FY 2022 USSOCOM Financial

Statement Reporting Package

September 30, 2022

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Department of Defense

Other Defense Activities - Tier 2 - US Special Operations Command

CONSOLIDATED BALANCE SHEET - UNAUDITED

As of September 30, 2022 and 2021

($ in Thousands)

	2022 Consolidated	2021 Consolidated
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 11,917,505	$ 11,382,429
Accounts Receivable, Net (Note 6)	49,338	19,203
Other Assets (Note 10)	45	45
Total Intragovernmental	$ 11,966,888	$ 11,401,677
Other Than Intragovernmental:		
Accounts Receivable, Net (Note 6)	1,888	2,364
Inventory and Related Property, Net (Note 8)	2,524,723	2,509,937
General Property, Plant and Equipment, Net (Note 9)	3,270,150	3,576,635
Advances and Prepayments (Note 10)	123,253	360,001
Total Other Than Intragovernmental	5,920,014	6,448,937
Total Assets	$ 17,886,902	$ 17,850,614
Stewardship PP&E (Note 9)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	$ 48,507	$ 113,099
Advances from Others and Deferred Revenue (Note 15)	7,677	16,298
Other Liabilities (Notes 13 and 15)	4,086	5,262
Total Intragovernmental	$ 60,270	$ 134,659
Other Than Intragovernmental:		
Accounts Payable	$ 737,928	$ 1,513,611
Federal Employee and Veteran Benefits Payable (Note 13)	66,614	64,181
Advances from Others and Deferred Revenue (Note 15)	(3,064)	(1,427)
Other Liabilities (Notes 15, 16 and 17)	40,306	48,613
Total Other Than Intragovernmental	841,784	1,624,978
Total Liabilities	$ 902,054	$ 1,759,637
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations - Funds Other than Dedicated Collections	11,412,380	10,237,420
Total Unexpended Appropriations (Consolidated)	11,412,380	10,237,420
Cumulative Results of Operations - Funds Other than Dedicated Collections	5,572,468	5,853,554
Total Cumulative Results of Operations (Consolidated)	$ 5,572,468	$ 5,853,554
Total Net Position	$ 16,984,848	$ 16,090,974
Total Liabilities and Net Position	$ 17,886,902	$ 17,850,611

The accompanying notes are an integral part of these statements.

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, 2022 and 2021
($ in Thousands)

	2022 Consolidated	2021 Consolidated
UNEXPENDED APPROPRIATIONS		
Beginning Balances (Includes Funds from Dedicated Collections - See Note 18)	$ 10,237,420	$ 10,495,034
Prior Period Adjustments:		
Beginning Balances, as adjusted	10,237,420	10,495,034
Appropriations received	13,232,204	13,079,599
Appropriations transferred in/out	38,972	7,829
Other adjustments (+/-)	(261,582)	(274,029)
Appropriations used	(11,834,634)	(13,071,013)
Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	1,174,960	(257,614)
Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections - See Note 18)	11,412,380	10,237,420
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	5,853,554	5,735,119
Prior Period Adjustments:		
Beginning Balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	5,853,554	5,735,119
Other adjustments (+/-)	(2,928)	(28)
Appropriations used	11,834,634	13,071,013
Non-exchange revenue (Note 20)	2	2
Transfers in/out without reimbursement	(582,259)	(269,270)
Imputed financing	18,845	18,001
Other	49,075	209
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	11,598,455	12,701,492
Net Change in Cumulative Results of Operations	(281,086)	118,435
Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections - See Note 18)	5,572,468	5,853,554
Net Position	$ 16,984,848	$ 16,090,974

The accompanying notes are an integral part of these statements.

Department of Defense

Other Defense Activities - Tier 2 - US Special Operations Command

COMBINED STATEMENT OF BUDGETARY RESOURCES - UNAUDITED

For the periods ended September 30, 2022 and 2021

($ in Thousands)

	2022 Combined	2021 Combined
Budgetary Resources:		
1071 Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 2,328,572	$ 2,143,392
1290 Appropriations (discretionary and mandatory)	13,272,676	13,046,095
1890 Spending Authority from offsetting collections (discretionary and mandatory)	609,461	518,337
1910 Total Budgetary Resources	$ 16,210,709	$ 15,707,824
Status of Budgetary Resources:		
2190 New obligations and upward adjustments (total)	$ 14,237,543	$ 13,890,155
Unobligated balance, end of year:		
2204 Apportioned, unexpired accounts	1,439,730	1,185,417
2404 Unapportioned, unexpired accounts	12	257,057
2412 Unexpired unobligated balance, end of year	1,439,742	1,442,474
2413 Expired unobligated balance, end of year	533,423	375,195
2490 Unobligated balance, end of year (total)	1,973,165	1,817,669
2500 Total Budgetary Resources	$ 16,210,708	$ 15,707,824
Outlays, Net:		
4190 Outlays, net (total) (discretionary and mandatory)	12,471,589	13,302,857
4210 Agency Outlays, net (discretionary and mandatory)	$ 12,471,589	$ 13,302,857

The accompanying notes are an integral part of these statements.

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED STATEMENT OF NET COST - UNAUDITED
For the periods ended September 30, 2022 and 2021

	2022 Consolidated	2021 Consolidated
Program Costs (Note 19)		
Gross Costs	$ 11,986,766	$ 13,072,581
Operations, Readiness & Support	8,516,033	9,209,366
Procurement	2,717,388	2,983,299
Research, Development, Test & Evaluation	757,130	801,166
Family Housing & Military Construction	(3,786)	78,750
. (Less: Earned Revenue)	(388,311)	(371,089)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	11,598,455	12,701,492
Net Program Costs Including Assumption Changes	11,598,455	12,701,492
Net Cost of Operations	$ 11,598,455	$ 12,701,492

The accompanying notes are an integral part of these statements.

Note 1.	Summary of Significant Accounting Policies - Unaudited

1.A. Reporting Entity

The United States Special Operations Command (USSOCOM) is comprised of the following Components and Sub-Unified Commands, 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 SOF 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 or NSWC)

The NAVSPECWARCOM is located at Naval Amphibious Base, Coronado, California. NSWC provides vision, leadership, doctrinal guidance, resources, and oversight to ensure component maritime SOF 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 SOF 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" (i.e., USSOCOM). Combatant Command Support Agents (CCSAs) provides administrative support to the Combatant Command headquarters, and the subordinate unified command headquarters. 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 CCSAs.

USSOCOM, through additional Sub-Unified Commands or Theatre Special Operation Commands (TSOCs), supports the Geographic Combatant Commands (GCCs). 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 (USAFRICOM), 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 SOF 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) 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 SOF 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 TSOC in which U.S. and host nation SOF are institutionally organized for combined operations. 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, synchronizes 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. The SOCSOUTH is a joint Special Operations headquarters that plans and executes special operations in Central and South America and the Caribbean.

USSOCOM is a component reporting entity of the DoD, which is a component reporting entity and consolidation entity of the Government-wide reporting process. For this reason, some of the assets and liabilities reported by USSOCOM may be eliminated for the Government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization they are for a component of the U.S. Government.

1.B. Mission of the Reporting Entity

USSOCOM synchronizes the planning of Special Operations and provides SOF to support persistent, networked and distributed GCCs operations 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 SOF 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 using four service component Commands, seven TSOCs, and JSOC. 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, financial condition, 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", Department of Defense (DoD) Financial Statement Audit Guide, and other appropriate legislation. 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.

To the extent possible, the financial statements have been prepared from the accounting records of USSOCOM using financial data obtained from the military department financial systems, Army, Navy and Air Force, and related non-financial system data and in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for federal entities as prescribed by the Federal Accounting Standards Advisory Board (FASAB), the Office of Management and Budget (OMB) Circular No. A-136, "Financial Reporting Requirements", and DoD Financial Management Regulation (FMR). USSOCOM is unable to fully comply with all elements of 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 GAAP. USSOCOM continues to implement process and system improvements addressing these limitations. USSOCOM's continued effort towards full compliance with GAAP for the accrual method of accounting is encumbered by system limitations. USSOCOM is unable to meet all full accrual accounting requirements. This is primarily because legacy accounting systems were not designed to collect and record financial information on the full accrual accounting basis but were designed to record information on a budgetary basis.

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 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, less eliminations, with the exception of revenue eliminations due to system limitations. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting, except for issues noted for the Standard Operation and Maintenance Army Research and Development System (SOMARDS) and the Standard Financial System (STANFINS). 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, generally the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of Federal funds.

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 has the potential to affect the financial statements; however, USSOCOM is currently unable to determine the full impact.

1) SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*: Issued on January 27, 2016; Effective for periods beginning after September 30, 2016. USSOCOM plans to utilize deemed cost to value beginning balances for inventory and related property (I&RP), as permitted by SFFAS 48. USSOCOM has valued some of its I&RP using deemed cost methodologies, as described in SFFAS 48. However, systems required to account for historical cost for I&RP in accordance with SFFAS 3: *Accounting for Inventory and Related Property*, are not yet fully implemented. Therefore, USSOCOM is not making an unreserved assertion with respect to this line item.

2) SFFAS 50: *Establishing Opening Balances for General Property, Plant, and Equipment*: Amending SFFAS 6, 10, and 23, and rescinding SFFAS 35: 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 (General PP&E), as permitted by SFFAS 50. USSOCOM has valued some of its General PP&E using deemed cost methodologies as described in SFFAS 50. However, systems required to account for historical cost for General PP&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.

3) SFFAS 53: B*udget and Accrual Reconciliation: Amending SFFAS 7 and 24, and Rescinding SFFAS 22*: Issued October 27, 2017; Effective for periods beginning after September 30, 2018.

4) SFFAS 54: *Leases: An Amendment to SFFAS 5, Accounting for Liabilities of the Federal Government, and SFFAS 6, Accounting for Property, Plant, and Equipment*: Issued Date: April 17, 2018. The requirements of SFFAS 54 were deferred to reporting periods beginning after September 30, 2023, under SFFAS 58, *Deferral of the Effective Date of SFFAS 54, Leases*: Issued June 19, 2020. Early adoption is not permitted.

The DoD is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with 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 non-financial feeder systems and processes are GAAP compliant and can collect and report financial information as required, some of USSOCOM's financial data will be derived from budgetary transactions or data from nonfinancial feeder systems.

1.E. Accounting for Intragovernmental and Intergovernmental Activities

Intragovernmental Activities: Treasury Financial Manual (TFM), Volume I, 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 intragovernmental activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental cost and exchange revenue represent transactions made between two reporting entities within the federal government. Cost and earned revenue with the public represent 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 DoD, 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 can reconcile balances pertaining to benefit program transactions with the Office of Personnel Management (OPM). USSOCOM is taking actions to fully reconcile intragovernmental transactions with all Federal agencies.

Intergovernmental Activities: Goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by USSOCOM are recognized as imputed cost in the Statement of Net Cost and are offset by imputed financing in the Statement of Changes in Net Position. Imputed financing represents the cost paid on behalf of USSOCOM by another federal entity. In accordance with SFFAS 55: *Amending Inter-entity Cost Provisions*, USSOCOM recognizes the general nature of imputed costs only for business-type activities and other costs specifically required by OMB, including employee pension, post-retirement health, and life insurance benefits. Unreimbursed costs of goods and services other than those identified above are not included in USSOCOM's financial statements.

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, *Disclosures Related to the Statement of Net Cost*.

1.F. Non-Entity Assets

USSOCOM classifies assets as either entity or non-entity. 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 (FBwT)

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 (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 currently process the majority of USSOCOM's cash collections, disbursements, and adjustments worldwide. Monthly, each disbursing station reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits. The model of using DoD’s disbursing systems instead of Treasury’s system is recognized by Treasury as Non-Treasury Disbursing Office (NTDO). DoD is actively migrating NTDO transactions to TDO under the TDO Enterprise Strategy effort. TDO is DoD’s target end state of executing payments and collections directly between DoD and Treasury using Treasury’s systems and Treasury as the Service Provider. This posture will allow DoD to achieve FBwT accountability and traceability through daily reconciliation and reporting directly with Treasury.

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

Fund Balance with Treasury and the accompanying liability for deposit funds are not reported by individual Other Defense Organizations General Fund but are reported in the Defense-wide General Fund. As such, USSOCOM does not report deposit fund balances on its financial statements.

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 the financial statements.

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.

For additional information, see Note 6, *Accounts Receivable, Net*.

1.K. Loans Receivable, Net and Loan Guarantee Liabilities

For additional information, see Note 7, *Loans Receivable, Net and Loan Guarantee Liabilities.*

1.L. Inventories and Related Property

USSOCOM currently does not have any inventory but does have related property.

Related property includes Operating Materials and Supplies (OM&S). OM&S, including munitions not held for sale, are valued using various valuation methods. During prior years, USSOCOM inappropriately used the Purchase Method of Accounting for OM&S and expensed all OM&S when procured. During Fiscal Year (FY) 2021, USSOCOM commenced the adoption of the Consumption Method of Accounting for OM&S. These efforts are still applicable for FY 2022.

For additional information, see Note 8, *Inventory and Related Property, Net*

1.M. General Property, Plant and Equipment (GPP&E)

USSOCOM generally records General PP&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 General PP&E is comprised of General Equipment (GE) and Construction-In-Progress (CIP). Except for real property (RP) CIP, USSOCOM does not report any RP.

General PP&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 USSOCOM's capitalization threshold. USSOCOM capitalizes improvements to existing General PP&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 GE on a straight-line basis. USSOCOM does not meet the recognition criteria to report RP (building, structures, and land) as described in the OUSD (Comptroller (C)) Memorandum, dated September 30, 2015, *Accounting Policy Update for Financial Statement Reporting for Real Property Assets*. Therefore, all completed USSOCOM-funded 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 General PP&E exceeds USSOCOM's capitalization threshold, as required by federal accounting standards, USSOCOM reports on its Balance Sheet.

For additional information, see Note 9, *General PP&E, Net*.

1.N. Other Assets

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 Regulation (FAR), Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

The Defense Federal Acquisition Regulation Supplement (DFARS) authorizes progress payments based on a percentage or stage of completion only for construction of RP, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as CIP. 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. USSOCOM reports operating leases only; USSOCOM does not hold any capital leases and is not a lessor in any lease arrangement. An operating lease does not substantially transfer all the benefits and risk of ownership to USSOCOM. Payments for operating leases are expensed on a straight-line basis over the lease term.

For additional information, see Note 16, *Leases*.

1.P. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources because 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. Budgetary resources include new budget authority, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, spending authority from offsetting collections, and recoveries of unexpired budget authority through downward adjustments of prior year obligations. Liabilities are classified as not covered by budgetary resources when congressional action is needed before they can be paid.

For additional information, see 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 include:

1) Accrued payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30, 2022, and September 30, 2021.

2) 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.

3) SFFAS 51, Insurance Programs, established accounting and financial reporting standards for insurance programs. 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.

   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.

   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.

   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.

   For additional information, see Note 15, *Other Liabilities.*

4) Custodial Liabilities represents liabilities for collections reported as non-exchange revenues where USSOCOM is acting on behalf of another federal entity.

For additional information, see Note 13, *Federal Employee and Veteran Benefits Payable* and 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. Federal Employee and Veteran Benefits

USSOCOM does not pay military payroll. Therefore, 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 reports 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 general fund appropriations cover 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 because 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 SFFAS 7, A*ccounting 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

DoD policy requires the recognition of operating expenses in the period incurred. 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, but recorded as assets later, in accordance with the consumption method. USSOCOM has been working to input OM&S into the accountable property system of record (APSR), Defense Property Accountability System (DPAS), and is continuing the analysis to refine the Consumption Method of Accounting.

1.W. Budgetary Resources

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

The following budgetary terms are commonly used:

Appropriation is a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary resources are amounts available to incur obligations each year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Offsetting Collections are payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend collections is a form of budget authority.

Offsetting receipts are payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and sub function, but in some cases, they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditures for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.

Outlays are the liquidation of an obligation that generally takes the form of an electronic funds transfer. Outlays are reported both gross and net of offsetting collections and they are the measure of Government spending.

1.X. Treaties for Use of Foreign Bases

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

1.Y. Use of Estimates

USSOCOM's management makes 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.Z. Parent-Child Reporting

USSOCOM receives it's funding from OSD. USSOCOM is also party to allocation transfers with other DoD entities as a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account; and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. 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 September 30, 2022, and 2021, USSOCOM received allocation transfers from the following agencies: Defense Acquisitions University (DAU), Defense Threat Reduction Agency (DTRA) and Defense Security Cooperation Agency (DSCA).

1.AA. Transactions with Foreign Governments and International Organizations

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

1.AB. Fiduciary Activities

USSOCOM does not report any fiduciary activities.

1.AC. 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.AD. Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the DoD-wide Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the fiscal year 2021 Balance Sheet and the related footnotes was modified to be consistent with the fiscal year 2022 presentation. The mapping of USSGL accounts, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under TFM, USSGL Bulletins, *Section V*. The footnotes affected by the modified presentation are Note 6, *Accounts Receivable, Net*; Note 10, *Other Assets*; Note 15, *Other Liabilities;* and Note 24, *Reconciliation of Net Cost to Net Outlays*.

Note 2.	Non-Entity Assets - Unaudited

Table 2. Non-Entity Assets

As of September 30	2022	2021
(Amounts in thousands)		
1. Non-Federal Assets		
A. Accounts Receivable	2	3
B. Total Non-Federal Assets	$ 2	$ 3
2. Total Non-Entity Assets	$ 2	$ 3
3. Total Entity Assets	$ 17,886,900	$ 17,850,611
4. Total Assets	$ 17,886,902	$ 17,850,614

SFFAS 1: *Accounting for Selected Assets and Liabilities*, states 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, *Other Liabilities*). Based on this guidance, USSOCOM has stewardship accountability and reporting responsibility for nonentity assets.

Non-federal Assets - Accounts Receivable (Public)

The primary component of nonentity accounts receivable is the public receivable data call adjustment. The balance reports the interest, penalties, and fines as of September 30, 2022 and September 30, 2021. Each quarter, a manual input of Treasury Report on Receivables (TROR) informs the entry through a journal voucher into the Defense Departmental Reporting System (DDRS) to ensure the ending balance of the trial balance reconciles to the source system. Generally, USSOCOM cannot use these proceeds and must remit them to the U.S. Treasury unless permitted by law.

Note 3.	Fund Balance with Treasury - Unaudited

Table 3. Status of Fund Balance with Treasury

As of September 30		2022		2021
(Amounts in thousands)				
1. Unobligated Balance:				
A. Available	$	1,439,730	$	1,185,417
B. Unavailable		533,436		632,252
Total Unobligated Balance	$	1,973,166	$	1,817,669
2. Obligated Balance not yet Disbursed	$	10,738,536	$	10,064,798
3. Non-FBwT Budgetary Accounts:				
A. Unfilled Customer Orders without Advance		(742,437)		(466,294)
B. Receivables and Other		(51,760)		(33,744)
Total Non-FBwT Budgetary Accounts	$	(794,197)	$	(500,038)
5. Total FBwT	$	11,917,505	$	11,382,429

Treasury records cash receipts and disbursements on USSOCOM's behalf; funds are available only for the purposes for which the funds were appropriated. USSOCOM FBwT consists of appropriation accounts.

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

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The available balance consists primarily of the unexpired, unobligated balance that has been apportioned and available for new obligations. The unavailable balance consists primarily of unobligated appropriation from prior years (expired) that are no longer available for new obligations.

Due to Coronavirus Aid, Relief and Economic Security (CARES) Act appropriations received during FY 2020, USSOCOM reported additional FBwT over prior years. See Note 29, *COVID-19 Activity.*

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

Based on Table 3 above, Non-FBwT Budgetary Accounts, such as unfilled customer orders and other receivables, create budget authority and unobligated balances, but do not record to FBwT as there has been no receipt of cash or direct budget authority, such as appropriations.

Unfilled Customer Orders Without Advance and Reimbursements is a receivable providing budgetary resources when recorded. FBwT is only increased when reimbursements are collected, not when orders are accepted or have been earned.

Total FBwT does not include funds held because of allocation transfers received from other federal agencies. USSOCOM received allocation transfers from other federal agencies for execution on their behalf in the amount of $33 million in FY 2022, and $36 million in FY 2021.

Material discrepancies exist between FBwT as reflected in USSOCOM general ledger and the balance per U.S. Treasury records. FBwT reported in the financial statements has been adjusted to reflect USSOCOM's balance as reported by Treasury. The difference between FBwT in USSOCOM's general ledgers and FBwT reflected in Treasury accounts is attributable to transactions that have not been posted to the individual detailed accounts in USSOCOM's general ledger, because of timing differences or the inability to obtain valid accounting information prior to the issuance of the financial statements. USSOCOM continues to work with its service provider to determine the accurate total undistributed amount. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in USSOCOM's general ledger accounts.

Note 4.	Cash and Other Monetary Assets - Unaudited

For more information, see, Note 1.H, *Cash and Other Monetary Assets.*

Note 5.	Investments and Related Interest - Unaudited

For more information, see, Note 1.I., *Investments and Related Interest.*

Note 6.	Accounts Receivable, Net - Unaudited

Table 6. Accounts Receivable, Net

As of September 30	2022		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1.Intragovernmental Receivables	$ 49,338	$ 0	$ 49,338
2. Non-Federal Receivables (From the Public)	$ 2,330	$ (442)	$ 1,888
3. Total Accounts Receivable	$ 51,668	$ (442)	$ 51,226

As of September 30	2021		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(Amounts in thousands)			
1.Intragovernmental Receivables	$ 19,203	0	$ 19,203
2. Non-Federal Receivables (From the Public)	$ 2,694	$ (330)	$ 2,364
3. Total Accounts Receivable	$ 21,896	$ (330)	$ 21,567

Gross receivables, including federal receivables, must be reduced to net realizable value by an allowance for doubtful accounts in accordance with SFFAS 1 and Technical Bulletin 2020-1, *Loss Allowance for Intragovernmental Receivables*. Loss allowance recognition for intragovernmental receivables does not alter the statutory requirements for the debtor agency to make the payment or for the collecting agency to seek and obtain payment. USSOCOM has opted not to include federal receivables in the calculation for the allowance. Historically, USSOCOM's federal aged receivables have been immaterial and have not been delinquent greater than two years. Additionally, per SFFAS 1, Losses on receivables should be recognized when it is more likely than not that the receivables will not be totally collected. USSOCOM's federal receivables have shown to be more likely to be collected timely.

Accounts receivable represents USSOCOM's claim for payment from other entities. Claims with other federal agencies are resolved in accordance with the business rules published in Appendix 5 of Treasury Financial Manual, Volume I, Part 2; Chapter 4700. USSOCOM uses historical public accounts receivable data to compute the allowance for doubtful accounts. Amounts with an age greater than two years are considered doubtful for collection; these amounts are used in the allowance calculation.

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

Presentational Changes

As of September 30, 2022, ‘Other assets’ of approximately $45 thousand have been reclassified from the Accounts Receivable balance sheet line to Other Assets, in accordance with the TFM, Bulletin No. 2022-12. For more information, see Note 1.AD., *Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation.*

Note 7.	Loans Receivable, Net and Loan Guarantee Liabilities - Unaudited

For more information, see Note 1.K., *Loans Receivable, Net and Loan Guarantee Liabilities.*

Note 8.	Inventory and Related Property, Net - Unaudited

Table 8A. Inventory and Related Property

As of September 30	2022	2021
(Amounts in thousands)		
1. Operating Materiel & Supplies, Net	2,524,723	2,509,937
2. Total Inventory and Related Property, Net	$ 2,524,723	$ 2,509,937

USSOCOM does not have seized property, forfeited property, foreclosed property, and Goods held under price support and stabilization programs.

See Table 8C., *OM&S Categories* for further information.

Table 8C. OM&S Categories

As of September 30	2022			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
A. Held for Use	$ 2,301,487	$ 0	$ 2,301,487	Note1
B. Held in Reserve for Future Use	151,127	0	151,127	Note1
C. Held for Repair	72,109	0	72,109	Note1
D. Excess, Obsolete, and Unserviceable	6,571	(6,571)	0	NRV
E. Total	$ 2,531,294	$ (6,571)	$ 2,524,723	

As of September 30	2021			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(Amounts in thousands)				
A. Held for Use	$ 2,340,486	$ 0	$ 2,340,486	Note1
B. Held in Reserve for Future Use	121,368	0	121,368	Note1
C. Held for Repair	48,083	0	48,083	Note1
D. Excess, Obsolete, and Unserviceable	1,582	(1,582)	0	NRV
E. Total	$ 2,511,519	$ (1,582)	$ 2,509,937	

Legend for Valuation Methods:

Note 1: Moving Average Cost, Historical Cost, and Replacement Price

NRV = Net Realizable Value

USSOCOM's Related Property is comprised of two OM&S asset categories: munitions and Uninstalled Aircraft Engines (UAE). USSOCOM is reporting fixed wing UAE procured with Major Force Program (MFP)-11 funds. These assets are valued at historical cost (HC).

USSOCOM is reporting all munitions procured with MFP-11 funds. Further, with Navy concurrence, USSOCOM reports all munitions assets at the Naval Satellite Operations Center (NAVSOC). Navy transferred ownership of any Navy-procured MFP-2 funded munitions to USSOCOM for financial reporting. This is consistent with the GPP&E assets currently reported for NAVSOC. These are valued by Moving Average Cost (MAC). All remaining munitions are currently valued at Replacement Price using current catalog pricing. USSOCOM recognizes the latter is not in compliance with SFFAS 3 in this regard and continues to work towards developing processes to implement MAC under the Consumption Method of Accounting.

The values of each OM&S category were determined according to asset condition codes per the DoD 4000.25-2-M, Military Transaction Reporting and Accounting Procedures. Net realizable value is the estimated amount that can be recovered from selling or disposing of an item less the estimated costs of completion, holding and disposal. The "net realizable value" for materials classified as Excess, Obsolete, and Unserviceable is zero. As a result, this balance has been written down to zero with the use of the OM&S allowance account.

Underlying economic event details pertaining to OM&S have been largely unavailable. This is primarily due to OM&S tracking issues, and system limitations; As of FY 2022, USSOCOM can report OM&S based on the underlying activities: acquisitions, purchases, disposals gains, or losses for the current OM&S categories: UAE and Munitions.

Currently, USSOCOM is unaware of any restrictions on the use of OM&S.

USSOCOM is in the process of applying deemed costs methods, in accordance with SFFAS 48 and/or SFFAS 3, to establish opening balances for OM&S. USSOCOM is currently not making its unreserved assertion to the completeness, valuation and accuracy of the OM&S beginning balances as of September 30, 2022, and 2021. See above, for additional information related to valuation methods. USSOCOM's systems, and the controls related to them, are not effective to support the fair presentation of the recorded balances in accordance with GAAP.

Both UAE and munitions are aligned to OM&S categories based on Federal Supply Condition Codes as noted in the respective material management system.

Note 9.	General PP&E, Net - Unaudited

Table 9A. Major General PP&E Asset Classes

As of September 30	2022				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. General Equipment	S/L	Various	4,778,255	(2,846,725)	1,931,530
B. Construction-in-Progress	N/A	N/A	1,338,620	N/A	1,338,620
C. Total General PP&E			$ 6,116,876	$ (2,846,725)	$ 3,270,150

As of September 30	2021				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(Amounts in thousands)					
1. Major Asset Classes					
A. General Equipment	S/L	Various	4,741,378	(2,612,370)	2,129,008
B. Construction-in-Progress	N/A	N/A	1,447,627	N/A	1,447,627
C. Total General PP&E			$ 6,189,005	$ (2,612,370)	$ 3,576,635

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

USSOCOM's current capitalization threshold is $250 thousand. USSOCOM financially reports all capital GPP&E assets procured with MFP-11 funds for all Components/TSOCs; Plus NSWC, with Navy concurrence, which includes MFP-2 funded assets. There are no restrictions on the use or convertibility of GPP&E.

USSOCOM does not have acquisition values or acquisition dates for a portion of the GPP&E population and uses deemed cost methodologies to provide GPP&E values for financial statement reporting purposes. USSOCOM does have acquisition values and dates for GPP&E acquired after May 1, 2018.

Within FY 2022 and FY 2021, accounting adjustments were made to the USSOCOM's GE assets to ensure accuracy of values based on ongoing audit remediation efforts. These accounting adjustments were recognized in gain/loss accounts when auditable data was not available to support restatement of prior period financial statements.

Throughout FY 2021, USSOCOM worked to continually improve its GE financial reporting process and data. These efforts continued throughout FY 2022.

Table 9B. Heritage Assets

For the Period Ended September 30	2022			
(physical count)				
Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Museum Collection Items (Objects, Not Including Fine Art)	8,174	0	(8)	8,166
Museum Collection Items (Objects, Fine Art)	785	0	(11)	774

For the Period Ended September 30	2021			
(physical counts)				
Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Museum Collection Items (Objects, Not Including Fine Art)	8,175	3	(4)	8,174
Museum Collection Items (Objects, Fine Art)	801	0	(16)	785

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 museum collections. The heritage assets do not relate to USSOCOM mission and are not reported on the financial statements.

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.

The three additional artifacts reflected during FY 2021 were found during routine inventory. Museum collection deletions mostly consist of 16 commercially produced lithograph prints (e.g., Jim Dietz, etc.) of various historical subjects that are not SOF specific removed from US Army Center of Military History database (AHCAS) as not being considered artifacts or artwork. They are retained by the Museum on local unit property books, to be used for office/area decoration on hand receipts. Additionally, four line items were removed from AHCAS as being incomplete, empty, or items already deaccessioned but not removed from AHCAS; the deletions are correcting errors found in the database.

Stewardship Land

USSOCOM does not have any stewardship land.

Table 9D. General PP&E, Net – Summary of Activity

For the period ended September 30	2022	2021
(Amounts in thousands)		
1. General PP&E, Net beginning of year	$ 3,576,635	$ 3,829,014
2. Capitalized acquisitions	560,112	492,188
3. Dispositions	(15,487)	(17,961)
4. Transfers in/(out) without reimbursement	(582,308)	(269,314)
5. Revaluations (+/-)	(34,447)	(428,530)
6. Depreciation expense	(234,355)	(28,762)
7. General PP&E, Net end of year	$ 3,270,150	$ 3,576,635

Note 10.	Other Assets - Unaudited

Table 10. Other Assets

As of September 30	2022	2021
(Amounts in thousands)		
1. Intragovernmental		
A. Other Assets	45	45
B. Total Intragovernmental	$ 45	$ 45
2. Other than Intragovernmental		
A. Outstanding Contract Financing Payments	$ 115,375	$ 353,120
B. Advances and Prepayments	7,878	6,881
C. Subtotal	123,253	360,001
D. Less: “Outstanding Contract Financing Payments” and “Advance and Prepayments” totaled and presented on the Balance Sheet as “Advances and Prepayments”	(123,253)	(360,001)
3. Total Other Assets	$ 45	$ 45

Outstanding Contract Financing Payments, a separate classification of advances and prepayments, includes contract financing payments made in contemplation of the future performance of services, receipt of goods, incurrence of expenditures or receipt of other assets.

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.

<u>Presentational Changes</u>

For more information, see Note 1.AD, *Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation* and Note 6, *Accounts Receivable.*

Note 11.	Liabilities Not Covered by Budgetary Resources - Unaudited

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30	2022	2021
(Amounts in thousands)		
1. Intragovernmental Liabilities		
A. Accounts payable	$ 640	$ 640
B. Total Intragovernmental Liabilities	$ 640	$ 640
2. Other than Intragovernmental Liabilities		
A. Accounts payable	$ 161,281	$ 165,125
B. Federal employee and veteran benefits payable	63,908	62,915
C. Other liabilities	200	0
D. Total Other than Intragovernmental Liabilities	$ 225,389	$ 228,040
3. Total Liabilities Not Covered by Budgetary Resources	$ 226,029	$ 228,680
4. Total Liabilities Covered by Budgetary Resources	$ 676,024	$ 1,530,957
5. Total Liabilities	$ 902,054	$ 1,759,637

Liabilities Not Covered by Budgetary Resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. USSOCOM fully expects to receive the necessary resources to cover these liabilities in future years. See Note 13, *Federal Employee and Veteran Benefits Payable,* for additional information related to 2.B., Federal employee, and veteran benefits payable, in the table above.

Non-federal accounts payable not covered by budgetary resources represent amounts that are related to canceled appropriations. Non-federal other liabilities are related legal contingencies. These amounts will require resources that are funded from future-year appropriations. For additional information, see Note 17, *Commitments and Contingencies.*

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

For additional information related to Other than Intragovernmental Other Liabilities, see Note 17, *Commitments and Contingencies*.

Federal Employee and Veteran Benefits Payable consists of benefits that will be paid in the future. For additional information, see Note 13, *Federal Employee and Veteran Benefits Payable.*

Note 12.	Debt - Unaudited

USSOCOM does not have Federal Debt and Interest Payable.

Note 13.	Federal Employee and Veteran Benefits Payable - Unaudited

Table 13A. Federal Employee and Veteran Benefits Liability

As of September 30	2022		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	66,614	(2,706)	63,908
2. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	4,440	(4,440)	0
3. Total Federal Employee and Veteran Benefits Payable	$ 71,054	$ (7,146)	$ 63,908

As of September 30	2021		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(Amounts in thousands)			
1. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	64,181	(1,266)	62,915
2. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	5,582	(5,582)	0
3. Total Federal Employee and Veteran Benefits Payable	$ 69,763	$ (6,848)	$ 62,915

Other Benefit-Related Payables Included in Intragovernmental Other Liabilities on the Balance Sheet

Other Benefit-Related Payables included in Intragovernmental Other Liabilities on the Balance Sheet includes Employer Contributions and Payroll Taxes Payable. It represents the employer portion of payroll taxes and benefit contributions for health benefits, retirement, life insurance and voluntary separation incentive payments.

Other Benefits

Other Benefits includes Accrued Unfunded Annual Leave liabilities and 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. As of September 30, 2022, there was $63.9 million of accrued unfunded annual leave.

Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employee Benefits

For additional information, see Note 1.T., *Federal Employee and Veteran Benefits.*

Note 14.	Environmental and Disposal Liabilities - Unaudited

For more additional information, see Note 1.S., *Commitments and Contingencies*.

Note 15.	Other Liabilities - Unaudited

Table 15A. Other Liabilities

As of September 30	2022		
	Current Liability	Non-Current Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Liabilities for non-entity assets	10	(8)	2
B. Other liabilities	(356)	0	(356)
C. Subtotal	(346)	(8)	(354)
D. Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	4,440	0	4,440
E. Total Intragovernmental	$ 4,094	$ (8)	$ 4,086
2. Other than Intragovernmental			
A. Accrued funded payroll and leave	$ 33,680	$ 0	$ 33,680
B. Withholdings payable	203	0	203
C. Contract holdbacks	5,864	0	5,864
D. Contingent liabilities	0	200	200
E. Other liabilities with related budgetary obligations	359	0	359
F. Total Other than Intragovernmental	$ 40,106	$ 200	$ 40,306
3. Total Other Liabilities	$ 44,200	$ 191	$ 44,391

As of September 30	2021		
	Current Liability	Non-Current Liability	Total
(Amounts in thousands)			
1. Intragovernmental			
A. Liabilities for non-entity assets	9	(6)	3
B. Other liabilities	(323)	0	(323)
C. Subtotal	(314)	(6)	(320)
D. Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	5,582	0	5,582
E. Total Intragovernmental	$ 5,268	$ (6)	$ 5,262
2. Other than Intragovernmental			
A. Accrued funded payroll and leave	$ 40,241	$ 0	$ 40,241
B. Withholdings payable	584	0	584
C. Contract holdbacks	7,334	127	7,461
D. Other liabilities with related budgetary obligations	327	0	327
E. Total Other than Intragovernmental	$ 48,486	$ 127	$ 48,613
3. Total Other Liabilities	$ 53,754	$ 121	$ 53,875

Table 15B. Advances from Others and Deferred Revenue (reported separately from Other Liabilities on the Balance Sheet):

As of September 30	2022	2021
(Amounts in thousands)		
A. Intragovernmental	$ 7,677	$ 16,298
B. Other than Intragovernmental	(3,064)	(1,427)

<u>Advances from Others and Deferred Revenue</u>

Advances from Others and Deferred Revenue represent liabilities for collections received to cover future expenses or acquisition of assets USSOCOM incurs or acquires on behalf of another organization.

Liabilities for Non-Entity Assets

Intragovernmental liabilities for Non-entity assets represent liabilities for collections reported as non-exchange revenues where USSOCOM is acting on behalf of another Federal entity. For balances reported during FY 2022 and FY 2021, USSOCOM is reporting penalties, fines, interest as non-entity assets that are payable to the Department of Treasury.

Intragovernmental Other Liabilities

Other Liabilities primarily consists of the liquidation of liabilities with related budgetary obligation transactions ingested into DDRS from the Naval Sea Systems Command (NAVSEA). The balance is abnormal due to the original invoice being reported as Non-Federal. NAVSEA is working to implement new systems and processes that should resolve the issue in the future. This error is immaterial and does not impact any other line items.

Presentational Changes

Intragovernmental Other Liabilities on the Balance Sheet is no longer reported on a single footnote in accordance with the streamlined balance sheet format (see additional information in Note 1.AD, *Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation*). Certain accounts on the Balance Sheet line "Intragovernmental Other Liabilities" are required to be reported on Note 13, *Federal Employee and Veteran Benefits Payable*, while others are reported on this Note 15. The amounts from the Balance Sheet "Intragovernmental Other Liabilities" reported on Note 13 are aggregated and included above as Other Liabilities Reported on Note 13. This presentation maintains the tie out of total Intragovernmental Other Liabilities on the tables to the Balance Sheet.

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. It includes the FEGLI, FLTCIP and FEHB.

For additional information, see Note 1.R., *Other Liabilities.*

Contract Holdbacks

Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2022 and FY 2021 contract holdbacks include $5.8 and $7.4 million for contracts authorization progress payments based on cost as defined in the FAR.

Contingent Liabilities

Contingent Liabilities for FY 2022 includes legal contingent liabilities. For additional information, see Note 17, *Commitments and Contingencies*.

Non-Federal Other Liabilities

For additional information, see *Intragovernmental Other Liabilities*, above.

Note 16.	Leases - Unaudited

Entity as Lessee

Capital Leases

For additional information, see Note 1.O., *Leases*.

Operating Lease

Table 16D. Entity as Lessee - Future Payments Due for Non-Cancelable Operating Leases

As of September 30,	2022			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
(Amounts in thousands)				
1. Federal				
Fiscal Year				
2023	$ 4,716	$ 0	$ 0	$ 4,716
2024	2,480	0	0	2,480
2025	2,360	0	0	2,360
2026	2,360	0	0	2,360
2027	2,360	0	0	2,360
After 5 Years	12,978	0	0	12,978
Total Federal Future Lease Payments	$ 27,254	$ 0	$ 0	$ 27,254
2. Non-Federal				
Fiscal Year				
2023	$ 7,668	$ 590	$ 0	$ 8,258
2024	6,708	486	0	7,194
2025	4,445	483	0	4,928
2026	3,802	483	0	4,285
2027	3,632	80	0	3,712
After 5 Years	1,895	0	0	1,895
Total Non-Federal Future Lease Payments	$ 28,150	$ 2,122	$ 0	$ 30,272
Total Future Lease Payments	$ 55,404	$ 2,122	$ 0	$ 57,526

<u>Description of Lease Arrangements:</u>

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.

USSOCOM gathers operating lease information from all 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 2022 and FY 2021. USSOCOM only has leases related to buildings, land, and equipment. Leases related to land and buildings range in date from June 1, 2006, to March 31, 2026. Equipment leases range in date April 1, 2016, to March 31, 2023.

Specifically, USSOCOM has federal facilities leases with terms that range from June 1, 2006, to March 31, 2033.

USSOCOM currently has non-federal leases for facilities and equipment. The facilities leases include modular and Military Information Support Operations (MISO) facilities located at MacDill, Air Force Base (AFB), Yokota Japan Air Base, Hurlburt Field, and Cannon AFB. The dates for these leases range from August 28, 2018, to March 31, 2026.

The non-federal equipment leases include multifunctional devices, production copiers, cell phones, and containers. The date range for the leases is January 1, 2019, to November 30, 2026.

USSOCOM uses the escalation clauses for the future year payments. The escalation clauses are retrieved from the FY 2023 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.

Entity as Lessor

<u>Capital Leases:</u>

For additional information, see Note 1.O., *Leases*.

<u>Operating Leases:</u>

For additional information, see Note 1.O., *Leases*.

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 related 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.

Not all claims that may involve USSOCOM in some way are reported. For example, in the case of tort claims filed against the United States under the Federal Tort Claims Act, our lawyers do not give substantive attention to, or represent USSOCOM in connection with, such cases. Moreover, USSOCOM is not authorized to settle and pay tort claims, which authority is reserved to the Military Departments.

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government, as amended by SFFAS 12, Recognition of Contingent Liabilities Arising from Litigation*, an assessment is made as to whether the likelihood of an unfavorable outcome is considered probable, reasonably possible, or remote. USSOCOM would accrue contingent liabilities for material contingencies where an unfavorable outcome is considered probable, and the amount of potential loss is measurable. The estimated liability may be a specific amount or a range of amounts. If some amount within the range is a better estimate than any other amount within the range, the amount recognized, and the range is disclosed. If no amount within the range is a better estimate than any other amount, the minimum amount in the range is recognized. 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	2022		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 200	$ 0	$ 0
Reasonably Possible	0	7,100	9,600

As of September 30	2021		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 0	$ 0	$ 500
Reasonably Possible	0	0	4,700

The amounts in the tables above are consistent with the information summarized on USSOCOM's management schedule and legal representation letter. The probable legal contingent liability, with an estimated loss of $200 thousand, as of September 30, 2022, stems from a contract dispute regarding changed delivery terms and a termination for convenience. USSOCOM has reported an accrued liability on the balance sheet associated with this matter.

Note 18.	Funds from Dedicated Collections - Unaudited

USSOCOM does not have any funds from dedicated collections.

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

Table 19. Costs and Exchange Revenue by Appropriation Category

As of September 30		2022		2021
(Amounts in thousands)				
Operations, Readiness & Support				
1. Gross Cost	$	8,516,033	$	9,209,366
2. Less: Earned Revenue		(308,291)		(344,166)
Net Program Costs	$	8,207,742	$	8,865,200
Procurement				
1. Gross Cost	$	2,717,388	$	2,983,299
2. Less: Earned Revenue		(20,146)		(614)
Net Program Costs	$	2,697,242	$	2,982,685
Research, Development, Test & Evaluation				
1. Gross Cost	$	757,130	$	801,166
2. Less: Earned Revenue		(24,813)		(26,309)
Net Program Costs	$	732,317	$	774,857
Family Housing & Military Construction				
1. Gross Cost	$	(3,786)	$	78,750
2. Less: Earned Revenue		(35,061)		0
Net Program Costs	$	(38,847)	$	78,750
Consolidated				
1. Gross Cost	$	11,986,766	$	13,072,581
2. Less: Earned Revenue		(388,311)		(371,089)
Total Net Cost	$	11,598,455	$	12,701,492

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of USSOCOM 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. These appropriations are considered Major Programs for USSOCOM. The DoD is in the process of reviewing available data and developing a more detailed cost reporting methodology.

The abnormal balance reported under Family Housing & Military Construction, is mainly attributable to the system migration of Navy-Wide financial systems. The migration for USSOCOM's Military Construction Agents', Naval Facilities Engineering Systems Command (NAVFAC), is on-going and included a brown out period where many transactions/processes were completed manually. As a result, the reporting of CIP related operating expenses that occurred in the prior year, was delayed. The estimated migration completion is to be determined. The system migration generally impacts all accounts and financial statement line items. USSOCOM currently cannot estimate the magnitude of this timing issue.

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

Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials

The FASAB issued SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials* and SFFAS 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. With the adoption of this methodology, USSOCOM utilizes other gains and losses to capture the adjustments within the Statement of Changes in Net Position (SCNP). For additional information, see Note 8, *Inventory and Related Property.*

Miscellaneous Items primarily includes the current year authority transfers in, and current year authority transfers out.

The Appropriations Received on the SCNP does not agree with Appropriations (Discretionary and Mandatory) on the SBR. The difference is due to transfers of current year authority and permanent reductions to prior year balances.

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

As of September 30 (dollars in thousands)	2022	2021
Appropriations, SBR	$ 13,272,676	$ 13,046,095
Permanent and Temporary Reductions	$ (0)	$ (29,838)
Miscellaneous Items - Transfers of Current	(40,472)	(3,666)
Total Reconciling Difference	$ (40,472)	$ (33,504)
Appropriations Received, Statement of Changes in Net Position	$ 13,232,204	$ 13,079,599

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

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

As of September 30	2022	2021
(Amounts in thousands)		
1. Intragovernmental:		
A. Unpaid	760,248	705,626
B. Prepaid/Advanced	0	0
C. Total Intragovernmental	$ 760,248	$ 705,626
2. Non-Federal:		
A. Unpaid	9,304,786	7,828,266
B. Prepaid/Advanced	123,253	360,001
C. Total Non-Federal	$ 9,428,039	$ 8,188,267
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 10,188,287	$ 8,893,893

The SBR is presented on a combined basis in accordance with OMB Circular No. A-136; thus, intra-entity transactions have not been eliminated from the amounts presented. This presentation differs from that of the other principal financial statements, which are presented on a consolidated basis. For additional details on the difference between the SCNP and SBR, see Note 20, *Disclosures Related to the Statement of Changes in Net Position*.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

There were no material adjustments during FY 2022 to budgetary resources available at the beginning of the year.

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

USSOCOM's financial results are consolidated within the DoD General Fund financial results. As such, USSOCOM is not presented separately in the President's Budget but is instead a part of the DoD's reconciliation to the President's Budget. The DoD 2022 AFR contains a reconciliation between the budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and Net Outlays to the President's Budget. Included in that reconciliation is an adjustment to include the USSOCOM to reconcile to the President's Budget amounts.

Contributed Capital

There was no infusion of capital received in FY 2022, or FY 2021.

Other Disclosures

USSOCOM does not have any permanent indefinite appropriations.
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

For additional information, see Note 1.AB, *Fiduciary Activities.*

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

Table 24. Reconciliation of the Net Operating Cost & Net Budgetary Outlays

As of September 30	2022		
	Federal	Non-Federal	Total
(Amounts in thousands)			
1. Net Cost of Operations (SNC)	$ 3,976,415	$ 7,622,040	$ 11,598,455
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Change in General property, plant, and equipment, net	$ 0	$ (306,486)	$ (306,486)
3. Change in Inventory and related property, net	0	2,248,864	2,248,864
4. Increase/(decrease) in Assets:			
a. Accounts receivable, net	17,701	(476)	17,225
b. Other assets	0	(236,747)	(236,747)
5. (Increase)/Decrease in Liabilities:			
a. Accounts payable	77,028	775,683	852,711
b. Federal employee and veteran benefits payable	0	(2,433)	(2,433)
c. Other liabilities	9,797	9,944	19,741
6. Financing Sources:			
a. Imputed cost	(18,845)	0	(18,845)
7. Total Components of Net Cost Not Part of Net Budgetary Outlays	$ 85,681	$ 2,488,349	$ 2,574,030
Miscellaneous Reconciling Items			
8. Transfers (in)/out without reimbursements	$ 582,259	$ 0	$ 582,259
9. Other	0	(2,234,078)	(2,234,078)
10. Total Other Reconciling Items	$ 582,259	$ (2,234,078)	$ (1,651,819)
11. Total Net Outlays	$ 4,644,355	$ 7,876,311	$ 12,520,666
12. Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			$ 12,471,589
13. Unreconciled Difference			$ 49,077

As of September 30	2021		
	Federal	Non-Federal	Total
(Amounts in thousands)			
1. Net Cost of Operations (SNC)	$ 1,380,780	$ 11,320,711	$ 12,701,491
Components of Net Cost Not Part of Net Budgetary Outlays			
2. Change in General property, plant, and equipment, net	$ 0	$ (252,378)	$ (252,378)
3. Change in Inventory and related property, net	0	2,509,937	2,509,937
4. Increase/(decrease) in Assets:			
a. Accounts receivable, net	(3,639)	293	(3,346)
b. Other assets	0	117,727	117,727
5. (Increase)/Decrease in Liabilities:			
a. Accounts payable	51,920	105,369	157,289
b. Federal employee and veteran benefits payable	0	3,237	3,237
c. Other liabilities	(5,091)	57,012	51,921
6. Financing Sources:			
a. Imputed cost	(18,001)	0	(18,001)
7. Total Components of Net Cost Not Part of Net Budgetary Outlays	$ 25,189	$ 2,541,197	$ 2,566,386
Miscellaneous Reconciling Items			
8. Transfers (in)/out without reimbursements	$ 269,270	$ 0	$ 269,270
9. Other	0	(2,234,388)	(2,234,388)
10. Total Other Reconciling Items	$ 269,270	$ (2,234,388)	$ (1,965,118)
11. Total Net Outlays	$ 1,675,239	$ 11,627,520	$ 13,302,759
12. Budgetary Agency Outlays, Net (Statement of Budgetary Resources)			$ 13,302,857
13. Unreconciled Difference			$ (98)

Presentational Changes

The FY 2021 reconciliation conforms to presentation changes resulting from the DoD's continual effort to reconcile the Net Cost of Operations with the Net Budgetary Outlays. For additional information, see Note

1.AD, *Standardized Balance Sheet, the Statement of Changes in Net Position and Related Footnotes – Comparative Year Presentation*.

Other Disclosures

The Reconciliation of Net Cost to Net Outlays demonstrates the relationship between the USSOCOM's Net Cost of Operations, reported on an accrual basis on the Statement of Net Cost, and Net Outlays, reported on a budgetary basis on the SBR. While budgetary and financial accounting are complementary, the reconciliation explains the inherent differences in timing and in the types of information between the two during the reporting period. The accrual basis of financial accounting is intended to provide a picture of the USSOCOM's operations and financial position, including information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports on the management of resources by USSOCOM. Outlays are payments to liquidate an obligation, other than the repayment to the Treasury of debt principal.

The Reconciling Difference can be generally attributed to timing differences between the recognition of expenses/revenues and disbursements/collections on the Statement of Net Cost and SBR. Additionally, USSOCOM's diverse business events may be recorded using different, but equally valid, transaction scenarios. Research is on-going to identify and resolve residual differences.

Note 25.	Public-Private Partnerships - Unaudited

As of September 30, 2022, and 2021, USSOCOM completed an assessment of public-private partnerships for which USSOCOM may be involved. Upon completion of the assessment, USSOCOM has not identified any entities that meet the requirements for disclosures under SFFAS 49, *Public/Private Partnerships*.

Note 26.	Disclosure Entities and Related Parties - Unaudited

Under SFFAS 47 Reporting Entity, agencies are required to disclose information for disclosure entities and related parties. USSOCOM performed an assessment of potential relationships, which may fall under the criteria listed within SFFAS 47. Upon conclusion of the aforementioned assessment, USSOCOM did not identify any disclosure entities or related parties for disclosure in the financial statement footnotes.

Note 27.	Security Assistance Accounts - Unaudited

USSOCOM does not have any Security Assistance Accounts.

Note 28.	Restatements - Unaudited

USSOCOM does not have any restatements.

Note 29.	COVID-19 Activity - Unaudited

In response to societal and economic impacts of Coronavirus Disease 2019 (COVID-19), multiple public laws were enacted to soften the impact of this pandemic on individuals, businesses, and Federal, state, and local government operations. In FY 2020, one of these public laws had a direct impact on USSOCOM through the provision of $18.2 million in supplemental appropriations. Additional supplemental funding had not been received as of September 30, 2022.

CARES Act

On March 27, 2020, the CARES Act (Public Law 116-136) was signed into law, which provided FY 2020 supplemental appropriations for USSOCOM to respond to COVID-19. The supplemental appropriations were designated as emergency spending. In FY 2020, USSOCOM received $18.2 million of budgetary resources because of the CARES Act. Of the $18.2 million CARES Act funding received, USSOCOM has committed and obligated $17.6 million as of September 30, 2022. Of the $17.6 million, $17.4 million has been obligated and disbursed towards Personal Protection Equipment (PPE) - Medical Countermeasures, Pharmaceuticals and Medical Supplies and Cleaning Contracts and Non-Medical Supplies/Equipment; As of September 30, 2022, there is no unobligated balances remaining for the CARES Act funding. The total impact of the funding on USSOCOM's assets, liabilities, costs, revenues, and net position has not been determined.

Operations and Maintenance

In FY 2022 and FY 2021, USSOCOM incurred costs related to the pandemic that are not reimbursable from the supplemental funding. USSOCOM direct Operation and Maintenance (O&M) funding has been used toward COVID-19 related activities.

As of September 30, 2022, the estimated year-to-date obligations used toward the COVID-19 response are $206 thousand. Of the $206 thousand, $156 thousand has been disbursed toward the following general program categories: Travel, Equipment, Supplies, Contracts and Other. Specifically, these resources are being used to purchase PPE supplies and equipment, cleaning contracts, and medical countermeasures. The total impact of the funding on USSOCOM's assets, liabilities, costs, revenues, and net position have not been determined.

As of September 30, 2021, USSOCOM had committed and obligated an estimated cumulative total of $57M million toward the COVID-19 response. Of the $57 million, $39 million had been disbursed toward the following general program categories: Facilities, Travel, Equipment, Supplies, Contracts and Other. Specifically, these resources are being used to purchase PPE supplies and equipment, pharmaceuticals, cleaning contracts, additional medical staff, and medical countermeasures. Unpaid obligations as of September 30, 2022, was $9.8 million. The total impact of the funding on USSOCOM's assets, liabilities, costs, revenues, and net position have not been determined.

The amounts received and/or used toward COVID-19 related activities are as follows:

Table 29C. Budgetary Resources for COVID-19 Activity Funded by COVID-19 Disaster Emergency Fund (DEF)Codes

For the period ended September 30 (Amounts in thousands)	2022	2021
Unobligated and unexpired balance, beginning of year	$ 3,774	$ 14,271
Less: Obligations	(3,150)	(10,940)
Less: Expiring funds	(624)	(3,331)
Unobligated and unexpired balance, end of period	0	0
Outlays, Net (Total)	$ 272	$ 11,534

Table 29C. Adjusted - Budgetary Resources for COVID-19 Activity Funded by COVID-19 Disaster Emergency Fund (DEF) Codes

For the period ended September 30 (Amounts in thousands)	2022	2021
Unobligated and unexpired balance, beginning of year	$ 655	$ 226
Less: Obligations	(31)	(13)
Less: Expiring funds	(624)	(213)
Unobligated and unexpired balance, end of period	0	0
Outlays, Net (Total)	$ 272	$ 11,534

DEF Codes included: N for *Coronavirus Aid, Relief, and Economic Security Act (CARES Act) (Public Law 116-136), Emergency*

Due to system limitations in FY 2020, USSOCOM began tracking funding and execution of CARES Act Funding using special budget line item codes set up within the various accounting systems. As of FY 2021, USSOCOM began utilizing the appropriate DEF Code to report COVID-19 Activity executed with CARES Act funding. Table 29C, was systematically generated using DEF Code ‘N’; However, the FY 2021 balances were overstated due to the aforementioned system limitation. This error was immaterial and does not impact any other line items. Table 29C – *Adjusted*, depicts the true status of CARES Act funding for FY 2022 and FY 2021.

Table 29D, below, is a new table as of September 30, 2022.

Table 29D. Budgetary Resources for Other COVID-19 Activity, Funded by Annual and Permanent Appropriations

For the period ended September 30 (Amounts in thousands)	2022	2021
Unpaid obligations, beginning of year	$ 18,490	30,550
New obligations	1,910	12,313
Other changes (+/-)	(4,660)	
Less: Outlays	(5,888)	(24,373)
Unpaid obligations, end of period	$ 9,852	18,490

Note 30.	Subsequent Events - Unaudited

USSOCOM is currently unaware of any subsequent events or transactions that occurred after the date of the Balance Sheet, that would require adjustments to or disclosure in the statements.

Note 31.	Reclassification of Financial Statement Line Items for Financial Report Compilation Process - Unaudited

USSOCOM does not have any reclassifications.

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

November 7, 2022

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 2022 and FY 2021 (Project No. D2022-D000FP-0077.000, Report No. DODIG-2023-013)

We contracted with the independent public accounting firm of Grant Thornton, LLP (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, 2022, and 2021. The contract required Grant Thornton to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether the USSOCOM'S financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. 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 the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2022, Volume 1, Volume 2 (Updated, June 2022), and Volume 3 (Updated, June 2022). 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 the USSOCOM 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 2022 and FY 2021 Financial Statements and related notes.

Grant Thornton's additional report, "Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards," discusses five material weaknesses related to the USSOCOM's internal controls over financial reporting.* Specifically, Grant Thornton concluded that USSOCOM did not:

- ensure the effective design and operation of the following internal control components—control environment, risk assessment, control activities, and monitoring activities;
- appropriately monitor the Military Departments and service organizations, placing over reliance on them to perform processes and internal controls;
- fully implement an internal control program over financial reporting and relied on service organizations to perform key accounting functions without fully monitoring or reviewing their work;
- develop controls to reconcile Fund Balance with Treasury and did not monitor its service organization's reconciliation process; or
- accurately record General Property, Plant, and Equipment, Net on the Balance Sheet.

This report also discusses two instances of noncompliance with provisions of applicable laws and regulations, contracts, and grant agreements. Specifically, Grant Thornton's report describes instances in which USSOCOM management's internal control program did not substantially comply with the Federal Managers' Financial Integrity Act of 1982 and financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996.

In connection with the contract, we reviewed Grant Thornton's reports and related documentation and discussed them with Grant Thornton's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the USSOCOM FY 2022 and FY 2021 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of

* 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.

internal control over financial reporting, on whether the USSOCOM's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our review disclosed no instances where Grant Thornton did not comply, in all material respects, with GAGAS. Grant Thornton is responsible for the attached November 7, 2022, reports, 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 Bryan P. Fenton
Commander
United States Special Operations Command

Report on the financial statements

Disclaimer of opinion
We were engaged to audit the consolidated financial statements of the United States Special Operations Command (USSOCOM), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, 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 consolidated financial statements.

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

Basis for disclaimer of opinion
USSOCOM management was unable to provide sufficient appropriate audit evidence to support the consolidated financial statements, including the ability to:

- provide a complete universe of transactions to support balances on its financial statements;
- provide a comprehensive listing, and explanation with sufficient appropriate audit evidence for, systematic adjustments and reclassifications made during the USSOCOM financial statements 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;
- assert to the valuation of General Property, Plant and Equipment, Net;
- assert to the valuation of and substantiate Inventory and Related Property, Net;
- provide adequate explanations for the nature of, and adequate audit evidence for, certain transaction types, including Fund Balance with Treasury, Accounts Payable, New Obligations and Upward Adjustments, and revenue;

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- provide classified evidence supporting multiple samples for testing by the audit team.

Additionally, USSOCOM relies on accounting systems, applications, and micro-applications owned and maintained by military departments and other defense organizations to account for the majority of its transactions, including financial data processed by such organizations, which do not provide sufficient appropriate audit evidence.

As a result of the matters noted above, we are unable to conclude that the consolidated financial statements taken as a whole are free of material misstatements.

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

Auditor's responsibilities for the audit of the financial statements
Our responsibility is to conduct an audit of USSOCOM's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 22-01, *Audit Requirements for Federal Financial Statement*s and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are required to be independent of USSOCOM and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 07, 2022, on our consideration of USSOCOM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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.

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November 07, 2022

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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 Bryan P. Fenton
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 (*Government Auditing Standards*); and Office of Management and Budget ("OMB") Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the United States Special Operations Command (USSOCOM) which comprise the consolidated balance sheet as of September 30, 2022 and 2021, 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 consolidated financial statements. We have issued our report, dated November 7, 2022, on these financial statements. The report states that because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Report on internal control over financial reporting

Results of our consideration of internal control over financial reporting
Our consideration of internal control was for the limited purpose described in the section entitled Definition and Inherent Limitations of Internal Control over Financial Reporting and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Due to the matters described in the Basis for Disclaimer of Opinion paragraph included in our financial statement audit report dated November 7, 2022, we were not able to obtain

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sufficient appropriate audit evidence related to internal control, as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements. 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 consolidated 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.

Basis for results of our consideration of internal control over financial reporting
We performed our procedures related to USSOCOM's internal control over financial reporting in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*; and OMB Bulletin No. 22-01.

Responsibilities of management for internal control over financial reporting
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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for internal control over financial reporting
In planning and performing our audit of the consolidated 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 consolidated 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 over financial reporting 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 consolidated financial statements.

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

Intended purpose of report on internal control over financial reporting

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

Report on compliance with laws, regulations, contracts, and grant agreements and other matters

As part of obtaining reasonable assurance about whether USSOCOM's consolidated financial statements are free from material misstatement, we performed tests of its compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with the auditor's responsibility discussed below, in accordance with *Government Auditing Standards*.

Results of our tests of compliance

Due to the matters described in the Basis for Disclaimer of Opinion paragraph included in our financial statement audit report dated November 7, 2022, 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 consolidated financial statements. 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. To meet this requirement, we performed tests of compliance with the federal financial management systems requirements, applicable federal accounting standards, and the *United States Standard General Ledger* ("USSGL") at the transaction level. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly

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we do not express such an opinion. Our work on FFMIA would not necessarily disclose all instances of lack of compliance with FFMIA requirements.

The results of our tests of FFMIA Section 803(a) requirements disclosed instances, as described in the accompanying schedule of findings and responses Section VIII, in which USSOCOM's financial management systems did not substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards and the application of the USSGL at the transaction level.

Basis for results of our tests of compliance
We performed our tests of compliance in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*; and OMB Bulletin No. 22-01.

Responsibilities of management for compliance
Management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to USSOCOM.

Auditor's responsibilities for tests of compliance
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 financial statements, and to perform certain other limited procedures. We did not test compliance with all laws, regulations, contracts, and grant agreements. Noncompliance may occur that is not detected by these tests.

USSOCOM's response to findings
Government Auditing Standards requires the auditor to perform limited procedures on USSOCOM's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. USSOCOM's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we express no opinion on the USSOCOM's response.

Intended purpose of report on compliance
The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USSOCOM's compliance. Accordingly, this report is not suitable for any other purpose.

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Grant Thornton LLP

Arlington, VA
November 7, 2022

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Schedule of Findings and Responses

I. Material Weakness - Lack of Adequate Entity-Level Controls

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 Circular 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 system. Entity-level controls may include controls related to the entity's risk assessment process, control environment, service organizations, management override, and monitoring and may apply across multiple components of internal control. To determine if an entity's 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. Grant Thornton's internal controls testing covered the five GAO *Green Book* components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. We discuss in detail the identified deficiencies related to three GAO *Green Book* components: Control Environment, Risk Assessment, and Monitoring below. We discuss the identified deficiencies associated with the fourth component of internal control, Control Activities, in more detail throughout the remaining sections of this report.

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 discussed below: a) Demonstrate Commitment to Integrity and Ethical Values and b) Enforce Accountability.

   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.

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United States Special Operations Command (USSOCOM) has not corrected deficiencies related to the ethics program and training for personnel. Management has not established and implemented a process to coordinate the standards of conduct from the Headquarters (HQ) USSOCOM-level across its various military service components and sub-unified commands / Theatre Special Operations Commands (TSOCs). USSOCOM leverages the ethical standards established by the various military services, but has not implemented a process to centrally monitor and enforce compliance across the USSOCOM enterprise. Specifically:

i. USSOCOM has not developed a process for issuing Standards of Conduct to newly on-boarded military members, civilians, and contractors.

ii. USSOCOM has not developed a process to evaluate personnel performance against expectations set forth in Standards of Conduct.

iii. USSOCOM has not coordinated with the military service departments to understand whether ethics training is provided to military members and civilians or whether USSOCOM can leverage military service-provided training.

b. **Enforce Accountability**
USSOCOM's financial team works closely with and relies on the work performed by USSOCOM's financial reporting service organization. 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 system owners submit summary financial information to the various locations of the financial reporting service organization for data normalization and summarization, referred to as pre-processing, within the Defense Departmental Reporting System – Budgetary (DDRS-B). USSOCOM management has entered into Memorandums of Understanding/ Memorandums of Agreement (MOUs/MOAs) outlining mutual responsibilities and expectations between USSOCOM and the financial reporting service organization. However, the MOUs/MOAs were not completed for all locations of USSOCOM's financial reporting service organization. USSOCOM made progress in establishing MOUs/MOAs for their service organizations; however, there was inconsistency in some of the MOUs/MOAs and not all MOUs/MOAs were finalized.

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 the following four principles that allow management to address risk assessment internal control objectives: 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 Respond to Change.

We considered prior-year conditions and any remediation efforts surrounding the entity-level control documentation that USSOCOM service components and sub-unified commands/TSOCs provided. We noted the risk assessment templates completed by sampled Major Assessable Units (MAUs) continue to present the following conditions:

a. Not all risk descriptions met the definition of a risk as stated in the GAO *Green Book*.

b. Control activities were identified when the risk response provided was Acceptance and/or Avoidance which is not consistent with the definitions of the risks responses as outlined in the GAO *Green Book*.

c. For one MAU, the question of whether risk is related to fraud was not answered.

d. MAUs submitted risk assessment templates with missing or incomplete responses for multiple major process areas (MPAs).

e. MAUs submitted deliverables such as the Complementary User Entity Control (CUEC) Workbook and Risk Assessment template with incomplete or invalid responses.

3. **Monitoring**
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.

During the inspection of the USSOCOM's monitoring and evaluation process at various military service components and sub-unified commands/TSOCs, we noted that there were monitoring activities in place. USSOCOM has updated Directive 5-1, which is intended to prescribe policies, responsibilities, objectives, standards, and procedures for an effective, compliant, and comprehensive Risk Management and Internal Control (RMIC) Program and preparation of materials to support the Annual Statement of Assurance. However, as a result of USSOCOM's delay in finalizing the update to Directive 5-1 and implementing a standardized RMIC program in prior years, the process varied among service components and sub-unified commands/TSOCs and we identified multiple deficiencies. The identified deficiencies included the following:

a. Not all components / commands completed their own evaluations of controls and instead relied on results of external inspections, such as those performed by the USSOCOM Office of Inspector General (OIG).

b. Inadequate monitoring of the inspections performed by the USSOCOM OIG and external auditors of the DoD military components. Specifically, one component / command documented no deficiencies on the evaluation template they submitted to HQ RMIC, and HQ RMIC subsequently identified OIG inspection findings.

c. Reliance on the external inspections (such as those noted above) without verifying or reviewing the work performed to understand and monitor deficiencies.

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4. **Control Activities**
   Grant Thornton evaluated the Control Activities *Green Book* component of internal control by performing procedures over identified control activities related to various financial statement line items. We discuss deficiencies related to control activities throughout sections II – VIII of this report.

Statement of Assurance
The FMFIA and OMB Circular A-123 require that on an annual basis the head of the agency issue an annual assurance statement on whether there is reasonable assurance that the agency's controls are achieving their intended objective, and report identified material weaknesses. Management must conduct an evaluation of its systems of internal control in order to form a basis for their annual Statement of Assurance (SoA). Additionally, management must summarize its determination of whether each principle and component is designed, implemented, and operating effectively.

During our inspection of USSOCOM's SoA, we noted the following deficiency in USSOCOM management's internal control evaluation prepared in support of the SoA:

a. **Conclude on Internal Control Component and Principle Evaluation**
   USSOCOM included an Entity-Level Control (ELC) Matrix documenting its determination of whether controls / attributes related to the 17 principles from the GAO *Green Book* were designed, implemented, and operating effectively. However, we noted that the results in the ELC Matrix do not align with conclusions in the SoA – Overall Assessment and Evaluation of Internal Controls Table. Specifically, for the Risk Assessment and Monitoring Components, the ELC matrix indicates controls are not operating effectively, while the SoA table indicates "Yes" for operating effectively.

As noted in the findings related to Control Environment, Risk Assessment, and Monitoring, due to USSOCOM's competing priorities, management has not effectively designed, implemented, and placed into operation all 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 and Treasury Guidelines and represents non-compliance with the FMFIA and OMB Circular A-123. Refer to Section **VII. Material Non-Compliance - Lack of Substantial Compliance with the Federal Managers' Financial Integrity Act of 1982**.

<u>**Recommendations**</u>

USSOCOM management should consider taking the following actions:

1. **Control Environment**

   a. **Demonstrate Commitment to Integrity and Ethical Values**: Implement and require the following:

      i. Design and coordinate an integrated approach leveraging Service-level regulations, instructions, and training programs to meet USSOCOM-specific requirements.

ii. Provide annual ethical training (or leverage existing military-service training) to enable employees to identify and deal with ethical problems.

iii. Leverage military service ethical standards or requirements to ensure compliance with, at minimum, onboarding or annual ethics requirements.

b. **Enforce Accountability:** Review all MOUs/MOAs with the financial reporting service organization in accordance with DoD Guidance and document each review within the applicable agreement. These MOUs/MOAs should include responsibilities for authorization, initiation, processing, recording, and reporting of transactions, as well as expectations of competence to perform responsibilities. Updates should be made timely to MOUs/MOAs based on reviews by USSOCOM or if deficiencies are identified by internal or external auditors. Updates to the responsibilities should be clearly documented within the MOUs/MOAs.

2. **Risk Assessment**:

   a. Perform a detailed review of ELC documentation and follow up with the MAUs timely to resolve errors identified.

   b. Provide training to the MAU RMIC Coordinators on the effective completion of ELC documentation.

   c. Develop quality-control and review procedures for ELC Deliverables Package and incorporate into HQ RMIC Team Procedure Guide.

3. **Monitoring Activities:** Components should perform their own internal control reviews in addition to monitoring OIG inspections and reviews performed by military service auditors. This would enable USSOCOM to detect and correct potential findings before they develop into more significant findings, such as enterprise-wide deficiencies.

4. **Statement of Assurance.** We recommend that USSOCOM continue to design and implement an internal control program that meets the requirements of FMFIA, OMB Circular A-123, and the GAO *Green Book,* to include the following:

   a. **Conclude on Internal Control Component and Principle Evaluation**. In order to conclude on compliance with each of the GAO *Green Book* 17 principles, management should evaluate whether each principle was designed, implemented, and operating effectively. Management should consider the use of GAO's Internal Control Management and Evaluation Tool to conduct an evaluation of the GAO *Green Book* 17 principles. Further, management should align results for the individual GAO *Green Book* principles to the results in the Overall Assessment and Evaluation of Internal Controls.

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II. Material Weakness - Inadequate Monitoring of Service Organizations

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. 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 Financial Improvement and Audit Readiness (FIAR) Guidance, military services 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 services 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 services and/or service organizations with minimal input or monitoring from USSOCOM management. USSOCOM management has not:

1. **Documented all MOUs outlining mutual responsibilities and expectations between USSOCOM and the military services related to the execution of processes and transactions through third-party systems**. While there were MOUs between USSOCOM and the military services, the agreements were not all current and did 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 expectations and the actions taken by the military services that could result in misstatements to the financial statements. USSOCOM management stated that they did not establish a Directorate, Division, and/or other personnel responsible for facilitating MOU development. Further, management did not sufficiently establish procedures for initiating MOU reviews, MOU coordination and quality control.

2. **Developed a monitoring program that consistently evaluates/assesses actions taken by service organizations on USSOCOM's behalf**. USSOCOM management did not implement a comprehensive monitoring program to ensure service organizations meet USSOCOM expectations and fulfill their responsibilities as outlined within existing MOUs. For example:

    a. The majority of Journal Vouchers (JVs), including systematic JVs, which impact the USSOCOM financial statements were initiated and posted by USSOCOM's financial reporting service organization without direct input or validation by USSOCOM.

    b. Exclusions of feeder file activity from USSOCOM financial statements by the USSOCOM financial reporting service organization (e.g., auto-excluded records) were not comprehensively reviewed for validity and/or impact to the USSOCOM financial statements by USSOCOM personnel.

c. The USSOCOM financial reporting service organization lacked comprehensive controls to reconcile between the DDRS-B data and accounting and non-accounting summary data. Additionally, while the financial reporting service organization performed a reconciliation between DDRS-B and DDRS-Audited Financial Statements (AFS), the reconciliation was performed after the quarterly financial statements were finalized. As such, USSOCOM management was unable to demonstrate that all relevant financial activity recorded within its general ledger and feeder systems was appropriately included within the financial statements prepared by its financial reporting service organization.

3. **Taken action to assess the control environment and any associated risks to USSOCOM occurring at service organizations which do not receive a Service Organization Controls Type 1 (SOC 1) report**. 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 SOC 1 reports and include the independent service auditor's report, the service organization's management assertions, and identified CUECs that users of the service organization (e.g., USSOCOM) must 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 USSOCOM service organizations undergo examinations of their controls. A lack of a SOC 1 report does not relieve USSOCOM from its responsibility to maintain internal control over operations, reporting, and compliance with laws and regulations, including responsibility for actions taken by service organizations ultimately impacting the USSOCOM control environment and USSOCOM financial statements. For those service organizations significantly impacting USSOCOM's internal control environment that are not subjected to SOC 1 examination procedures, USSOCOM management should obtain assurance regarding internal controls in place at the service organization. USSOCOM did not develop a process to evaluate the impact of control environments in place at service organizations which do not receive a SOC 1 report.

4. **Identified and evaluated user entity controls that must be in place for placing reliance on third-party execution of controls**. USSOCOM did not complete 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 was unable to assess whether current controls at USSOCOM HQ, service components, and sub-unified commands/TSOCs were sufficient to mitigate financial reporting risks.

Our testing indicated that USSOCOM's oversight body relied on the military services 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 service 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

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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.

Recommendations

USSOCOM management should consider taking the following actions:

1. Review all MOUs with service organizations yearly and document each review within the applicable agreement. All MOUs should include specific responsibilities for the authorization, initiation, processing, and recording of transactions, as well as expectations of competence to perform responsibilities. Updates should be made timely to MOUs based on reviews by USSOCOM or if deficiencies are identified by internal or external auditors. Updates should be clearly documented within the MOUs.

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

3. Develop processes to gain assurance regarding control environments in place at services organizations that do not receive a SOC 1 evaluation to determine if control weaknesses exist that may impact USSOCOM (e.g., review of SoA, Audit Reports, etc.).

4. 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.

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 to meet reporting objectives related to the preparation of reports for use by the entity, its stakeholders, or other external parties. USSOCOM does not own the majority of systems it uses to process its transactions; those systems are owned by the military services or other service organizations. According to the GAO's *Green Book*, management may engage external parties to perform certain operational processes for the entity (e.g., payroll processing or security services); however, management retains responsibility for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. Given the complexity of the financial statement compilation process, as well as the complex environment in which USSOCOM operates, USSOCOM relies on service organizations to perform key data functions without the necessary capability and/or capacity to fully monitor or review their work. The lack of comprehensive guidance and oversight can result in financial statements that are unsupported, erroneous, and do not accurately represent USSOCOM's financial position. The following control weaknesses were noted related to USSOCOM's financial reporting process:

1. **Lack of Comprehensive Understanding of Information Systems and Financial Data**. USSOCOM management did not have a full understanding of the nature of and factors impacting each of its financial statement line item balances.

2. **Lack of Validation Controls over Financial Transactions and Related Data**. USSOCOM management lacked validation controls (i.e., comprehensive control activities and/or monitoring activities) to verify the:

    a. Recording of JVs or adjustments;

    b. Manual inclusion of data provided by others into the financial statement footnotes by USSOCOM management;

    c. Recording of routine transactions by USSOCOM's components and service organizations;

    d. Completeness and accuracy of payroll transactional data;

    e. Nature and cause of reconciling payroll transactions;

    f. Completeness and accuracy of funding and its related status;

    g. Funding distributed to USSOCOM's components were reviewed and approved;

    h. Receipt and acceptance of goods and services;

    i. Completeness and accuracy of USSOCOM's transactional financial data used for analysis and reporting; and,

j. Methodology used to record estimated obligations was sufficiently precise once the actual amount of obligation is known.

The lack of validation controls may have contributed to misstatements, including:

a. JVs executed using improper accounting treatment;

b. Errors in the initial posting of expenses; and,

c. Recording obligations to incorrect periods.

In addition, we noted instances where internal controls were inappropriately designed because evidence of control performance was not consistently retained or does not exist.

3. **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 across the following testing areas:

   a. Obligations;

   b. Gross Costs;

   c. Sensitive Activities and related transactional data. Additionally, Management's inability to timely provide access to sensitive information precluded its ability to substantiate the propriety of its treatment of certain transactions;

   d. Civilian Payroll;

   e. General Equipment (GE);

   f. Construction in Progress (CIP); and,

   g. Manual JVs.

4. **Control Deficiencies over Accounts Payable and Advances and Prepayments**. USSOCOM was unable to record accounts payable transactions in an accurate, complete, and timely manner nor provide a listing of assets to support advances and prepayments data in a consistent manner because of a lack of appropriate business processes and certain system limitations. Additionally, neither USSOCOM nor its financial reporting service organization was able to generate sufficiently detailed accounts payable nor advances and prepayments information which would allow for an effective risk analysis based on aged invoices or abnormal balances at the invoice, voucher, or vendor level. Furthermore, there were not comprehensive processes in place to consistently accrue accounts payable where appropriate.

5. **Improper Reporting of Revenue**. The majority of the Earned Revenue balance on the financial statements does not meet the definition of "exchange revenue" as defined by federal accounting standards. Specifically, Earned Revenue

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includes activity between USSOCOM components, which is not properly eliminated on the face of the Statement of Net Cost (SNC) 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*.

6. **Inappropriate Accounting Treatment of Certain Assets**. USSOCOM management was unable to support the assertion that certain assets considered to be Operating Materials and Supplies (OM&S) were acquired as replacement parts to be used in the normal course of operations, under the Inventory and Related Property, Net (I&RP) line item, rather than as General Property, Plant and Equipment (PP&E). Additionally, USSOCOM does not accumulate and capitalize capital improvement and modification costs affecting military service reported GE assets funded with Major Force Program (MFP) 11 dollars. As such, USSOCOM does not financially report the accumulated costs within CIP while the improvement/modification is ongoing nor record the transfer of the accumulated costs to the military service financially reporting the base asset once the improvement/modification is complete.

7. **Lack of Completeness over Operating Materials and Supplies**. USSOCOM began reporting OM&S under the consumption method of accounting in Fiscal Year (FY) 2021 under the I&RP line item on the Balance Sheet. USSOCOM currently reports two categories of assets as OM&S: Uninstalled Aircraft Engines (UAE) and munitions, both of which are now treated using the consumption method of accounting. USSOCOM will ultimately report a third category of OM&S, the Defense Property Accountability System (DPAS) Remainder which consists of repair parts and assemblies but has not been able to identify a population of the DPAS Remainder to report on its financial statements. USSOCOM management has stated USSOCOM does not have a mechanism in place to identify all the OM&S held for use across the USSOCOM enterprise. Therefore, USSOCOM was unable to report a complete population of OM&S.

8. **Lack of Valuation over Operating Materials and Supplies**. USSOCOM management was unable to make an unreserved assertion over the valuation of OM&S reported within its Balance Sheet for I&RP, in accordance with the SFFAS 48: Opening Balances for Inventory, OM&S, and Stockpile Materials. USSOCOM has asserted that it does not have the processes and controls in place to validate the valuation of OM&S. USSOCOM over relies on the service organizations in custody of the OM&S assets to perform inventory procedures and related controls. USSOCOM did not have oversight or visibility into inventory procedures performed by the service organizations over OM&S that is reported on the USSOCOM financial statements, nor did USSOCOM review any documentation resulting from inventories conducted by the service organizations.

9. **Inability to Substantiate Operating Materials and Supplies**. USSOCOM was unable to support the economic events and underlying transactions related to the OM&S, a component of I&RP on the balance sheet, specifically pertaining to the purchases, consumptions, gains, or losses of OM&S. In prior years, USSOCOM accounted for OM&S through the purchases method, in which OM&S assets were expensed upon acquisition. However, as USSOCOM could not support the selection of the purchases method, USSOCOM began accounting for OM&S under the consumption method in FY 2021, in which OM&S assets are accounted for under the I&RP financial statement line item upon acquisition and expensed once consumed. In Quarter (Q) 4 FY 2021, USSOCOM posted a current year

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adjustment in Q4 FY 2021 to reflect FY 2021 OM&S under the consumption method of accounting for OM&S. To calculate the FY 2021 OM&S activity, USSOCOM subtracted the FY 2021 beginning balance from the ending FY 2021 OM&S balance, informed by the Q4 FY 2021 OM&S inventory, to determine the related impact during the current year and recorded it via JV. This was due to USSOCOM's inability to account for purchases, consumptions, gains or losses activity for OM&S. Currently, USSOCOM's accounting systems expense OM&S upon acquisition and manually establishes the OM&S balance through a quarterly JV in order to account for OM&S under the consumption method. Therefore, USSOCOM does not have data or system capabilities that can substantiate the economic events and underlying transactions supporting the FY 2021 OM&S adjustment and FY 2022 activity.

10. **Lack of Compliance with the Accrual Basis of Accounting**. Certain 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. Grant Thornton noted that two systems use certain codes to record an obligation, expense, liability, and disbursement simultaneously. Through our testing we noted that USSOCOM service components and sub-unified commands/TSOCs 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 recording 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. Through testing of Gross Costs, Grant Thornton noted some USSOCOM feeder systems do not post the expense and associated accounts payable when goods or services or the vendor invoice are received. Instead, the expense entry is recorded in conjunction with the payment made to the vendor. If the receipt of goods or services occurs in one FY and the payment takes place in the subsequent FY, this causes a misalignment of the expense to the incorrect FY. USSOCOM lacks internal controls to ensure the completeness, accuracy, and timeliness of its year-end balance of Gross Costs and Accounts Payable. Additionally, USSOCOM's financial reporting service organization posts JVs on USSOCOM's behalf based on the amount of abnormal accounts payable occurring with the recording disbursements. In certain circumstances, these adjustments were not based on evidence of the receipt of goods or services.

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

    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 financial reporting service organization obtains and ingests relevant USSOCOM financial data into 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. Furthermore, it was noted that, while a reconciliation is performed between DDRS-B and DDRS-AFS, the reconciliation is performed after the quarterly financial statements have been finalized, and therefore it would not prevent, or detect and correct, errors from being presented on the financial statements.

c. ***Manual Pre-Processing:*** Certain pre-processing actions require manual action by financial reporting 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 failure to review all instances of auto-excludes for appropriateness and failure to review the related impact of excluded records to the USSOCOM financial statements.

d. ***Unsupported Adjustments:*** USSOCOM's financial reporting service organization create 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-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 is available. Alternatively, transactional details or other appropriate supporting documentation for JVs designated as unsupported is either unobtainable or unavailable. Grant Thornton noted that unsupported JVs were routinely recorded within DDRS-B and DDRS-AFS for which transactional detail is not obtainable/available. Similar to JVs, Trial Balance Input Adjustments (TBIAs) are adjustments that can be made within DDRS-AFS. TBIAs help to allow data from DDRS-B interface into DDRS-AFS when the opening balances between the two systems do not agree. While a high-level summary of the issue (e.g. interface errors) can be provided, TBIAs cannot be connected to the underlying DDRS-B activity, whether caused by DDRS-B JVs, accounting system information ingested, non-accounting system information ingested, or specific interface issues.

e. ***Validation of Disclosures:*** While much of the USSOCOM financial statement preparation process is executed by the financial reporting service organization, USSOCOM management is responsible for the preparation and review of certain disclosures within the financial statements. While processes have been implemented by USSOCOM to ensure the validity of data calls utilized to populate certain footnotes, USSOCOM was unable to fully validate the data within the data calls. Furthermore, controls in place at USSOCOM were absent or insufficient to prevent manual errors from causing misstatements (e.g., identify abnormal balances and/or misstated disclosures).

12. **Inability to Create a Comprehensive Universe of Transactions**. USSOCOM was unable to provide transaction-level detail supporting financial statement impact for every accounting system and non-accounting system. Additionally, USSOCOM was unable to provide transaction-level detail for any systems prior to FY 2003, with the majority of systems having transactional details available related only to FY 2013 and beyond. The inability to provide transactional-level data for all accounting and non-accounting systems impacting USSOCOM financial statement prevents USSOCOM from being able to comprehensively substantiate their financial statements. Furthermore, the inability to provide transactional data limits USSOCOM management's ability to understand the various types of activities supporting summarized financial statements or perform meaningful analysis of differing types of internal and external factors impacting operations.

13. **Inadequate Controls for Information Systems used for Funds Distribution**. In accordance with the 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 the FMFIA, management should design control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing. We performed testing 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. Due to inconsistent adherence to policies and procedures related to key information system controls, we noted the following deficiencies during our testing:

    a. **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, limiting access based on roles and job function, and actions which can be executed on files and other resources. We noted the following deficiencies during our testing:

        i. PBAS
        - Access reviews were not comprehensive and complete.
        - User listing used for account management activities is incomplete.

        ii. EFD
        - Access reviews were not comprehensive and complete.
        - Formalized process to monitor for suspicious activity was not documented. Furthermore, the Security Information and Event Management (SIEM) tool was not configured to log required audit events.
        - Provisioning documentation was not commensurate with user access.
        - Segregation of Duties Matrix was incomplete.

- A system-generated listing of terminated and transferred users could not be provided.

Unauthorized access increases the risk that users can perform activities within the system in excess of their job responsibilities. Without a complete and comprehensive access review, users' access may not be commensurate with their current job duties, resulting in continued access and least privilege and segregation of duties concerns. Without a comprehensive understanding of user access rights, users may have access to perform incompatible functions or have access to privileges outside of what is needed to perform their job responsibilities. Lack of a comprehensive monitoring tool and review process increases the risk that the threatening activity is not addressed in a timely manner. Lastly, without a mechanism to track terminated and transferred users, there is an increased risk that users retain unauthorized access to the application. 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.

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 as well as proper authorization, testing, approval, and tracking of all configuration changes. We noted the following deficiencies during our testing:

i. EFD
   - A complete and accurate listing of changes to configurable changes related to the application could not be provided. Furthermore, controls to validate those changes migrated to production were authorized and validated were not designed and implemented.
   - Formalized policies and procedures to maintain and track configuration baselines were not documented.

Well established configuration management controls prevent unauthorized changes to the application and provide reasonable assurance that systems are configured and operating securely and as intended. Included in these configuration management controls is the ability to systematically track all changes that were modified and migrated to the production environment and validate that all changes migrated to production are authorized and valid. Furthermore, without comprehensive policies and procedures that document the process to maintain, scan, and track configuration baselines, there is an increased risk that the baselines are misconfigured. These issues 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:

i. EFD
   - Formalized process to track system vulnerabilities to remediation was not established.

Lack of remediation of vulnerabilities in a timely manner increases the risk of systems being compromised and may result in unauthorized use, modification, and disclosure of data. 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.

14. **Inadequate Controls for Information Systems Used for the General Ledger Accounting Purposes**. In accordance with the 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 the FMFIA, management should design control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing. In FY 2021, we performed testing over the Navy Standards Accounting, Budgeting, and Reporting System (NSABRS) which, among other applications, supports the general ledger accounting**.** NSABRS users plan to migrate to Defense Agencies Initiative. As a result, Grant Thornton did not perform audit procedures for NSABRS. The conditions noted below are deficiencies identified in prior years that continue to impact the control environment in FY 2022.

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

i. Users were granted unauthorized access.

ii. Access reviews were not complete.

iii. Reviews of terminated and transferred users' access were not performed.

Unauthorized access increases the risk that users can perform activities within the system in excess of their job responsibilities. Additionally, without a comprehensive review of users' access on periodic basis, there is risk that users may retain inappropriate access to the application. 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.

b. **Configuration Management**.

i. A complete and accurate listing of direct data changes could not be provided.

ii. Program changes were not authorized, validated and approved in accordance with policies.

iii. Change management audit logs were not reviewed timely.

Without the ability to generate an audit log of direct data changes, unauthorized changes to the general ledger could be made. Further, without the ability to associate changes with change management documentation, there is an increased risk that unauthorized, inappropriate, or untested changes may be introduced into the application without detection. Additionally**,** without a timely review of monitoring reports, unauthorized changes can be implemented into production. These issues 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**.

i. Third-party agreements were not updated.

Lack of review of third-party contract agreements increases the risk that (a) modifications or amendments to responsibilities and controls may go undetected, and (b) required updates are not documented and implemented. 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.

Recommendations

USSOCOM management should consider taking the following actions:

1. **Lack of Comprehensive Understanding of Information Systems and Financial Data**. USSOCOM management should formally document and maintain 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, as well as maintain documentation that identifies responsible accounting operation mission areas and points of contact for all financial statement line items, Assessable Units (AUs), and business activities/events which can be utilized when researching financial statement line items and fluctuations.

2. **Lack of Validation Controls over Financial Transactions and Related Data**. USSOCOM management should include an evaluation of all USSOCOM financial reporting transactions from inception to reporting including reconciliations, as well as activities executed by USSOCOM's service organizations and USSOCOM accountants that 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.

3. **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, including crosswalks to feeder systems, to ensure sufficient supporting documentation exists. Policies and procedures should also address establishing controls to retain evidence. USSOCOM should implement processes for monitoring the total actual obligations incurred when support becomes available, compare actuals to the related estimates, set thresholds for assessing the accuracy of the estimates, and improve its estimation methodology where the accuracy of estimates used falls below the established thresholds. USSOCOM Management should implement new and strengthen existing controls over the receipt and acceptance of goods and services, timely provisioning of sensitive information and data, and Gross Costs and New Obligations and Upward Adjustments transactions.

4. **Control Deficiencies over Accounts Payable and Advances and Prepayments**. USSOCOM management should work with its financial reporting service organization and relevant system owners to obtain USSOCOM Accounts Payable and Advances and Prepayments data and related support for balances represented in the USSOCOM financial statements on a timely basis. USSOCOM should also develop a process and procedures to routinely obtain schedules of Accounts Payable and Advances and Prepayments that can be summarized at the vendor, voucher, and/or invoice level and develop a risk management process. Additionally, management should develop a strategy and compensating controls, recognizing system limitations, that will enable USSOCOM to record Accounts Payable transactions timely, completely, and accurately.

5. **Improper Reporting of Revenue**. USSOCOM should develop, document and implement processes when faced with system limitations and perform a detailed analysis of the Earned Revenue line item balance that provides sufficient documentation of and support for any necessary adjustments to USSOCOM's financial statements.

6. **Inappropriate Accounting Treatment of Certain Assets**. USSOCOM management should complete an analysis that determines whether certain assets that lose their identity through incorporation into an end-item once utilized are appropriately categorized as materials (a component of OM&S) or as PP&E and make related adjustments to its accounting records as appropriate. Additionally, USSOCOM should accurately accumulate and capitalize MFP-11 funded capital improvements and modifications to GE assets, including MFP-2 funded assets that are reported by the military services. USSOCOM should ensure that once MFP-11 funded capital improvements and modifications are complete, procedures are in place to appropriately record the transfer and acceptance of the cost to the military service financially reporting the base asset.

7. **Lack of Completeness over Operating Materials and Supplies**. USSOCOM management should continue efforts to identify and record OM&S within Accountable Property Systems of Record (APSRs). Additionally, USSOCOM should develop and implement processes to ensure service components and sub-unified commands/TSOCs 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 Financial Management Regulation (FMR).

8. **Lack of Valuation over Operating Materials and Supplies**. USSOCOM management should develop a comprehensive plan, including milestones, to implement SFFAS guidance. USSOCOM management should develop, document, and implement controls over the valuation of OM&S. Additionally, USSOCOM should develop and document an understanding of the inventory procedures performed by service organizations over OM&S held outside of USSOCOM and perform oversight to ensure inventory procedures over OM&S held outside of USSOCOM are effectively performed.

9. **Inability to Substantiate Operating Materials and Supplies**. USSOCOM management should develop, document, and implement procedures and system capabilities to substantiate the purchases, consumption, gains, or losses of OM&S in the year the activity occurs to support the OM&S balance. Additionally, USSOCOM management should ensure JVs appropriately reflect the underlying economic events and develop a comprehensive plan to implement SFFAS guidance.

10. **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 modified to comply with the accrual basis of accounting. USSOCOM management should work with system owners to establish processes that ensure appropriate recording of economic events in a timely manner after they occur. USSOCOM should establish cut-off procedures to minimize the volume of transactions that are not recorded in the proper period and perform an analysis to determine which business processes result in a misalignment of receipt and acceptance of goods or services and recordation of the related expense and payable. Management should use the analysis to perform a cost/benefit determination over the possible variances across FYs. Finally, USSOCOM should implement a control to estimate the amount of unrecorded expenses at year-end and post an accrual entry to ensure the alignment of expenses to the proper FY.

11. **Lack of Controls over Financial Statement Compilation**. USSOCOM management should continue to work with its 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 the service organization’s actions. Additionally, USSOCOM management should design and implement controls that validate the accuracy of information manually included within the financial statements and related notes by USSOCOM personnel.

12. **Inability to Create a Comprehensive Universe of Transactions**. USSOCOM management should develop processes and procedures to obtain a full transactional population, or alternative documentation, which substantiates balances presented in the USSOCOM financial statements. USSOCOM should

additionally develop and document a detailed understanding of the various types of activities supporting summarized financial statement balances, as well as perform an analysis of differing types of internal and external factors impacting operations.

13. **Inadequate Controls for Information Systems used for Funds Distribution**. 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 Segregation of Duties**

i. PBAS
- Review all users and associated account details as a part of the comprehensive periodic recertification.
- Develop new code to include all privileges and account details within user listing.

ii. EFD
- Implement a process to review all access for users on a periodic basis.
- Implement audit logging and monitoring controls in accordance with formal policies and procedures. Furthermore, review and document security logs on a periodic basis.
- Document access roles within access request forms.
- Document all systematic roles within the segregation of duties matrix conflicts.
- Establish a mechanism to track terminated and transferred users for the application.

b. **Configuration Management**

i. EFD
- Establish a mechanism to systematically track all configuration items that are migrated to production in order to produce a complete and accurate listing of all configuration items. Further, develop, document, implement, and enforce requirements and processes to periodically validate that all configuration items migrated to production are authorized and valid.
- Establish a process to maintain, track, and remediate configuration baselines.

c. **Security Management**

i. EFD
- Identify resources to prioritize the remediation of vulnerabilities.

14. **Inadequate Controls for Information Systems Used for the General Ledger Accounting Purposes**. USSOCOM management, including USSOCOM's CIO

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and system service organizations, should work to enforce and monitor the implementation of corrective actions as follows:

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

i. Enforce access provisioning policies and procedures.

ii. Perform complete periodic recertification of user access for continued appropriateness of access.

iii. Develop a mechanism to track all users that have been terminated or transferred.

b. **Configuration Management**

i. Implement a method to demonstrate that all direct data changes are authorized.

ii. Provide change management documentation that supports the traceability of the changes.

iii. Enforce procedures to perform a timely review of the monitoring reports.

c. **Security Management**

i. Validate that the review of Service Level Agreement occurs in accordance with the agreement requirements.

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 (TFM) Chapter 5100, Section 5125, requires agencies to implement effective and efficient reconciliation processes and perform timely reconciliations between their FBwT general ledger 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. Office of the Under Secretary of Defense, Comptroller allots funds from appropriations to USSOCOM and other ODOs including: Operations and Maintenance; Procurement; and Research, Development, Test, and Evaluation, among others. Similarly, Treasury aggregates the FBwT information for ODOs at a summary level in a single Treasury account, U.S. Treasury Index (TI) 97. The Treasury account does not provide identification and account balances 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 HQ Accounting and Reporting System (HQARS) consolidates the disbursement and collection information received from disbursing offices for each ODO FBwT account. HQARS then reports the disbursement and collection 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 the 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 the CMR Tool, which takes information gathered from HQARS to generate the CMR. The CMR is comprised 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 at the 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 were performed using the Department 97 Reconciliation and Reporting Tool (DRRT) and Consolidated Cash Accountability System (CCAS). During FY 2022, USSOCOM transitioned from DRRT and CCAS to Advancing Analytics (Advana) as the source system for reconciling FBwT. Given the transitionary period, the Advana FBwT reconciliation tool, processes, and related controls were continuing to evolve during the FY 2022 audit cycle.

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Evaluation of FBwT Reconciliation Results

During our testing of the results of the USSOCOM FBwT reconciliation process, we identified the following weaknesses:

1. **Unidentified Differences**. USSOCOM's financial reporting service organization uses an Access database to prepare the TI-97 General Fund FBwT Workbook (TI-97 Audit Workbook), which displays TI-97 expenditure data and the partially reconciled FBwT balance for each ODO accounting system detail and the CMR. The TI-97 Audit Workbooks also display unidentified differences/reconciling items and variance balances for each ODO. The financial reporting service organization uses a number of different terms to distinguish among the various types of unidentified differences (e.g., Unallocated Funds, Processing and Subhead Errors, Unvouchered Intragovernmental Payment and Collection, Treasury variances, and exclusions). USSOCOM's financial reporting service organization is unable to produce a universe of transactions and supporting documentation for certain different types of FBwT variances.

   As of September 30, 2022, unidentified differences between the CMR and USSOCOM accounting system detail included within the TI-97 Audit Workbook amounted to $35.7 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 Workbook, as of September 30, 2022, included an amount of $101 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. For FY 2022, Grant Thornton did not receive the FBwT Beginning Balance Analysis to calculate the FBwT differences or perform controls walkthrough in the area.

3. **Out-of-Scope Appropriations**. USSOCOM management was unable to provide support validating USSOCOM's right to the Out-of-Scope Appropriations. For FY 2022, Grant Thornton did not receive the FBwT Beginning Balance Analysis to calculate the FBwT differences or perform internal controls walkthroughs in the area.

In addition to not receiving the FBwT Beginning Balance Analysis, Grant Thornton did not receive the documentation necessary to complete the FBwT aging analysis. FBwT reconciliations for ODOs are complex due to multiple individual ODOs comprising TI-97; each ODO fund balance in the U.S. Treasury accounts is indistinguishable from the fund balances of the other ODOs. This has resulted in the identification of unsupported FBwT transactions. Grant Thornton identified that USSOCOM lacks monitoring over its financial reporting service organization as it relates to FBwT and that controls and documentation around the process were insufficient. Grant Thornton was unable to perform testing over DRRT and CCAS reconciliations due to processes being migrated to Advana. Significant FBwT variances may continue to age over 60 business days. Through our testing of the FBwT suspense and CMR differences, Grant Thornton was unable to conclude rights and obligations of these differences as

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a result of insufficient and/or lack of supporting documentation. Furthermore, Grant Thornton noted through suspense testing that samples with USSOCOM economic events were erroneously included in other DoD agency financial data. The existence of material unidentified differences between USSOCOM's FBwT balance and balances reported by Treasury, as well as material unsupported aged 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 the completeness, accuracy, and validity of information processing**.** We performed testing over HQARS and the CMR Tool, which is owned by USSOCOM's financial reporting service organization.

We noted the following weaknesses related to the HQARS and CMR Tool applications:

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

   a. HQARS

      i. Periodic access reviews were not complete and comprehensive.

   b. CMR Tool

      i. Access Control policies and procedures were not updated to reflect current operating conditions.

      ii. Periodic access reviews were not complete and comprehensive. Further, evidence of the review was not retained.

      iii. Audit logging and monitoring of user activity was not performed.

   Without formalized and comprehensive access control policies and procedures, management is not able to adequately monitor that only authorized individuals maintain appropriate access to the application. Lack of a comprehensive recertification presents the risk that individuals maintain unsupported and/or unauthorized access to the application. Users with the ability to perform functions outside of their job responsibilities increases the risk of inaccurate, invalid and/or unauthorized transactions being processed by the system. Furthermore, the lack of audit logging and monitoring controls increases the risk that suspicious activity is not detected or addressed 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.

2. **Configuration Management**.

   a. CMR Tool

i. Periodic change monitoring was not performed and documented.

The lack of change monitoring controls presents the risk that unauthorized changes could be implemented to production. 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.

3. **Security Management**.

   a. CMR Tool

      i. Security policies and procedures were not updated to reflect current operating conditions.

Without formalized and comprehensive security management policies and procedures, management is unable to adequately monitor the system's security posture or identify vulnerabilities in the environment. 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.

Recommendations

USSOCOM management should consider taking the following actions:

1. **Evaluation of FBwT Reconciliation Results.**
USSOCOM management should continue to work with its financial reporting service organization and other relevant organizations to:

   a. Further investigate and resolve unidentified and unreconciled differences resulting from the FBwT reconciliation process.

   b. Design and implement controls over the FBwT reconciliation process including timely resolution of FBwT differences.

   c. 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 should work with its service organizations to enforce and monitor the implementation of corrective actions as follows:

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

   a. HQARS

      i. Review all users as a part of the comprehensive periodic recertification.

   b. CMR Tool

i. Update, implement and disseminate access control policies and procedures in accordance with National Institute of Standards and Technology (NIST) standards.

ii. Establish a process to conduct and document periodic reviews to determine the appropriateness of access.

iii. Establish a process to perform and review audit logs of user activities.

2. **Configuration Management**

   a. CMR Tool

      i. Establish a process to perform periodic reviews of configuration baselines.

3. **Security Management**

   a. CMR Tool

      i. Update, implement and disseminate security management policies and procedures in accordance with NIST standards.

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

In accordance with OMB Circular A-123 issued under the authority of 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 on its September 30, 2022, Balance Sheet a total of $3.2 Billion in PP&E, Net. The balance represents GE and CIP. USSOCOM is in the process of implementing SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment.* However, USSOCOM management had not yet completed the necessary steps to make an unreserved assertion over its balance of PP&E within the Balance Sheet.

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

General Equipment

1. **Incomplete Recording of Accountable Assets**. USSOCOM's acquisition office did not complete the recording of all of its accountable property within their APSRs by the end of FY 2022.

2. **Inability to Support Historical Acquisition Cost.** As originally designed, the Global Combat Support System-Army (GCSS-Army), one of the APSRs used by USSOCOM, does not track historical acquisition cost. Instead, the system assigns current sales price as noted within the current asset catalog. Additionally, USSOCOM management was unable to provide sufficient documentation to support the recorded acquisition cost for certain assets inspected during our testing.

3. **Lack of Adequate Controls over Existence, Completeness, and Valuation**. During our testing, we identified errors related to the existence, completeness, and valuation of GE sampled that included incomplete financial reporting of GE, inadequate evidence to support existence of the asset, as well as acquisition cost, acquisition date, and useful life not supported by documentation. Additionally, we identified errors related to the improper inclusion of certain GE assets that were not procured by USSOCOM or were not USSOCOM GE assets. We also noted a lack of timeliness in recording GE assets acquired/transferred-in and dispositioned/transferred-out of the APSR. Furthermore, USSOCOM management did not produce a detailed listing of GE that separately displays transfers in, transfers out, additions, and disposals (all of which have a financial statement impact) from internal transfers (which are non-impactful to the financial statements) for all GE assets. As a result, USSOCOM management could not conduct appropriate reviews of the changes in composition of GE balances. Finally, recurring controls were not in place at a USSOCOM component to ensure all GE assets were inventoried.

Construction in Progress

1. **Inability to Support Capitalized Construction Costs**. During our testing, we noted USSOCOM's inability to provide documentation for sampled CIP projects to validate the proper inclusion or exclusion of capitalized construction costs within 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 components without proper monitoring controls in place, and inadequate property controls at USSOCOM has led to the control weaknesses noted. These weaknesses could further delay USSOCOM management's efforts to assert to the value of PP&E, Net 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. **Incomplete Recording of Accountable Assets**. USSOCOM management should enforce controls that ensure its acquisition office maintains its APSRs up-to-date with accurate counts and develops milestones which ensure all accountable assets are added to the APSRs.

2. **Inability to Support Historical Acquisition Cost**. USSOCOM management should continue efforts towards preparing to assert to its balance of PP&E, 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, Completeness, and Valuation**. USSOCOM management should continue to develop and revise its internal controls to ensure accurate recording of the GE and Accumulated Depreciation account balances. USSOCOM should also develop, document, and implement policies and procedures that ensure GE data, including acquisition date and useful life in the APSR, 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. USSOCOM management should enforce controls to ensure acquisitions/transfers-in and disposals/transfers-out of GE assets are recorded in the APSR in the period in which the transaction occurs. Additionally, USSOCOM management should develop processes and procedures to prepare a listing of GE that separately identifies transfers in/out, additions, and disposals from internal transfers to support analysis of GE. Furthermore, USSOCOM management should implement procedures to ensure all assets are subject to inventory controls at regular intervals.

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Inability to Support Capitalized Construction Costs. USSOCOM management should design and implement controls to ensure accumulated CIP project costs have appropriate supporting documentation, which is retained and readily available for review. USSOCOM management should also design and implement controls to ensure the validation of removal of asset values upon acceptance of the transfers by the military services.

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VI. Significant Deficiency - Lack of Adequate Controls over Information Systems Related to Sensitive Activities

In accordance with the 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 the FMFIA, management should design control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing. Grant Thornton evaluated two systems that are used to process transactions relating to sensitive activities. One of the systems is General Fund Enterprise Business System – Sensitive Activities (GFEBS-SA), which Grant Thornton assessed in FY 2022. The other system is owned by a USSOCOM component, who plans to migrate to GFEBS-SA in future years, and thus the component has no plans to enhance its current legacy system. As a result, Grant Thornton did not perform additional audit procedures over their current legacy environment and the conditions noted below relating to this system were identified in prior years and continue to impact the control environment in FY 2022.

For systems that process sensitive activities, we noted the following deficiencies:

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

   a. USSOCOM Component System

      i. Comprehensive access control policies and procedures were not documented and formalized.

      ii. Comprehensive recertification of users was not conducted to determine appropriateness of access.

      iii. Configurations to disable/remove accounts after a period of inactivity were not implemented.

      iv. Users have write access to audit logs.

      v. Reviews of audit logs were not documented.

   b. GFEBS-SA

      i. Access provisioning procedures for users were not followed.

      ii. Reaffirmation process for privileged users was not documented and implemented.

      iii. A complete listing of privileged users that were deprovisioned could not be generated.

      iv. ArcSight tool was not configured to monitor and log user activity within the database.

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v. Timely review and closure of ArcSight tool cases was not performed. Furthermore, the ArcSight tool has limited data retention.

vi. Processes to validate that inactive end users were revoked were not performed.

Policies and procedures that are not formalized and disseminated present the risk that personnel do not adhere to required controls. Unauthorized access increases the risk that users can perform activities within the system in excess of their job responsibilities. Further, lack of a comprehensive recertification, lack of complete deprovisioned user listing, and the untimely removal of access present the risk that individuals maintain unauthorized access to the application. Uncomprehensive audit logs, the ability to “write” to audit logs, and lack of review and retention 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**.

a. USSOCOM Component System

i. Comprehensive configuration management policies and procedures were not documented and formalized.

b. GFEBS-SA

i. Changes were not made in accordance with policy.

ii. A process for validating transports was not implemented.

iii. Documented approval did not occur prior to implementing a patch to production.

iv. System settings / security technical implementation guides (STIGS) were outdated.

Policies and procedures that are not formalized and disseminated present the risk that personnel do not adhere to required controls. Without appropriate controls to document, validate and authorize changes, there is an increased risk that unauthorized, inappropriate, or untested changes may be introduced into the application without detection. If unauthorized or erroneous changes to the application are not identified, there is an increased risk that changes could have a negative impact to the system. Without receiving appropriate approvals, patches migrated into production may negatively impact the application functionality. Without reviewing and implementing the latest system security settings, application settings may not be enforced or secure. 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**

   a. GFEBS-SA

      i. Policies and procedures were not updated to reflect current operating conditions.

      ii. Supporting documentation relating to various areas of testing was not provided.

      iii. Automated vulnerability tools not configured to scan all system components.

      iv. Vulnerabilities were not tracked to remediation.

      v. A process for extending Plan of Actions and Milestones (POA&Ms) that exceed remediation timeframes was not documented or implemented.

   Without formalized and comprehensive policies and procedures, management is not able to help ensure personnel are operating and supporting the system as designed. Incomplete scanning of the application for vulnerabilities increases the risk that critical vulnerabilities go undetected and unresolved which in turn increases the risk of systems being compromised. The inability to track and monitor vulnerabilities to remediation in accordance with timelines increases the risk of that known weaknesses are not addressed and further increases the risk to confidentiality, integrity, and availability of data. Insufficient evidence to support the design and operating effectiveness of controls inhibits the ability to conclude on whether controls have been appropriately designed and whether those controls were operating effectively during the audit period. 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.

4. **Backups**

   a. GFEBS-SA

      i. Backup logs are not retained for the duration of the audit period.

If application data is not retained for archival purposes, there is an increased risk that the application would not be restored in the event of a data loss or outage. This may increase the risk of financial systems being compromised and may result in unavailability of data.

<u>Recommendations</u>
USSOCOM management should consider taking the following actions :

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

a. USSOCOM Component System

i. Finalize and implement comprehensive access control policies and procedures.

ii. Conduct reviews to determine the appropriateness of access.

iii. Implement configurations to disable / remove accounts after a period of inactivity.

iv. Remove the ability for users to have write access to audit log.

v. Document the reviews of audit logs. Furthermore, retain evidence of the review.

b. GFEBS-SA

i. Implement a process to ensure all systematic user roles provisioned within the application are documented and approved.

ii. Develop a process to perform a comprehensive review of privileged access on a periodic basis.

iii. Develop the capability to systematically generate and retain a listing of privileged users deprovisioned access.

iv. Configure the ArcSight tool to monitor and log user activity and review resulting logs.

v. Design and implement timeframes for when ArcSight cases must be reviewed and closed and establish a mechanism to retain ArcSight case data for archival purposes.

vi. Implement a process to validate those inactive users are removed.

2. **Configuration Management**

a. USSOCOM Component System

i. Finalize and implement comprehensive configuration management policies and procedures.

b. GFEBS-SA

i. Implement a control to ensure that each configuration item is requested, developed, tested, approved prior to implementation into production.

ii. Implement a process to validate that only authorized changes move to production.

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iii. Implement a process to ensure that all patch releases are properly reviewed and approved prior to migration into production.

iv. Design and implement a process to ensure the latest security settings are reviewed and applied to the system.

3. **Security Management**

   a. GFEBS-SA

      i. Design and implement policies and procedures to be reflective of current processes.

      ii. Implement a process to provide supporting documentation.

      iii. Configure the automated vulnerability tool to scan all system components for vulnerabilities.

      iv. Implement a process to validate identified vulnerabilities are tracked and remediated in accordance with policies and procedures.

      v. Establish a process to obtaining signature approval and documenting risk acceptance.

4. **Backups**

   a. GFEBS-SA

      i. Configure the backup utility to retain data for a longer period.

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VII. Material 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. The 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 SoA 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 the FMFIA and the related OMB Circular A-123 requirements. Specifically, USSOCOM documented its determination about whether its controls were designed, implemented, and operating effectively in accordance with the 17 GAO *Green Book* principles. We noted that the results in the ELC Matrix do not align with conclusions in SoA – Overall Assessment and Evaluation of Internal Controls Table. Specifically, for the Risk Assessment and Monitoring components, the ELC matrix indicates controls are not operating effectively, while the SoA table indicates "Yes" for operating effectively.

As a result, USSOCOM management did not ensure substantial compliance with the FMFIA. Specific examples of USSOCOM's non-compliance with the FMFIA are included in material weaknesses noted in Sections I through V of this report.

In addition to those control deficiencies that were noted as part of the material weaknesses referenced above, we identified additional deficiencies that impacted USSOCOM's compliance with the FMFIA:

a. USSOCOM did not provide process documentation supporting the implementation of controls.

b. USSOCOM's (buyer-side) data is adjusted, or replaced, using seller-side data submitted from other organizations due to USSOCOM's inability to reconcile.

<u>Recommendations</u>

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

1. In order to conclude on compliance with each of the GAO *Green Book* 17 principles, management should consider the use of GAO's Internal Control Management and Evaluation Tool to evaluate whether each principle was designed, implemented, and operating effectively. Further, management should align results for the individual GAO *Green Book* principles to the results in the Overall Assessment and Evaluation of Internal Controls.

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

The Federal Financial Management Improvement Act of 1996 (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 United States Standard General Ledger (USSGL) at the transaction level. USSOCOM management has acknowledged that they do not comply with the requirements of the FFMIA.

Because of matters described in the Basis for Disclaimer of Opinion paragraphs included in our financial statement audit report dated November 7, 2022, we were not able to obtain sufficient appropriate audit evidence related to USSOCOM management's substantial compliance with FFMIA Section 803 (a) requirements.

USSOCOM owns systems that are unique to its operations; however, the majority of USSOCOM's transactions are processed through and reside in each of the military services' components' and/or service organization financial systems, depending on the Combatant Command Support Agent of the USSOCOM service component or sub-unified command. Based on our inspection of the Department of the Air Force, Department of the Army, Department of the Navy, and United States Marine Corps FY 2021 annual financial reports, we noted that each of the departments and the United States Marine Corps are not in compliance with the requirements of FFMIA. We anticipate these results will not significantly change in FY 2022. In turn, this affects USSOCOM's ability to substantially comply with the requirements of the 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, configuration management, and backups, financial systems did not meet Federal Financial Management System requirements.

2. **Applicable Federal Accounting Standards**. USSOCOM did not comply with applicable federal accounting standards in multiple instances such as:

    a. USSOCOM management has asserted that, currently, it does not have adequate controls in place to validate the completeness and accuracy of the value reported within its Balance Sheet for PP&E.

    b. Intra-entity revenue was recorded as exchange revenue within certain accounting systems.

    c. No reports could be generated which would allow for the assessment of risk related to aged invoices and abnormal balances at the invoice, voucher, or vendor level.

    d. Processes were not in place to consistently accrue accounts payable in all instances.

    e. USSOCOM could not attest to the completeness of the OM&S balance on the financial statements and full application of the consumption method of accounting of the OM&S.

f. USSOCOM management has asserted that it does not have the processes and controls in place to validate the valuation of OM&S and therefore could not make an unreserved assertion over the value reported within its balance sheet for I&RP.

g. Certain USSOCOM information systems were not designed for compliance with the accrual basis of accounting (e.g., Standard Operation and Maintenance Army Research and Development System) and USSOCOM lacks the policies and controls to ensure compliance with the accrual basis of accounting.

h. USSOCOM management was unable to support classification of certain Class 2 component item assets as OM&S, rather than classifying the Class 2 component item assets as PP&E.

i. There were certain Military Standard Requisitioning and Issue Procedures supply bulk transactions and summary transactions recorded within the General Accounting and Finance System for which underlying support was unavailable.

j. USSOCOM management could not provide a listing of assets supporting the balance for the Advances and Prepayments line item.

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 so 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.

<u>Recommendations</u>

USSOCOM management should consider taking the following actions:

1. Consider transitioning to a stand-alone general ledger accounting system that complies with the requirements of the FFMIA. A transition to a modern and compliant system would eliminate USSOCOM's dependency on service organization systems that are non-compliant with federal financial system requirements, federal accounting standards, and the USSGL at the transaction-level. The transition would also eliminate the need for extensive and complex adjustments/reclassifications of financial data that are prone to errors. USSOCOM management should also continue to work with the Office of the Under Secretary of Defense, Comptroller to develop alternative methods of producing the USSOCOM financial statements.

2. Alternatively, USSOCOM management should work with their service organizations to develop corrective actions for long-standing system control weaknesses and to ensure that internal controls are in place for every step of the

compilation process executed by its financial reporting service organization, including:

a. Develop and implement comprehensive reconciliation controls/processes to ensure that all USSOCOM data ingested into DDRS-B is ingested at the accurate amount and to the appropriate accounts;

b. Develop processes/procedures to obtain a full transactional population;

c. Conduct assessments to ensure compliance with:

   i. TFM USSGL at the transaction level; and,

   ii. Applicable federal accounting standards.

d. Develop, implement, and monitor the effectiveness of security controls to ensure compliance with NIST and DoD Instruction requirements; and,

e. Develop a comprehensive plan, including milestones, to implement both SFFAS and DoD Guidance in a timely manner.

3. Further design and implement adequate controls and monitoring activities over USSOCOM's compliance with the FFMIA according to OMB Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act of 1996.

UNITED STATES SPECIAL OPERATIONS COMMAND
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SOFM 7 November 2022

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

SUBJECT: Management Response to the Fiscal Year 2022 United States Special Operations Command Financial Statement Audit Report

1. The United States Special Operations Command (USSOCOM) would like to thank Grant Thornton, LLP for your efforts during the USSOCOM Fiscal Year (FY) 2022 Financial Statement Audit. USSOCOM also appreciates the opportunity to respond to the Draft Schedule of Findings and Responses received on 31 October 2022. The FY 2022 audit resulted in a Disclaimer of Opinion and USSOCOM identified areas of opportunity for improvement throughout the organization.

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

3. USSOCOM made significant progress in developing Entity Level Controls and continues coordinating with Military Departments to move from legacy to modern accounting systems for transparent operations and financials. Similarly, Advana will assist to provide a Universe of Transactions and Funds Balance with Treasury reconciliations.

4. USSOCOM is a complex agency which is mandated by law to be dependent on Military Departments/Agencies systems, policies, and procedures. We will continue collaborating with Service Providers, Military Departments, and Defense Agencies to implement corrective actions and effectively remediate noted deficiencies. USSOCOM will continue to progress in reaching our goal of achieving a clean audit opinion.

D. MARK PETERSON
Chief Financial Officer/Comptroller