risk assessments present the risk that personnel do not identify and remediate weaknesses in their environment in

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a timely manner. Additionally, lack of a complete listing of weaknesses pertaining to the boundary presents the risk vulnerabilities may not be remediated in a timely manner. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

Recommendations

USSOCOM management, including USSOCOM's CIO and system service organizations, should consider taking all necessary action to enforce and monitor the implementation of corrective actions as follows:

1. **Logical Access and Segregation of Duties**

    a. USSOCOM Component # 1 System
    - Finalize and implement comprehensive access control policies and procedures.
    - Conduct reviews to determine the appropriateness of access.
    - Implement configurations to disable / remove accounts after a period of inactivity.
    - Remove the ability for users to have write access to audit logs.
    - Document the reviews of audit logs. Furthermore, retain evidence of the review.

    b. USSOCOM Component # 2 Systems
    - Finalize and implement comprehensive access control policies and procedures as well as audit logging and monitoring policies and procedures.
    - Configure the system or develop a query to generate a complete and accurate listing of users with access to the applications.
    - Develop a comprehensive SoD matrix, which outlines the population of user roles including those that conflict with one another. Further, prohibit conflicting roles, or implement compensating controls to mitigate risks.
    - Conduct reviews to determine the appropriateness of continued access.
    - Configure auditable events within the system, and retain evidence of review of audit logs.
    - Implement a workflow that requires users to gain approvals prior to being permitted to sign-on to the network without their CAC credentials.

2. **Configuration Management**

    a. USSOCOM Component # 1 System
    - Finalize and implement comprehensive configuration management policies and procedures.

    b. USSOCOM Component # 2 Systems
    - Finalize and implement comprehensive configuration management policies and procedures.

3. **Security Management**

   a. USSOCOM Component # 2 Systems
      - Conduct required assessment and authorization activities in order to authorize the application in accordance with NIST standards.
      - Update the application SSP to align with NIST standards.
      - Conduct continuous monitoring and risk assessment activities in a comprehensive and consistent manner.
      - Develop mechanisms to track weaknesses pertaining to the application boundary to remediation.

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VII. Non-Compliance - Lack of Substantial Compliance with the Federal Managers' Financial Integrity Act of 1982

DoD Instruction 5010.40 requires DoD entities to comply with the requirements of the FMFIA and the requirements of OMB Circular A-123. FMFIA and OMB Circular A-123 require federal entities to establish internal controls in accordance with the GAO Green Book, conduct evaluations of their internal controls, and annually prepare a statement of assurance regarding the Agency's systems of internal accounting and administrative controls.

Although we have noted some progress, USSOCOM has not yet fully implemented a formal internal control program that would allow it to substantially comply with FMFIA and the related OMB Circular A-123 requirements. Specifically, USSOCOM was unable to provide evidence that it had: 1) fully documented Agency objectives (i.e., strategic, operational, financial reporting, and compliance objectives); 2) conducted a full-scale, Agency-wide risk assessment; 3) conducted evaluations of its internal control to include all GAO Green Book internal control components and related principles across the entity, as well as service components, sub-unified commands/TSOCs, and service organizations; and 4) fully supported conclusions made within its statement of assurance. As a result, USSOCOM management did not ensure substantial compliance with FMFIA.

In addition, we noted that within Appendix C of USSOCOM's FY 2019 statement of assurance, USSOCOM management stated that the overall system of internal controls at USSOCOM was operating effectively, with the exception of the identified material weaknesses and significant deficiencies. However, it has been determined that USSOCOM's control environment is not fully operational.

<u>Recommendations</u>

USSOCOM management should consider continuing to design and fully implement a formal internal control program that meets FMFIA and the related GAO Green Book and OMB Circular A-123 requirements. This program should ensure that:

- Financial reporting objectives are specified, concrete, and measurable;
- Risk assessment processes within the Manager's Internal Control Program are fully implemented;
- Annual statement of assurance fully and accurately addresses the five components of internal control, and the related principles within each component; and,
- The assurance statement conclusions are clearly stated, accurate, and well-supported.

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VIII. Non-Compliance - Lack of Substantial Compliance with the Federal Financial Management Improvement Act of 1996

The FFMIA requires that Agencies establish and maintain financial management systems that substantially comply with the following three FFMIA Section 803 (a) requirements: Federal Financial Management System requirements, applicable Federal accounting standards, and the USSGL at the transaction level. USSOCOM management has asserted that they do not comply with the requirements of FFMIA.

Because of matters described in the Basis for Disclaimer of Opinion paragraphs, included in our financial statement audit report dated November 8, 2019, we were not able to obtain sufficient appropriate audit evidence related to USSOCOM management's substantial compliance with FFMIA Section 803 (a) requirements.

During the audit, we noted that USSOCOM does not own the majority of the systems it uses to process its transactions; those systems are owned by the military departments or DoD service organizations. Our audit contract excluded the execution of sufficient audit procedures over the military department systems supporting USSOCOM and no alternative mechanisms were in place to obtain audit evidence. However, based on our review of the Department of the Air Force, Department of the Army, Department of the Navy, and United States Marine Corps FY 2018 annual financial reports, we noted that each of the departments and the United States Marine Corps are in non-compliance with the requirements of FFMIA. In turn, this affects USSOCOM's ability to be in substantial compliance with the requirements of FFMIA. In addition, we noted the following instances of non-compliance through the execution of our audit procedures:

1. **Federal Financial Management System requirements.** Due to issues with internal controls over security management, logical access, and configuration management, USSOCOM owned and operated financial systems did not meet Federal Financial Management System requirements.

2. **Applicable Federal Accounting Standards.** USSOCOM has not complied with applicable federal accounting standards in multiple instances such as:
   - USSOCOM management has asserted that it does not have adequate controls in place to validate the completeness and accuracy of the value reported within its September 30, 2019 Balance Sheet for Property, Plant, and Equipment;
   - Intra-entity revenue is recorded as exchange revenue within certain accounting systems;
   - Accounts Payable with the Public totals within various accounting and non-accounting systems had an abnormal (debit) beginning balance;
   - Processes are not in place to consistently accrue Accounts Payable in all instances; and,
   - Purchase method of accounting for OM&S currently in use is not supported by appropriate USSOCOM management analysis.

   Additionally, USSOCOM management has asserted that limitations of its information systems prevent the full compliance with U.S. generally accepted accounting principles and the accrual basis of accounting. Our testing of expense transactions confirmed that certain USSOCOM information systems are not designed for compliance with the accrual basis of accounting, and we noted the systematic recordation of expenses prior to the receipt and acceptance of goods and services.

3. **USSGL at the Transaction Level.** USSOCOM data is recorded across multiple accounting and non-accounting systems, some of which are not USSGL compliant at the transaction level. Monthly, systems owners submit summary financial information to USSOCOM's financial reporting service organization for data normalization and summarization, referred to as pre-processing, within DDRS-B. During pre-processing, non-USSGL compliant summary information is converted such that it complies with USSGL requirements. However, the resulting USSGL compliant information cannot be reconciled to original source information. As a result, USSOCOM management is unable to validate the adequacy of the conversion and compliance with this requirement.

Recommendations

USSOCOM management should consider taking the following actions:
Transitioning to a stand-alone general ledger system that complies with the requirements of FFMIA. A move to a modern and compliant system would eliminate USSOCOM dependency on military systems that are non-compliant with federal financial system requirements, federal accounting standards, and the USSGL at the transaction level. This would eliminate the need for extensive and complex adjustments/reclassifications of financial data, which are prone to errors. USSOCOM management should also continue to work with the OUSD(C) to develop alternative methods of producing the USSOCOM financial statements.

Alternatively, USSOCOM management should work with the USSOCOM financial reporting service organization and the military departments to develop corrective actions for long-standing system control weaknesses, and to ensure that controls are in place over the compilation process executed by its financial reporting service organization. Additionally, for USSOCOM owned and operated systems, USSOCOM management should consider:

1. Developing, implementing, and monitoring the effectiveness of security controls to ensure compliance with NIST and DoD Instruction requirements;

2. Developing a comprehensive plan, including milestones, to implement both SFFAS and DoD Guidance in a timely manner; and,

3. Documenting and implementing controls over the valuation of General Property, Plant and Equipment.

Lastly, USSOCOM management should consider the use of OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996* in order to design and implement adequate controls and monitoring activities over USSOCOM's compliance with FFMIA.

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USSOCOM's Response to Findings

UNITED STATES SPECIAL OPERATIONS COMMAND
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NOV 06 2019

SOFM

MEMORANDUM FOR GRANT THORNTON, LLC, 1000 WILSON BOULEVARD, 14TH FLOOR, ARLINGTON, VA 22209

SUBJECT: Management Response to the Fiscal Year 2019 United States Special Operations Command Financial Statement Audit Report

1. The United States Special Operations Command (USSOCOM) would like to thank Grant Thornton, LLC for your efforts during the USSOCOM Fiscal Year (FY) 2019 Financial Statement Audit. USSOCOM also appreciates the opportunity to respond to the Draft Schedule of Findings and Responses received on 30 October 2019. Although the FY 2019 audit resulted in a Disclaimer of Opinion, USSOCOM recognizes this was its second full scope audit and identified areas of opportunity for improvement throughout the organization and further highlighted the complex nature of our organization and our dependencies on the Military Departments/Agencies.

2. USSOCOM generally concurs with the five Material Weaknesses, one Significant Deficiency, and two Non-Compliance related matters.

3. USSOCOM has made significant progress with developing Entity Level Controls. The Senior Management Council (SMC) and Senior Assessment Team (SAT) was created to oversee USSOCOM's internal control program. The Deputy Commander, chair of the SMC, will be the senior officer who has oversight for the operational internal control program and the USSOCOM Statement of Assurance. The SAT will be chaired by the Chief of Staff (COS) with COS representation from across the entire Special Operations Forces enterprise. The SAT will advise the SMC on both operational and financial internal controls. Increased oversight has been a key component of corrective action plans developed from the FY 2018 audit.

4. USSOCOM is a complex agency which has significant dependencies on Military Departments/Agencies systems, policies, and procedures. We will continue to collaborate with relevant Service Providers, Military Departments, or Agencies to identify root causes and develop effective and comprehensive corrective action plans. USSOCOM expects to continue making progress in reaching our ultimate goal of achieving a clean audit opinion.

D. MARK PETERSON
Chief Financial Officer/Comptroller