FY 2020 USSOCOM Financial Statement Reporting Package

September 30, 2020

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Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED BALANCE SHEET
As of September 30, 2020 and 2019

	2020 Consolidated	2019 Consolidated
1. ASSETS (Note 2)		
A. Intragovernmental:		
1. Fund Balance with Treasury (Note 3)	$ 11,871,873,059.10	$ 11,094,764,565.54
3. Accounts Receivable (Note 6)	20,236,626.53	15,389,622.60
4. Other Assets (Note 10)	45,386.00	45,386.00
5. Total Intragovernmental Assets	$ 11,892,155,071.63	$ 11,110,199,574.14
C. Accounts Receivable, Net (Note 6)	2,071,198.59	1,666,957.24
F. General Property, Plant and Equipment, Net (Note 9)	3,829,013,359.26	3,400,096,690.43
H. Other Assets (Note 10)	242,274,048.75	208,026,826.16
2. TOTAL ASSETS	$ 15,965,513,678.23	$ 14,719,990,047.97
3. STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 9)		
4. LIABILITIES (Note 11)		
A. Intragovernmental:		
1. Accounts Payable	$ 162,415,101.23	$ 67,961,200.82
3. Other Liabilities (Notes 15 and 17)	16,468,925.83	14,367,360.00
4. Total Intragovernmental Liabilities	$ 178,884,027.06	$ 82,328,560.82
B. Accounts Payable	$ 1,618,980,093.36	$ 1,435,803,051.45
F. Other Liabilities (Notes 15 and 17)	171,616,719.64	72,356,385.96
5. TOTAL LIABILITIES	$ 1,969,480,840.06	$ 1,590,487,998.23
6. COMMITMENTS AND CONTINGENCIES (NOTE 17)		
7. NET POSITION		
B. Unexpended Appropriations - Other Funds	10,494,992,234.15	9,909,022,989.82
D. Cumulative Results of Operations - Other Funds	3,501,040,604.02	3,220,479,059.92
8. TOTAL NET POSITION	$ 13,996,032,838.17	$ 13,129,502,049.74
9. TOTAL LIABILITIES AND NET POSITION	$ 15,965,513,678.23	$ 14,719,990,047.97

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the periods ended September 30, 2020 and 2019

	2020 Consolidated	2019 Consolidated
UNEXPENDED APPROPRIATIONS:		
1. Beginning Balances (Includes Funds from Dedicated Collections - See Note 18)	$ 9,909,022,989.82	$ 8,490,028,656.65
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	9,909,022,989.82	8,490,028,656.65
4. Budgetary Financing Sources:		
4.A. Appropriations received	13,725,043,927.43	13,309,621,804.00
4.B. Appropriations transferred-in/out	60,610,000.00	163,720,000.00
4.C. Other adjustments (+/-)	(153,285,802.78)	(205,258,829.02)
4.D. Appropriations used	(13,046,398,880.32)	(11,849,088,641.81)
5. Total Budgetary Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	585,969,244.33	1,418,994,333.17
6. Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 18)	10,494,992,234.15	9,909,022,989.82
CUMULATIVE RESULTS OF OPERATIONS:		
7. Beginning Balances	3,220,479,059.92	12,955,280,794.70
8. Prior Period Adjustments:		
9. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	3,220,479,059.92	12,955,280,794.70
10. Budgetary Financing Sources:		
10.A. Other adjustments (+/-)	(81,750,076.67)	(49,388.49)
10.B. Appropriations used	13,046,398,880.32	11,849,088,641.81
10.C. Nonexchange revenue	(1,503.30)	2,219.64
11. Other Financing Sources (Nonexchange):		
11.B. Transfers-in/out without reimbursement (+/-)	(303,359,160.42)	(6,880,515,080.82)
11.C. Imputed financing from costs absorbed by others	15,170,338.68	24,571,846.32
11.D. Other (+/-)	592,298,137.46	(2,491,054,527.17)
12. Total Financing Sources (Includes Funds from Dedicated Collections - See Note 18)	13,268,756,616.07	2,502,043,711.29
13. Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	12,988,195,071.97	12,236,845,446.07
14. Net Change	280,561,544.10	(9,734,801,734.78)
15. Cumulative Results of Operations (Includes Funds from Dedicated Collections - See Note 18)	3,501,040,604.02	3,220,479,059.92
16. Net Position	$ 13,996,032,838.17	$ 13,129,502,049.74

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the periods ended September 30, 2020 and 2019

	2020 Combined	2019 Combined
Budgetary Resources:		
1051 Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$ 2,330,253,481.08	$ 2,284,646,722.65
1290 Appropriations (discretionary and mandatory)	13,756,301,927.43	13,475,364,804.00
1890 Spending Authority from offsetting collections (discretionary and mandatory)	401,952,854.21	470,934,393.70
1910 Total Budgetary Resources	$ 16,488,508,262.72	$ 16,230,945,920.35
Status of Budgetary Resources:		
2190 New obligations and upward adjustments (total)	$ 14,748,977,579.27	$ 14,299,833,983.09
Unobligated balance, end of year		
2204 Apportioned, unexpired accounts	1,033,807,786.79	1,536,350,938.82
2404 Unapportioned, unexpired accounts	305,498,090.26	628,064.38
2412 Unexpired unobligated balance, end of year	1,339,305,877.05	1,536,979,003.20
2413 Expired unobligated balance, end of year	400,224,806.40	394,132,934.06
2490 Unobligated balance, end of year (total)	1,739,530,683.45	1,931,111,937.26
2500 Total Budgetary Resources	$ 16,488,508,262.72	$ 16,230,945,920.35
Outlays, Net:		
4190 Outlays, net (total) (discretionary and mandatory)	12,773,509,554.42	12,362,086,217.62
4210 Agency Outlays, net (discretionary and mandatory)	$ 12,773,509,554.42	$ 12,362,086,217.62

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2020 and 2019

	2020 Consolidated	2019 Consolidated
1. Program Costs		
A. Gross Costs	$ 13,389,647,626.31	$ 12,608,906,937.14
Operations, Readiness & Support	9,664,706,616.54	9,209,372,703.62
Procurement	2,923,647,033.28	2,703,964,054.20
Research, Development, Test & Evaluation	754,205,198.52	665,256,497.58
Family Housing & Military Construction	47,088,777.97	30,313,681.74
B. (Less: Earned Revenue)	(401,452,554.34)	(372,061,491.07)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	12,988,195,071.97	12,236,845,446.07
E. Net Program Costs Including Assumption Changes	12,988,195,071.97	12,236,845,446.07
2. Net Cost of Operations	$ 12,988,195,071.97	$ 12,236,845,446.07

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 Command, whose responsibilities are to ensure their Special Operations Forces (SOF) are highly trained, equipped and rapidly deployable to support national security interests around the world:

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

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

- Naval Special Warfare Command (NAVSPECWARCOM)

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

- Air Force Special Operations Command (AFSOC)

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

- Marine Corps Forces Special Operations Command (MARSOC)

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

- Joint Special Operations Command (JSOC)

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

Per 10 United States Code (USC) 165, "the Secretary of a military department is responsible for the administration and support of forces assigned by him to a combatant command" (i.e., USSOCOM). Combatant Command Support Agents (CCSA) 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 CCSA.

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

- Theater Special Operations Command - Africa (SOCAFRICA)

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

- Theater Special Operations Command - Central (SOCCENT)

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

- Theater Special Operations Command - Europe (SOCEUR)

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

- Theater Special Operations Command - Korea (SOCKOR)

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

- Theater Special Operations Command - North (SOCNORTH)

The SOCNORTH, in partnership with the interagency and regional SOF, 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.

1.B. Mission of the Reporting Entity

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

To achieve this mission, SOF commanders and staff must plan and lead a full range of lethal and non-lethal special operations missions in complex and ambiguous environments. Additionally, USSOCOM accomplishes these missions through the use of four service component commands, seven sub-unified commands or 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 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. 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). The accompanying financial statements account for all resources for which USSOCOM is responsible unless otherwise noted.

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

USSOCOM is unable to fully comply with all elements of 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, which is a summation of the Components less the eliminations; with the exception of revenue eliminations due to system limitations. The Statement of Budgetary Resources is presented on a combined basis, which is the summation of the Components, and therefore, intradepartmental activity has not been eliminated. The financial transactions are recorded on a proprietary accrual and a budgetary basis of accounting, except for issues noted for Standard Operation and Maintenance Army Research and Development System (SOMARDS) and Standard Finance 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 the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and compliance with legal requirements and controls over the use of Federal funds.

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

1.) SFFAS 50: Establishing Opening Balances for General Property, Plant, and Equipment: 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 (GPP&E), as permitted by SFFAS 50. USSOCOM has valued some of its GPP&E using deemed cost methodologies as described in SFFAS 50. However, systems required to account for historical cost for GPP&E in accordance with SFFAS 6, Accounting for Property, Plant and Equipment, are not yet fully implemented. Therefore, USSOCOM is not making an unreserved assertion with respect to this line item.

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

3.) 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.

4.) Technical Bulletin 2020-1, Loss Allowance for Intragovernmental Receivables: Issued February 20, 2020; Effective upon issuance.

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

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

1.E. Accounting for Intragovernmental and Intergovernmental Activities

The Treasury Financial Manual Part 2 – Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-governmental activity and balances from consolidated financial statements to prevent overstatement caused by the inclusion of business activity between entity components. Intragovernmental 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 is able to reconcile balances pertaining to benefit program transactions with the Office of Personnel Management. USSOCOM is taking actions to fully reconcile intragovernmental transactions with all federal agencies.

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

Non-entity assets are not available for use in USSOCOM's normal operations. USSOCOM has stewardship accountability and reporting responsibility for non-entity assets. An example of a non-entity asset is non-federal accounts receivable.

For additional information, see Note 2. Non-Entity Assets.

1.G. Fund Balance with Treasury

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

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

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 consolidated financial statements. 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.

1.K. Direct Loans and Loan Guarantees

USSOCOM does not report any direct loans and loan guarantees.

1.L. Inventories and Related Property

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

Related property includes Operating Materials and Supplies (OM&S). OM&S includes munitions not held for sale. USSOCOM currently uses the purchase method of accounting for OM&S. Under this method, materials and supplies are expensed when purchased. During FY 2020, USSOCOM expensed amounts using the purchase method, because management deemed that the item was in the hands of the end user and was an immaterial amount. USSOCOM has been working to input OM&S into the new accountable property system of record (APSR), Defense Property Accountability System (DPAS), as well as continued analysis to determine if the correct accounting method is being applied.

1.M. General Property, Plant and Equipment

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

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

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

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

1.N. Other Assets

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

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

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

For additional information, see Note 10 Other Assets.

1.O. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. An operating lease does not substantially transfer all the benefits and risk of ownership to USSOCOM. Payments for operating leases are expensed over the lease term. Currently, USSOCOM reports operating leases only.

For additional information, see Note 16 Leases.

1.P. Liabilities

Liabilities represent the probable future outflow or other sacrifice of resources as a result of past transactions or events. However, no liability can be paid by USSOCOM absent proper budget authority. Liabilities covered by budgetary resources are appropriated funds for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources represent amounts owed in excess of available appropriated funds or other amounts. Liabilities that are not funded by the current year appropriation are classified as liabilities not covered by budgetary resources in Note 11, Liabilities Not Covered by Budgetary Resources.

1.Q. Environmental and Disposal Liabilities

USSOCOM does not report any Environmental Liabilities.

1.R. Other Liabilities

Other liabilities includes, but are not limited to: Advances from Others, Accrued payroll, Earned annual and other vested compensatory leave and Custodial Liabilities.

For additional information, see Note 15 Other Liabilities.

1.S. Commitments and Contingencies

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

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

USSOCOM does not have environmental contingencies.

For additional information, see Note 17 Commitments and Contingencies.

1.T. Military Retirement and Other Federal Employment Benefits

USSOCOM does not 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 report on resource usage.

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

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

In accordance with SFFAS 7, "Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting," USSOCOM recognizes non-exchange revenue when there is a specifically identifiable, legally enforceable claim to the cash or other assets of another party that will not directly receive value in return.

1.V. Recognition of Expenses

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

In the case of OM&S, operating expenses are recognized when the items are purchased. USSOCOM has been working to input OM&S into the new accountable property system of record (APSR), Defense Property Accountability System (DPAS), as well as continued analysis to determine if the correct accounting method is being applied.

1.W. Treaties for Use of Foreign Bases

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

1.X. Use of Estimates

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

1.Y. Parent-Child Reporting

USSOCOM receives its funding from the OSD. USSOCOM is also party to allocation transfers with other DoD entities as a receiving entity (child). An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity.

As of September 30, 2020, USSOCOM received allocation transfers from the following agencies: Defense Acquisitions University (DAU), Defense Threat Reduction Agency (DTRA) and Defense Security Cooperation Agency (DSCA).

1.Z. Transactions with Foreign Governments and International Organizations

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

1.AA. Fiduciary Activities

USSOCOM does not report any fiduciary activities.

1.BB. Tax Exempt Status

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

Note 2. Non-Entity Assets - Unaudited

Table 2. Non-Entity Assets

As of September 30	2020	2019
Intragovernmental Assets		
A. Fund Balance with Treasury	$ 0.00	$ 0.00
B. Accounts Receivable	0.00	0.00
C. Other Assets	0.00	0.00
D. Total Intragovernmental Assets	$ 0.00	$ 0.00
Non-Federal Assets		
A. Cash and Other Monetary Assets	$ 0.00	$ 0.00
B. Accounts Receivable	93,296.66	29,761.89
C. Other Assets	0.00	0.00
D. Total Non-Federal Assets	$ 93,296.66	$ 29,761.89
Total Non-Entity Assets	$ 93,296.66	$ 29,761.89
Total Entity Assets	$ 15,965,420,381.57	$ 14,719,960,286.08
Total Assets	$ 15,965,513,678.23	$ 14,719,990,047.97

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). 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 civilian and individual out-of-service debts as of September 30, 2020. Each quarter, Treasury Report on Receivables (TROR) entries a manually input through journal vouchers into DDRS to ensure ending balances of trial balance reconciles to the source systems.

Note 3. Fund Balance with Treasury - Unaudited

Table 3. Status of Fund Balance with Treasury

As of September 30		2020		2019
1. Unobligated Balance:				
A. Available	$	1,033,807,786.79	$	1,536,350,938.82
B. Unavailable		705,722,896.66		394,760,998.44
Total Unobligated Balance	$	1,739,530,683.45	$	1,931,111,937.26
2. Obligated Balance not yet Disbursed	$	10,505,045,267.20	$	9,560,919,940.45
3. Non-Budgetary FBWT:				
A. Clearing accounts	$	0.00	$	0.00
B. Deposit funds		0.00		0.00
C. Non-entity and other		0.00		0.00
Total Non-Budgetary FBWT	$	0.00	$	0.00
4. Non-FBWT Budgetary Accounts:				
A. Investments - Treasury Securities	$	0.00	$	0.00
B. Unfilled Customer Orders without Advance		(335,871,053.61)		(355,958,415.16)
C. Contract Authority		0.00		0.00
D. Borrowing Authority		0.00		0.00
E. Receivables and Other		(36,831,837.94)		(41,308,897.01)
Total Non-FBWT Budgetary Accounts	$	(372,702,891.55)	$	(397,267,312.17)
5. Total FBWT	$	11,871,873,059.10	$	11,094,764,565.54

The Treasury records cash receipts and disbursements on USSOCOM's behalf; funds are available only for the purposes for which the funds were appropriated. USSOCOM's 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.

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

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 consolidated financial statements. As such, USSOCOM does not report deposit fund balances on its financial statements.

Non-FBWT Budgetary Accounts reduces budgetary resources.

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies. The USSOCM received allocation transfers from other federal agencies for execution on their behalf in the amount of $31.6 million in FY 2020, and $48.9 million in FY 2019.

In June 2020, USSOCOM received additional funding under the Coronavirus Aid, Relief and Economic Security (CARES) ACT for the Coronavirus Disease 2019 (COVID-19). For additional information, see Note 29.

Material discrepancies exist between FBWT as reflected in USSOCOM general ledger and the balance per U.S. Treasury records. The 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, as a result of timing differences or the inability to obtain valid accounting information; prior to the issuance of the financial statements. USSOCOM continues to work with DFAS 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

USSOCOM does not report cash and other monetary assets.

Note 5.	Investments and Related Interest - Unaudited

USSOCOM does not report any investments and related interest.

Note 6. Accounts Receivable, Net - Unaudited

Table 6. Accounts Receivable, Net

As of September 30	2020		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
1. Intragovernmental Receivables	$ 20,236,626.53	$ 0.00	$ 20,236,626.53
2. Non-Federal Receivables (From the Public)	$ 2,296,793.84	$ (225,595.25)	$ 2,071,198.59
3. Total Accounts Receivable	$ 22,533,420.37	$ (225,595.25)	$ 22,307,825.12

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

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 2 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 2 years are considered doubtful for collection; these amounts are used in the allowance calculation.

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

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

USSOCOM does not have any direct loan and loan guarantees.

Note 8.	Inventory and Related Property, Net - Unaudited

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

Related property includes OM&S. OM&S includes munitions not held for sale. USSOCOM currently uses the purchase method of accounting for OM&S.

For additional information, see Note 1.L. Inventories and Related Property.

Note 9. General PP&E, Net - Unaudited

Table 9A. Major General PP&E Asset Classes

As of September 30	2020				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0.00	N/A	$ 0.00
B. Buildings, Structures, and Facilities	S/L	35, 40 or 45*	0.00	$ 0.00	0.00
C. Leasehold Improvements	S/L	Lease term	0.00	0.00	0.00
D. Software	S/L	2-5 or 10	0.00	0.00	0.00
E. General Equipment	S/L	Various	5,120,531,733.09	(2,641,131,806.52)	2,479,399,926.57
F. Assets Under Capital Lease	S/L	Lease term	0.00	0.00	0.00
G. Construction-in-Progress	N/A	N/A	1,349,613,432.69	N/A	1,349,613,432.69
H. Other	N/A	N/A	0.00	0.00	0.00
I. Total General PP&E			$ 6,470,145,165.78	$ (2,641,131,806.52)	$ 3,829,013,359.26

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

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable
* Estimated useful service life is 35 years for structures, 40 years for linear structures, and 45 years for buildings.

USSOCOM GPP&E is comprised of General Equipment (GE) and CIP. With the exception of real property CIP, USSOCOM does not report any real property.

USSOCOM does not have acquisition values or acquisition dates for all GPP&E and uses deemed cost methodologies to provide GPP&E values for financial statement reporting purposes. The FASAB issued SFFAS 50, “Establishing Opening Balances for General Property, Plant and Equipment” permitting alternative methods in establishing opening balances for GPP&E. USSOCOM has valued some of its GPP&E using Deemed Cost methodologies as described in

SFFAS 50. However, systems required to account for historical cost for GPP&E in accordance with SFFAS 6 are not yet fully in place. Therefore, USSOCOM is not currently making an unreserved assertion with respect to this line item.

Within FY 2019, significant 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.

Also within FY 2019, USSOCOM's and the Services' financial statements were impacted by the OUSD memorandum "Financial Reporting Responsibilities for General Equipment", dated July 2018. Through coordination with OUSD and the Services, USSOCOM developed a position on the reporting of GE as a result of the OUSD memorandum. The interpretation of the guidance is that USSOCOM will financially report all GE assets procured with Major Force Program (MFP)-11 funds. GE assets previously reported by USSOCOM procured with MFP-2 funds (i.e. Service-common assets) and assets initially procured with MFP-2 and modified with MFP-11 funds have been transferred to the Military Services for financial reporting, unless the Service transferred asset ownership to USSOCOM. USSOCOM will continue to work with the Services to implement this guidance.

As of Quarter (Q) 1, FY 2020, the Army adjusted the data and programing within the Army Enterprise Systems Integration Program. Specifically, the Army made corrections to remove asset listings that had been incorrectly populating within the data. For USSOCOM, this removal resulted in a decrease of GE acquisition value by $387 million, a decrease of accumulated depreciation of approximately $330 million, for a net decrease of the GPP&E line item by approximately $ 57 million. These corrections did not have any impact on the FY 2019 balances presented.

As of Q2, FY 2020, with Navy and SOCPAC concurrence, USSOCOM reports all assets at SOCPAC. Navy transferred ownership of any Navy-procured MFP-2 funded assets to USSOCOM for financial and logistical reporting. This is consistent with the assets currently reported for Naval Special Warfare Command (NAVSOC). Many of the MFP-2 funded assets transferred in were below the Navy's capitalization threshold and therefore were already expensed. For USSOCOM, this transfer resulted in an increase of GE acquisition value by $10 million, an increase of accumulated depreciation of approximately $1 million, for a net increase of the GPP&E line item by approximately $9 million.

Also as of Q2, FY 2020, the reporting of sensitive activity (SA) GE assets transitioned to be received via the USASOC. Additionally, a previously unreported segment of SA GE is now being captured for financial reporting. This resulted in an increase of GE acquisition value by $695 million, an increase of accumulated depreciation of approximately $526 million, for a net increase of the GPP&E line item by approximately $168 million. These corrections did not have any impact on the FY 2019 balances presented.

As of Q3, FY 2020, additional Special Operations Forces (SOF) Acquisition, Technology, and Logistics (AT&L) programs increased reporting within the APSR, DPAS. Additionally, Headquarters (HQ) USSOCOM completed an analysis of the assets reported, resulting in the removal of reporting assets that did not meet the definition of GE. They were determined to be component pieces meeting the definition of OM&S. Further analysis will follow to determine if these assets may be CIP. These corrections did not have any impact on the FY 2019 balances presented.

Throughout FY 2020, USSOCOM worked to continually improve its GE financial reporting process and data. These efforts will continue into FY 2021.

Table 9B. Heritage Assets

For the Period Ended September 30	2020			
(physical count)				
Categories:	Beginning Balance	Additions	(Deletions)	Ending Balance
Buildings and Structures	2	0	(2)	0
Archeological Sites	0	0	0	0
Museum Collection Items (Objects, Not Including Fine Art)	7,440	826	(91)	8,175
Museum Collection Items (Objects, Fine Art)	548	514	(261)	801

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.

Buildings and Structures

USASOC identified the two items reported under "Buildings and Structures" to be erroneously reported in prior submissions.

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.

A 100% Joint Artifact Responsible Officer inventory was performed by USASOC. The USASOC data provided in the 2020 report reflects the number of artifacts held by the John F. Kennedy (JFK) Museum as listed in the US Army Automated Historical Catalog System (AHCAS) maintained by US Army Center for Military History (CMH). There have been no new accessions into the JFK Special Warfare Museum collection. The additional USASOC items reflected is due to the change in cataloguing method used as part of the AHCAS. There was one NSWC addition, which was as a loan between the Naval History and Heritage Command, Curator Branch and NSWC.

Museum collection deletions mostly consists of missing items that were not found during the 100% Joint inventory conducted by USASOC. If found, their restoration to the footnote will be annotated in subsequent submissions.

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

For the period ended September 30		2020
1. General PP&E, Net beginning of year	$	3,400,096,690.43
2. Capitalized acquisitions		557,254,585.91
3. Dispositions		(24,436,015.42)
4. Revaluations (+/-)		589,502,682.12
5. Depreciations expense		(390,042,160.72)
6. Transfers in/(out) without reimbursement		(303,362,423.06)
7. General PP&E, Net end of year	$	3,829,013,359.26

Summary of Activity Table

To support the Government-wide financial reporting compilation process, the PP&E summary table discloses the total PP&E, Net activity for the current year. For FY 2020, comparative information need not be presented.

Note 10. Other Assets - Unaudited

Table 10. Other Assets

As of September 30	2020		2019	
1. Intragovernmental Other Assets				
A. Advances and Prepayments	$	0.00	$	0.00
B. Other Assets		45,386.00		45,386.00
C. Total Intragovernmental Other Assets	$	45,386.00	$	45,386.00
2. Non-Federal Other Assets				
A. Outstanding Contract Financing Payments	$	235,148,715.91	$	192,574,178.12
B. Advances and Prepayments		7,125,332.84		15,452,648.04
C. Other Assets (With the Public)		0.00		0.00
D. Total Non-Federal Other Assets	$	242,274,048.75	$	208,026,826.16
3. Total Other Assets	$	242,319,434.75	$	208,072,212.16

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.

Note 11. Liabilities Not Covered by Budgetary Resources – Unaudited

Table 11. Liabilities Not Covered by Budgetary Resources

As of September 30		2020		2019
1. Intragovernmental Liabilities				
A. Accounts Payable	$	986,138.44	$	(1,290,886.41)
B. Debt		0.00		0.00
C. Other		0.00		0.00
D. Total Intragovernmental Liabilities	$	986,138.44	$	(1,290,886.41)
2. Non-Federal Liabilities				
A. Accounts Payable	$	200,567,245.43	$	161,903,374.32
B. Military Retirement and Other Federal Employment Benefits		0.00		0.00
C. Environmental and Disposal Liabilities		0.00		0.00
D. Other Liabilities		124,467,137.51		34,616,846.53
E. Total Non-Federal Liabilities	$	325,034,382.94	$	196,520,220.85
3. Total Liabilities Not Covered by Budgetary Resources	$	326,020,521.38	$	195,229,334.44
4. Total Liabilities Covered by Budgetary Resources	$	1,643,460,318.68	$	1,395,258,663.79
5. Total Liabilities Not Requiring Budgetary Resources	$	0.00	$	0.00
6. Total Liabilities	$	1,969,480,840.06	$	1,590,487,998.23

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

Non-federal accounts payable not covered by budgetary resources represent amounts that are related to cancelled appropriations. Non-federal other liabilities are related to unfunded employee leave and contingent liabilities. These amounts will require resources that are funded from future-year appropriations.

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

Note 12.	Debt - Unaudited

USSOCOM does not have any debt.

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

USSOCOM does not pay military payroll; therefore, USSOCOM does not report any military retirement and other federal employment benefits.

Note 14.	Environmental and Disposal Liabilities - Unaudited

USSOCOM does not report any environmental and disposal liabilities.

Note 15. Other Liabilities - Unaudited

Table 15. Other Liabilities

As of September 30	2020 Current Liability	2020 Non-Current Liability	2020 Total
1. Intragovernmental			
A. Advances from Others	$ 11,719,002.58	$ 0.00	$ 11,719,002.58
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00
F. Custodial Liabilities	93,285.21	11.45	93,296.66
G. Employer Contribution and Payroll Taxes Payable	4,847,347.31	0.00	4,847,347.31
H. Other Liabilities	(190,720.72)	0.00	(190,720.72)
I. Total Intragovernmental Other Liabilities	$ 16,468,914.38	$ 11.45	$ 16,468,925.83
2. Non-Federal			
A. Accrued Funded Payroll and Benefits	$ 43,020,083.66	$ 0.00	$ 43,020,083.66
B. Advances from Others	54,251.98	0.00	54,251.98
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Non-Environmental Disposal Liabilities			
(1) Military Equipment (Non-Nuclear)	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	65,547,742.61	0.00	65,547,742.61
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	1,890,450.28	127,127.56	2,017,577.84
J. Employer Contribution and Payroll Taxes Payable	1,870,736.33	0.00	1,870,736.33
K. Contingent Liabilities	0.00	58,919,394.85	58,919,394.85
L. Other Liabilities	186,932.37	0.00	186,932.37
M. Total Non-Federal Other Liabilities	$ 112,570,197.23	$ 59,046,522.41	$ 171,616,719.64
3. Total Other Liabilities	$ 129,039,111.61	$ 59,046,533.86	$ 188,085,645.47

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

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

Custodial Liabilities

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

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

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

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

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

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. Imputed costs are recorded as other liabilities for these programs.

Contract Holdbacks
Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2020, contract holdbacks include $2.0 million for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation (FAR).

Contingent Liabilities
Contingent Liabilities for FY 2020 and 2019 include amounts for potential future financial obligations such as contractual arrangements for incentive and dispute clauses. USSOCOM's total contingent liabilities should be $59.8 million. The $912 thousand variance appears to be due to legacy system limitations; further research will ensue.

Other Liabilities
Intragovernmental and Non-Federal Other Liabilities were submitted by the USSOCOM Navy component. The balances are close in total. Further research is in progress.

Note 16. Leases - Unaudited

Operating Leases:

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

As of September 30	2020			
	Asset Category			
	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2021	$ 5,476,128.00	$ 0.00	$ 0.00	$ 5,476,128.00
2022	4,318,320.00	0.00	0.00	4,318,320.00
2023	2,450,415.00	0.00	0.00	2,450,415.00
2024	60,028.00	0.00	0.00	60,028.00
2025	0.00	0.00	0.00	0.00
After 5 Years	0.00	0.00	0.00	0.00
Total Federal Future Lease Payments	$ 12,304,891.00	$ 0.00	$ 0.00	$ 12,304,891.00
2. Non-Federal				
Fiscal Year				
2021	$ 5,945,064.00	$ 490,344.00	$ 0.00	$ 6,435,408.00
2022	6,063,965.00	108,160.00	0.00	6,172,125.00
2023	5,171,356.00	65,694.00	0.00	5,237,050.00
2024	2,392,613.00	65,694.00	0.00	2,458,307.00
2025	1,454,875.00	57,482.00	0.00	1,512,357.00
After 5 Years	269,377.00	0.00	0.00	269,377.00
Total Non-Federal Future Lease Payments	$ 21,297,250.00	$ 787,374.00	$ 0.00	$ 22,084,624.00
3. Total Future Lease Payments	$ 33,602,141.00	$ 787,374.00	$ 0.00	$ 34,389,515.00

The future payments due for operating leases disclosed in Table 16D, “Future Payments Due for Non-Cancelable Operating Leases,” are for non-cancelable leases only. Payments due for cancelable leases should not be included in the footnote account amounts, which populate this table.

USSOCOM gathers operating lease information from all of its components and TSOCs via a data call and uses the information to populate Note 16. With this data call, it was found that USSOCOM does not have any leases related to the “Other” category in FY 2020. USSOCOM only has leases related to buildings, land, and equipment. Leases related to land and buildings range in date from June 1, 2006 to March 31, 2026. Equipment leases range in date March 31, 2016 to August 14, 2025.

Specifically, USSOCOM has federal facilities leases with terms that range from June 1, 2006 to May 31, 2024. However, the nature of these leases is classified.

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 Air Field, and Cannon AFB. The date for these leases ranges from August 28, 2018 to March 31, 2026. USSOCOM has other facilities leases, however the nature of the leases is classified. The dates for the classified facilities leases ranges from April 1, 2007 to February 28, 2024.

The non-federal equipment leases include multifunctional devices, production copiers and a crane. The date range for the leases is March 31, 2016 to August 14, 2025.

USSOCOM uses the escalation clauses for the future year payments. The escalation clauses are retrieved from the FY2021 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.

Note 17.	Commitments and Contingencies - Unaudited

Legal Contingencies:

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 fashion 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. 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. USSOCOM is unable to estimate a lower end estimated loss for reasonably possible cases in FY 2020.

Table 17. ***Summary of Legal Contingent Liabilities****

As of September 30	2020		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
Legal Contingent Liabilities			
Probable	$ 0.00	$ 0.00	$ 0.00
Reasonably Possible	$ 0.00	$ 0.00	$ 15,063,388.72

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

Other Contingencies:

USSOCOM is party in numerous contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution that may result in a future outflow of budgetary resources. See Note 15, Other Liabilities, for further information.

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 Major Program

As of September 30	2020	2019
Operations, Readiness & Support		
Gross Cost	$ 9,664,706,616.54	$ 9,209,372,703.62
Less: Earned Revenue	(369,028,830.21)	(338,104,844.67)
Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	$ 0.00	$ 0.00
Net Program Costs	$ 9,295,677,786.33	$ 8,871,267,858.95
Procurement		
Gross Cost	$ 2,923,647,033.28	$ 2,703,964,054.20
Less: Earned Revenue	(737,627.24)	(5,499,541.83)
Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	$ 0.00	$ 0.00
Net Program Costs	$ 2,922,909,406.04	$ 2,698,464,512.37
Research, Development, Test & Evaluation		
Gross Cost	$ 754,205,198.52	$ 665,256,497.58
Less: Earned Revenue	(31,686,096.89)	(28,457,104.57)
Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	$ 0.00	$ 0.00
Net Program Costs	$ 722,519,101.63	$ 636,799,393.01
Family Housing & Military Construction		
Gross Cost	$ 47,088,777.97	$ 30,313,681.74
Less: Earned Revenue	0.00	0.00
Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	$ 0.00	$ 0.00
Net Program Costs	$ 47,088,777.97	$ 30,313,681.74
Consolidated		
Gross Cost	$ 13,389,647,626.31	$ 12,608,906,937.14
Less: Earned Revenue	(401,452,554.34)	(372,061,491.07)
Losses/(Gains) from Actuarial Assumption		
Changes for Military Retirement Benefits	$ 0.00	$ 0.00
4. Costs Not Assigned to Programs	$ 0.00	$ 0.00
5. (Less: Earned Revenues) Not Attributed to Programs	$ 0.00	$ 0.00
Total Net Cost	$ 12,988,195,071.97	$ 12,236,845,446.07

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. USSOCOM is in the process of reviewing available data and developing a cost reporting methodology required by the SFFAS 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS 55, Amending Inter-Entity Cost Provisions.

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

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. USSOCOM has valued some of its GPP&E using Deemed Cost methodologies as described in SFFAS 50. With the adoption of this methodology, USSOCOM utilizes other gains and losses to capture the prior year adjustments within the Statement of Changes in Net Position (SCNP). However, systems required to account for historical cost for PP&E in accordance with SFFAS 6 are not yet fully in place. Therefore, USSOCOM is not currently making an unreserved assertion with respect to this line item.

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

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

As of September 30	2020	2019
Appropriations, Statement of Budgetary Resources (SBR)	$ 13,756,301,927.43	$ 13,475,364,804.00
Permanent and Temporary Reductions	$ (25,000,000.00)	$ 0.00
Trust and Special Fund Receipts	0.00	0.00
Miscellaneous Items	56,258,000.00	165,743,000.00
Total Reconciling Difference	$ 31,258,000.00	$ 165,743,000.00
Appropriations Received, Statement of Changes in Net Position	$ 13,725,043,927.43	$ 13,309,621,804.00

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and budget authority permanently reduced by enacted legislation.

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

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	2020	2019
1. Intragovernmental:		
A. Unpaid	951,572,206.75	535,034,196.91
B. Prepaid/Advanced	0.00	0.00
C. Total Intragovernmental	$ 951,572,206.75	$ 535,034,196.91
2. Non-Federal:		
A. Unpaid	7,903,764,641.94	7,614,386,317.86
B. Prepaid/Advanced	242,274,048.75	208,026,826.16
C. Total Non-Federal	$ 8,146,038,690.69	$ 7,822,413,144.02
3. Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 9,097,610,897.44	$ 8,357,447,340.93

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

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

USSOCOM did not report any net adjustments related to unobligated balances bought forward.

USSOCOM does not have any permanent indefinite appropriations.

USSOCOM does not report any Contributed Capital.

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

Note 22.	Disclosures Related to Incidental Custodial Collections - Unaudited

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

Note 23.	Fiduciary Activities - Unaudited

USSOCOM does not have any fiduciary activities.

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

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

As of September 30	2020					
		Intragovernmental		With the public		Total
1. Net Cost of Operations (SNC)	$	1,387,753,943.17	$	11,600,441,128.80	$	12,988,195,071.97
Components of Net Cost That are Not Part of Net Outlays:						
2. Property, plant, and equipment depreciation	$	0.00	$	(390,042,160.72)	$	(390,042,160.72)
3. Property, plant, and equipment disposal & revaluation		0.00		(24,436,015.42)		(24,436,015.42)
4. Year-end credit reform subsidy re-estimates		0.00		0.00		0.00
5. Unrealized valuation loss/(gain) on investments		0.00		0.00		0.00
6. Other		0.00		(1,665,877.78)		(1,665,877.78)
7. Increase/(decrease) in assets:						
7a. Account Receivable		(3,929,461.89)		404,241.35		(3,525,220.54)
7b. Loans Receivable		0.00		0.00		0.00
7c. Investments		0.00		0.00		0.00
7d. Other assets		0.00		34,247,222.59		34,247,222.59
8. (Increase)/decrease in liabilities:						
8a. Accounts payable		(84,887,540.51)		(145,243,479.96)		(230,131,020.47)
8b. Salaries and benefits		(1,436,602.60)		(7,797,819.63)		(9,234,422.23)
8c. Insurance guarantee program liabilities		0.00		0.00		0.00
8d. Environmental and disposal liabilities		0.00		0.00		0.00
8e. Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)		(1,454,857.31)		(129,396,076.00)		(130,850,933.31)
9. Other financing sources:						
9a. Federal employee retirement benefit costs paid by OPM and Imputed to the agency		(15,170,338.68)		0.00		(15,170,338.68)
9b. Transfers out (in) without reimbursement		0.00		0.00		0.00
9c. Other imputed financing		0.00		0.00		0.00
10. Total Components of Net Cost That Are Not Part of Net Outlays	$	(106,878,800.99)	$	(663,929,965.57)	$	(770,808,766.56)
Components of Net Outlays That Are Not Part of Net Cost:						
11. Effect of prior year agencies credit reform subsidy re-estimates	$	0.00	$	0.00	$	0.00
12. Acquisition of capital assets		0.00		557,254,585.91		557,254,585.91
13. Acquisition of inventory		0.00		0.00		0.00
14. Acquisition of other assets		0.00		0.00		0.00
15. Other		4,601.15		(1,503.30)		3,097.85
16. Total Components of Net Outlays That Are Not Part of Net Cost	$	4,601.15	$	557,253,082.61	$	557,257,683.76
17. Other Temporary Timing Differences	$		$		$	
18. Net Outlays	$	1,280,879,743.33	$	11,493,764,245.84	$	12,774,643,989.17
19. Agency Outlays, Net, Statement of Budgetary Resources					$	12,773,509,554.42
20. Reconciling Difference					$	1,134,434.75

As of September 30	2019		
	Intragovernmental	With the public	Total
1. Net Cost of Operations (SNC)	$ 1,261,163,762.27	$ 10,975,681,683.80	$ 12,236,845,446.07
Components of Net Cost That are Not Part of Net Outlays:			
2. Property, plant, and equipment depreciation	$ 0.00	$ (529,907,948.18)	$ (529,907,948.18)
3. Property, plant, and equipment disposal & revaluation	0.00	(7,425,902.18)	(7,425,902.18)
4. Year-end credit reform subsidy re-estimates	0.00	0.00	0.00
5. Unrealized valuation loss/(gain) on investments	0.00	0.00	0.00
6. Other	0.00	(8,083,210.82)	(8,083,210.82)
7. Increase/(decrease) in assets:			
7a. Account Receivable	19,484,310.59	(87,022.13)	19,397,288.46
7b. Loans Receivable	0.00	0.00	0.00
7c. Investments	0.00	0.00	0.00
7d. Other assets	0.00	14,635,649.98	14,635,649.98
8. (Increase)/decrease in liabilities:			
8a. Accounts payable	216,714,110.58	17,890,540.49	234,604,651.07
8b. Salaries and benefits	(381,533.82)	(6,383,699.16)	(6,765,232.98)
8c. Insurance guarantee program liabilities	0.00	0.00	0.00
8d. Environmental and disposal liabilities	0.00	0.00	0.00
8e. Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	668,626.23	(73,647,255.09)	(72,978,628.86)
9. Other financing sources:			
9a. Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(24,571,846.32)	0.00	(24,571,846.32)
9b. Transfers out (in) without reimbursement	0.00	0.00	0.00
9c. Other imputed financing	0.00	0.00	0.00
10. Total Components of Net Cost That Are Not Part of Net Outlays	$ 211,913,667.26	$ (593,008,847.09)	$ (381,095,179.83)
Components of Net Outlays That Are Not Part of Net Cost:			
11. Effect of prior year agencies credit reform subsidy re-estimates	$ 0.00	$ 0.00	$ 0.00
12. Acquisition of capital assets	0.00	505,702,500.27	505,702,500.27
13. Acquisition of inventory	0.00	0.00	0.00
14. Acquisition of other assets	0.00	0.00	0.00
15. Other	547.10	2,219.64	2,766.74
16. Total Components of Net Outlays That Are Not Part of Net Cost	$ 547.10	$ 505,704,719.91	$ 505,705,267.01
17. Other Temporary Timing Differences	$	$	$
18. Net Outlays	$ 1,473,077,976.63	$ 10,888,377,556.62	$ 12,361,455,533.25
19. Agency Outlays, Net, Statement of Budgetary Resources			$ 12,362,086,217.62
20. Reconciling Difference			$ (630,684.37)

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

Due to USSOCOM's financial system limitations, budgetary data does not agree with proprietary expenses and capitalized assets. The property, plant, and equipment depreciation on the reconciliation is related to USSOCOM equipment balance. The remaining reconciling amount is due to journal vouchers (JVs) posting to Standard General Ledger Account (SGL) 6800 - future funded expenses. These JVs do not have any budgetary impact.

Note 25.	Public-Private Partnerships - Unaudited

As of September 30, 2020, 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 Security Assistance Accounts.

Note 28.	Restatements - Unaudited

USSOCOM does not have any restatements.

Note 29. COVID-19 Activity - Unaudited

A total of $63.2 million in budgetary resources was available for use by USSOCOM due to COVID-19. Of the $63.2 million, $18.2 million was received as a result of the CARES Act. The remaining $45 million came from direct Operations and Maintenance (O&M) funding for FY 2020. The total impact of the funding on USSOCOM's assets, liabilities, costs, revenues and net position has not been determined.

CARES Act Funding:

Of the $18.2 million CARES Act funding received, USSOCOM has committed and obligated $17.8 million as of September 30, 2020. Of the $17.8 million, $4.3 million has been disbursed towards Personal Protection Equipment (PPE)-medical countermeasures, pharmaceuticals, medical supplies, cleaning contracts and non-medical supplies/equipment during FY 2020. The following footnote also contains disclosures related to COVID-19 funding: Note 3 - FBWT.

Direct O&M Funding:

USSOCOM committed and obligated $45 million O&M funding toward COVID-19 response. Of the $45 million, $14.5 million has been disbursed towards the following general program categories in FY 2020: 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.

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

USSOCOM does not produce reclassified statements.

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

November 9, 2020

MEMORANDUM FOR SECRETARY OF DEFENSE
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 Report on the U.S. Special Operations Command Financial Statements and Related Notes for FY 2020 and FY 2019 (Project No. D2020-D000FP-0063.000, Report No. DODIG-2021-018)

We contracted with the independent public accounting firm of Grant Thornton to audit the U.S. Special Operations Command (USSOCOM) Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. The contract required Grant Thornton to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether 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 2018, Updated April 2020. Grant Thornton's Independent Auditor's Reports are attached.

Grant Thornton's audit resulted in a disclaimer of opinion. Grant Thornton could not obtain sufficient, appropriate audit evidence to support the reported amounts within USSOCOM's Financial Statements. As a result, Grant Thornton could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, Grant Thornton did not express an opinion on USSOCOM's FY 2020 and FY 2019 Financial Statements and related notes.

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

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

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

- USSOCOM lacked comprehensive guidance and appropriate management controls over financial reporting, and it relied on service providers to perform key data functions without fully monitoring or reviewing their work.

- USSOCOM did not have adequate controls over its Fund Balance With Treasury reconciliation and lacked monitoring over its financial reporting service organization's Fund Balance With Treasury reconciliation process, and the controls and documentation around the process were insufficient.

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

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," also discussed two instances of noncompliance with applicable laws and regulations. Specifically, Grant Thornton's report described instances in which USSOCOM's financial management systems did not substantially comply with the Federal Managers' Financial Integrity Act of 1982 or the Federal Financial Management Improvement Act of 1996.

In connection with the contract, we reviewed Grant Thornton's report and related documentation and discussed them with Grant Thornton's representatives. Our review,

* 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.

as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the USSOCOM's FY 2020 and FY 2019 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of 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 laws and other matters. Our review disclosed no instances where Grant Thornton did not comply, in all material respects, with GAGAS. Grant Thornton is responsible for the attached November 09, 2020, 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

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

General Richard D. Clarke
Commander
United States Special Operations Command

We were engaged to audit the accompanying financial statements of the United States Special Operations Command (USSOCOM), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, 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.

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

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on conducting the audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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

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

Due to travel restrictions and precautions related to the Coronavirus Disease 2019 (COVID-19) global pandemic, we were unable to conduct planned internal control and substantive testing procedures for certain areas, including General Equipment, Expenses, and Payroll, at certain USSOCOM installations. We were also unable to remotely test certain accounting systems, applications, and micro-applications owned and maintained by USSOCOM.

Finally, 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, for which we were unable to obtain sufficient appropriate audit evidence.

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

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

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Other reporting required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report, dated November 9, 2020, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of USSOCOM's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USSOCOM's internal control over financial reporting and compliance.

Grant Thornton LLP

Arlington, VA
November 9, 2020

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

General Richard D. Clarke
Commander
United States Special Operations Command

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the United States Special Operations Command (USSOCOM), which comprise the consolidated balance sheet as of September 30, 2020, 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 9, 2020, on these financial statements. That report states that because of matters described in the Basis for Disclaimer of Opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Internal control over financial reporting

Management's responsibility for internal control

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

Auditor's responsibility

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

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

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

Results of our consideration of internal control
Our consideration of internal control was for the limited purpose described in the preceding paragraphs and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Due to the matters described in the Basis for Disclaimer of Opinion paragraphs included in our financial statement audit report dated November 9, 2020, we were not able to obtain 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 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 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, 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, item VI, to be a significant deficiency in USSOCOM's internal control.

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Compliance and other matters

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

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

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

Results of our tests of compliance
Due to the matters described in the Basis for Disclaimer of Opinion paragraphs included in our financial statement audit report dated November 9, 2020, 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 financial statements. However, the results of our tests disclosed instances of noncompliance, described in the accompanying schedule of findings and responses, 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. However, providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly we do not express such an opinion. Because of matters described in the Basis for Disclaimer of Opinion paragraphs, included in our financial statement audit report dated November 9, 2020, we were not able to obtain sufficient appropriate audit evidence related to management's substantial compliance with FFMIA Section 803(a) requirements. Our work on FFMIA would not necessarily disclose all instances of lack of compliance with FFMIA requirements. However, our audit procedures disclosed instances, as described above in the accompanying schedule of findings and responses, item 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 United States Standard General Ledger (USSGL) at the transaction level, as required by FFMIA. .

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

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

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Arlington, Virginia
November 9, 2020

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Schedule of Findings and Responses

I. Material Weakness - Lack of Adequate Entity Level Controls

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

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

1. **Control Environment**
   The GAO *Green Book* defines control environment as the foundation for an internal control system. An entity's control environment provides the discipline and structure to help the entity achieve its objectives. The GAO *Green Book* identifies five principles associated with an entity's control environment, four of which are discussed below: a) Demonstrate Commitment to Integrity and Ethical Values, (b) Exercise Oversight Responsibility, (c) Establish Structure, Responsibility, and Authority, and (d) Enforce Accountability.

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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.

"Tone at the top" refers to the ethical atmosphere that USSOCOM leadership created in the workplace. The tone management sets will have a trickle-down effect on their employees. USSOCOM's "tone at the top" is not as strong as it could be because there is no specific written policy addressing the ethical atmosphere or standards; however, there is informal or verbal ethical guidance from the Commander. In fact, there was an ethical lapse in USSOCOM within the last year. That ethical lapse involved an employee's submission of invalid invoices, with potential fraud, which the USSOCOM Inspector General investigated. As a result, the Commander directed a comprehensive review of SOF culture and ethics in August 2019. The comprehensive review was completed by an external party who reviewed the ethical lapses with operators. The results of the comprehensive review concluded that the Commander and Deputy Commander needed to focus on ethical behavior with a focus on operations and accomplishing USSOCOM's mission.

The USSOCOM components do not all follow a single code of conduct. Headquarters (HQ) USSOCOM was not able to provide a standard code of conduct or written policy guidance on employees' attitudes and ethical behavior. Components adopt and follow the codes of conduct displayed within the bases where they are located.

The USSOCOM management has not established standards of conduct to communicate expectations concerning integrity and ethical values. The Special Operations Judge Advocate (SOJA) is responsible for the USSOCOM's ethics program, but it is not responsible for administrating ethical training. It is the responsibility of the components and TSOCs to conduct and provide oversight of their own annual ethical training programs. Currently, the only individuals required to take the ethical training are those who file a financial disclosure. Management has informed the Risk Management and Internal Control (RMIC) Director that they do not have the resources to be able to administer ethical training; however, the RMIC team believes training could be conducted with the right process.

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

The USSOCOM's oversight structure is composed of the Senior Management Council (SMC) and Senior Assessment Team (SAT), each with a charter. The SMCs primary, overarching objective is to provide internal control leadership and oversight across the SOF enterprise. This is done by delegating authority to the SAT to execute the RMIC Program.

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The SAT is the oversight and decision-making body that oversees management's implementation and monitoring of prudent internal controls across USSOCOM. The SAT is to meet with the RMIC Director and RMIC managers from the various USSOCOM components quarterly to provide guidance and oversight, and to discuss status of RMIC's implementation efforts regarding applicable laws, policy, and guidance across the SOF enterprise. During our inspection of the quarterly meeting minutes, we noted that USSOCOM was not able to provide the meeting minutes for quarter three of fiscal year (FY) 2020. The RMIC team stated that the meeting could not be held due to Coronavirus Disease 2019 (COVID-19) constraints and the meetings are not scheduled at the beginning of the fiscal year or well in advance, so staff are not aware of when the meeting will be held. The RMIC team also stated that there were delays in the RMIC cycle timelines due to COVID-19, which delayed the components' internal control progress made after the second quarter and the team asserted that a third-quarter meeting was not needed. The SAT did not inform the SMC of the omitted third-quarter SAT meeting. The RMIC team was not able to provide documentation for the cancellation of a meeting invite and/or communication sent to the components informing them the SAT meeting was cancelled. The SAT Charter Memorandum indicated that SAT meetings need to be held, at minimum, quarterly. There appears to be insufficient communication between the two oversight parties, which could result in not relaying important information about the internal control process.

c. **Establish Structure, Responsibility and Authority**

According to the GAO *Green Book*, management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. The GAO *Green Book* also states that to achieve the entity's objectives, management assigns responsibility and delegates authority to key roles throughout the entity.

During our inspection of a sample of organizational charts, we determined management has developed an organizational structure with an understanding of the overall responsibilities and responsibilities have been assigned to discrete units. In addition, key roles and internal control roles have also been assigned. However, the organizational chart structure varies among components. Not all organizational charts document the name of the employee occupying each position. Incomplete or inconsistent organizational charts may prevent units and/or key roles from communicating or receiving quality information. A process to develop organizational charts in standard format throughout USSOCOM has not been implemented.

During our inspection of the RMIC Appointment Memorandums, we noted that employees stationed in USSOCOM components are assigned the role of RMIC Manager with the intention to carry out an effective, economical, and comprehensive internal control program. Our inspection indicated that the RMIC Appointment Memorandums are not updated annually, nor are they updated immediately once an employee leaves USSOCOM. Furthermore, there was no documentation of a policy to roll forward these memorandums from year to year. In addition, a new Memorandum was not provided to all the RMIC Managers to indicate a change in the program's name or listing the new responsibilities from the program name change. The RMIC Managers are required to abide by the USSOCOM Directive 5-1 guidance for establishing overarching policy and processes for the internal control system, to perform their internal control responsibilities, but that guidance is outdated. The RMIC Managers are required to complete internal control-related training every three years; however, they are not required to demonstrate completion of the training.

d. **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 have not been completed for all locations of USSOCOM's financial reporting service organization. USSOCOM has made progress in establishing MOUs for their service organizations; however, there is inconsistency in some of the MOUs and not all MOUs have been finalized. During our review of the eight financial reporting service organization locations' MOUs, the audit team determined the following:

- Two out of the eight MOUs were not finalized for FY 2020 and were not available for review. This indicates that USSOCOM is still in the process of establishing MOUs with their service organizations.
- USSOCOM's financial reporting service organization audit support MOU indicates the MOU must be reviewed annually. If no updates are determined to be necessary, then a Memorandum for Record (MFR) will be signed and attached to the MOU acknowledging the agreement was reviewed. The MOU is very broad as it is intended to be used by other DoD components. It does not outline USSOCOM as an entity, but instead refers to USSOCOM as the reporting entity. In addition, the MOU was signed by only the financial reporting service organization director. There is no acknowledgement from USSOCOM indicating agreement to the MOU. Lastly, the MOU does not document the expectations of competence to perform USSOCOM's internal control responsibilities.
- The MOU for one location of USSOCOM's financial reporting service organization did not indicate the date the MOU was established. The agreement was signed mid-September 2020 and is set to expire at the end of September 2020.
- The MOU for the financial reporting service organization Concept of Operations indicated that the MOU must be reviewed annually; however, there is no documentation indicating a review was completed.
- The MOU for one location of USSOCOM's financial reporting service organization included an addendum; however, the addendum did not indicate the date the changes would take place.
- Although, the MOUs for USSOCOM's financial reporting service organization outline their roles and responsibilities to process journal

vouchers (JV)s, the audit team has issued a relevant Notice of Finding and Recommendation (NFR) for FY 2020. This NFR indicated that there is a disconnect between the assigned responsibilities and what is being reported within the financial statements. Refer to item **II. Material Weakness – Inadequate Monitoring of Service Organizations** for more details.

The process of entering into MOUs with service organizations can be lengthy and cumbersome, especially given the array and diversity of administrative and logistical support that need to be considered as part of the agreements.

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.

The RMIC team, in coordination with USSOCOM management, has improved the risk assessment process in FY 2020 as compared to prior years. For FY 2020, the RMIC team provided a standard risk assessment template to all the components to identify, analyze, and respond to identified risks. In addition, the risk assessment template allows components to consider the potential for fraud when identifying, analyzing, and responding to risks. The components are also required to complete a fraud checklist to identify the types of fraud schemes to consider and activities the components have in place to prevent fraud.

Grant Thornton obtained and inspected the risk assessment worksheets and fraud risk assessment questionnaires and worksheets for a sample of four commands.

All four commands assessed and ranked each identified risk as one of the following:

- High – The risk is very likely or reasonably expected to occur
- Medium - The risk is more likely to occur than unlikely
- Low – The risk is unlikely to occur

These commands described the risks identified, the internal control activities currently in place to mitigate the risk(s), the effectiveness of the internal control activities, and the risk response.

However, during our inspection of the risk assessment worksheet and fraud checklist, we noted the following:

- Risks identified by the HQ Command Group, Special Operations Financial Management, a component command, and a sub-unified command were identified as either fraud-related or not fraud-related, but the template of one service component command did not include this distinction.
- Three out of four commands used the same standard risk assessment worksheet to identify, analyze, and respond to the identified risks. The risk assessment worksheet is a template RMIC provides the commands to

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complete as part of the Entity Level Control (ELC) process. One component did not complete the standard template that the HQ RMIC team provided, but instead submitted another military department control and risk assessment template that they previously completed and submitted to the military department. That template is similar to the HQ RMIC risk assessment template with the exception of identifying fraud risks. The HQ RMIC team accepted the military department template addressing the risks identified by USSOCOM's component. Although the template submitted is somewhat similar to the HQ RMIC standard template, the process of identifying, analyzing, and responding to risks is inconsistent within USSOCOM.

- The fraud risk section of the risk assessment worksheet (e.g., incentive/pressure, opportunity, attitude) allows the commands to identify, analyze, and respond to fraud risks so that they are effectively mitigated. Grant Thornton noted that the risk assessment worksheet prepared by USSOCOM components did not consistently address fraud risk factors.

3. **Control Activities**

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

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

4. **Information and Communication**

According to the GAO *Green Book*, management should use quality information to communicate internally and externally as well as to achieve the entity's objectives.

During the inspection of the USSOCOM's information and communication system, we noted that USSOCOM management provides information on management's objectives and responsibilities on internal controls; however, the information is not properly communicated to the appropriate person(s) or carried out in the right manner and at the appropriate time. We specifically noted the following weaknesses associated with aspects of the information and communication system:

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1. **USSOCOM Directive 5-1** - The USSOCOM has a directive to prescribe policies, responsibilities, objectives, standards, and procedures for an effective, compliant, and comprehensive RMIC program and subsequent preparation of materials to support USSOCOM's Annual Statement of Assurance (SoA). We noted that the written document is intended to establish an effective, economical, and comprehensive internal control program to comply with FMFIA and the GAO *Green Book*. The Directive is provided to all USSOCOM Commands and TSOCs as a guide establishing overarching policy and processes for the internal control system. Although the Directive is a guide to assist USSOCOM's compliance with the FMFIA process and the GAO *Green Book*, the Directive has not been updated since January 2014. The RMIC began updating the directive in 2019, but the draft was not finalized. The RMIC Director stated that the finalized Directive will not be ready until the second quarter of FY 2021. Currently, the components use the outdated directive as a guide to perform their internal control responsibilities and to establish entity-level controls. Although components may use DoD guidance, the use of the outdated directive may prevent some components from complying with the established guidance to address the five components of internal controls. Over the past year, the USSOCOM has had a change in the RMIC management, so the entity-level control process has changed. New standard templates have been created and provided to the components to monitor and document the effectiveness of the internal control system. However, the process is inconsistent throughout the components, as the components are not able to follow a current guide informing them of the policies, responsibilities, objectives, standards, and procedures that need to be completed to support the USSOCOM's assurance statement.

2. **SAT Meeting Minutes** – We sought to inspect the SAT meeting minutes for first and third quarter of FY 2020 and confirmed that the oversight body received quality information from management and personnel for quarter one only. The SAT meeting minutes for quarter three could not be provided, as a meeting was not held due to COVID-19 constraints according to the RMIC Manager. The SMC was not informed of the omitted third-quarter meeting. Additionally, the RMIC team does not schedule the quarterly meetings well in advance, so SAT members are not aware of when or if a meeting will be held. We understand that, beginning in FY 2021, the RMIC team does plan to schedule quarterly SAT meetings at the beginning of the fiscal year and provide information to the SMC about cancelled quarterly meetings. The failure to communicate the missing meeting demonstrates that the oversight body's process is not consistent throughout the year. Although constraints may have prevented the RMIC team from scheduling the quarter-three meeting, the RMIC failed to report the omitted meeting to the SMC. The SMC acts as an oversight structure for the SAT; therefore, communication between the SAT and SMC is vital. Additionally, the SAT Charter memorandum indicated that SAT meetings need to be held, at minimum, quarterly. The SMC was not informed of the third-quarter meeting cancellation; therefore, they were not informed of internal control progress or the status of the existing deficiencies and/or reported deficiencies identified. This includes the deficiencies identified by internal or external auditors. The SAT did not communicate quality information to the oversight body.

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5. **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, we noted that there are monitoring activities in place; however, the process varies among components. During the walkthrough held with HQ RMIC, two component commands, and a sub-unified command, we identified the following weaknesses in the three methods of monitoring and evaluating internal controls:

1. **Internal Control Test Plan** – The USSOCOM personnel evaluate internal controls using the Internal Control Test Plan template produced by the HQ RMIC team or its equivalent. The Internal Control Test Plan template or equivalent documentation allows the person performing testing to document the items reviewed and the results of the evaluation. Once personnel complete testing, the template or its equivalent is submitted to the RMIC for review and documentation. The RMIC team documents the deficiencies identified during testing.

   During our inspection of the Internal Control Test Plan template or equivalent documentation, we noted that a service component command relies on inspections performed by external parties and does not perform an evaluation of the internal controls. One component command documents the monitoring of controls within their risk assessment worksheet. That risk assessment worksheet does not provide a section to document their evaluation, but instead documents who would perform testing. Most of the testing is performed by Independent Public Accountant (IPA) Firms or the Office of Inspector General (OIG) for HQ USSOCOM or a USSOCOM component. The documentation used by that component command does not conclude on the operating effectiveness of the internal control(s) or deficiencies identified.

   The HQ RMIC team used the Internal Control Test Plan template or its equivalent to document the findings identified within their Testing Summary Workpaper. During our review of the Testing Summary Workpaper, we noted the following:

   - One service component command had no deficiencies identified; however, they did not complete the Internal Control Test Plan or equivalent to document the results of monitoring and evaluating control activities.
   - One component command submitted their evaluation template to the HQ RMIC indicating that no deficiencies were identified. However, that component command did not complete its internal testing and relied only on IPA or OIG testing. The HQ RMIC team noted that deficiencies were identified by the OIG.

   The inconsistent use of the standard Internal Control Test Plan template or its equivalent to monitor and evaluate internal controls indicates that not all components are reviewing the control activities; therefore, components are not able to identify and correct weaknesses and/or

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deficiencies that external parties may have missed during their review of the internal control. In addition, as part of their monitoring procedures, a service component command reported to the HQ RMIC team that there were no deficiencies identified for FY 2020, but their SoA indicates that material weaknesses and significant deficiencies were found in the internal controls. The statement made in the SoA is inconsistent with the statement made about monitoring internal control activities. One component command submitted their evaluation worksheets to the RMIC for review. All of these indicated that no deficiencies were identified during their review of the controls; however, the HQ RMIC team noted that the OIG has identified deficiencies. That component command has also noted, within the SoA, that no material weaknesses and/or deficiencies were identified when evaluating the internal controls. The information provided to the HQ RMIC team about monitoring and evaluation internal controls is inconsistent or incomplete.

2. **OIG** – When testing and/or evaluations are performed by the USSOCOM OIG, a report is issued to the component with the results. The components have the option of reviewing the OIG report to identify the deficiencies found or not reviewing the report. The components are not required to document deficiencies identified in the OIG report.

   Personnel in two components stated that the OIG is responsible for identifying how to test and evaluate the internal controls. Once the OIG has inspected a control activity, there is an out brief and OIG keeps a list of functional areas they assessed; however, the out briefs are only held if considered necessary. The RMIC managers in two component commands rely on the OIG inspections, but they do not verify any work completed. The manager in one of those components also relies on the Assessable Units (AUs) and Subject Matter Experts (SMEs) to review the OIG report and correct the deficiencies noted. No report is provided to that component indicating the AU's or SME's have reviewed the OIG report to correct deficiencies. Personnel in one sub-unified command also rely on the OIG inspections, and they, too, do not review the OIG report(s); however, we understand that the command has begun implementing the HQ's RMIC Internal Control Test Plan.

   Although the OIG performs evaluations of the component's internal controls, the report is not always reviewed by the components who rely on the OIG's review. Components are not always reviewing the reports to document findings or inform the HQ RMIC team of deficiencies identified by the OIG.

3. **External Auditor Review** – IPA firms are contracted to perform audits for the various DoD military departments. Many of the USSOCOM components are stationed throughout the military departments, so the auditors for the military departments also evaluate USSOCOM's components. The IPAs' reviews include evaluating internal controls.

   Personnel in three components noted that there is reliance on IPAs' evaluation of internal controls. Based on the information discovered by an IPA, the components review the IPA's report for the deficiencies identified.

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There is reliance on the Military Departments' IPAs to evaluate internal controls and to determine whether they are operating effectively, which indicates that not all components have their own appropriate monitoring in place. Additionally, components wait until the audit is finalized to determine what weaknesses and/or other deficiencies have been identified by the IPA.

Note: The USSOCOM relies on the service organizations to perform key data functions without the necessary capability and/or capacity to fully monitor or review their work. There is insufficient monitoring process of its third-party service organizations. Refer to Section **II. Material Weakness – Inadequate Monitoring of Service Organizations** for more details.

As noted above, USSOCOM management has not effectively designed, implemented, and placed into operation the five components of internal control. This lack of controls inhibits USSOCOM management's ability to ensure accurate financial reporting as required by Federal Accounting Standards Advisory Board (FASAB) and Treasury Guidelines and represents non-compliance with the FMFIA and OMB Circular A-123, refer to Section **VII. Non-Compliance - Lack of Substantial Compliance with the Federal Managers' Financial Integrity Act of 1982**.

Recommendations

USSOCOM management should consider taking the following actions:

1. **Control Environment**

   - **Demonstrate Commitment to Integrity and Ethical Values**: Establish and document standards of conduct related to integrity and ethical values. USSOCOM should develop, communicate, promote, and display ethical values through a written code of conduct. The code of conduct should be displayed and communicated within HQ USSOCOM and the various components. All employees should be required to read and sign the code of conduct as evidence that they have read and understood what is expected. In addition, the USSOCOM RMIC should work with SOJA to implement and require the following:
     - i. Implement an annual ethical training to enable employees to identify and deal with ethical problems.
     - ii. Require employees to take ethical training annually and have either the RMIC or SOJA track compliance for all staff via maintaining certificate of completion.
     - iii. Implement programs that help employees promote an ethical culture throughout the organization.

   - **Exercise Oversight Responsibility:** The SAT team should meet on a quarterly basis to discuss the internal control progress. If meetings are not held, the RMIC team should document and explain the reason the meeting was cancelled and provide the memo to the SMC.

   - **Establish Structure, Responsibility and Authority**: USSOCOM should define the type of organization charts (e.g., functional, divisional, etc.) all components will use to document the organizational structure. All organization charts should include how information flows between levels (hierarchy), employee titles, employee names (when feasible), and rank of each position. Organizational charts should be reviewed regularly and updated if necessary.

- **Enforce Accountability:** USSOCOM management should review all MOUs regularly and document each review. All MOUs should include specific responsibilities for authorization, initiation, processing, and recording of transactions, as well as expectations of competence to perform responsibilities. The MOUs should be updated in the event that deficiencies are identified by internal or external auditors and to indicate corrective actions taken that address deficiencies identified.

2. **Risk Assessment**: The USSOCOM RMIC team should enforce the use of the standard documentation or equivalent when identifying risk and fraud risks. A consistent process allows the component to work in an efficient manner with the RMIC team.

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

4. **Information and Communication:**
   - **USSOCOM Directive 5-1**:
     a. The RMIC team should update the Directive regularly, such as annually (before the start of the fiscal year) or as necessary.
     b. They should inform all RMIC managers, via email and/or team meetings, about updates made to the Directive.
     c. The policy should require that all RMIC managers, from the various AUs, sign an acknowledgement letter indicating that the Directive was read and that they understand their responsibilities for establishing and maintaining an effective internal control program. Alternatively, the appointment memorandums could be used for this acknowledgement.

   - **SAT Meeting Minutes**:
     a. Schedule the quarterly meetings at the beginning of the fiscal year and inform the SMC of the dates the meetings will be held.
     b. Compose a memorandum informing the SMC of all quarterly meeting cancellations and provide an explanation for cancelling a meeting along with notification of whether the meeting will be rescheduled.

5. **Monitoring Activities:**
   - **Internal Control Test Plan** –USSOCOM should require components to complete the standard template or its equivalent when evaluating internal controls. Using the standard template will enable management to determine that deficiencies are identified and communicated in a consistent and timely manner in order to take a corrective action.

- **OIG** – The components should perform their own evaluations of internal controls and not rely only on the inspections performed by OIG. The components should read the OIG report to become aware of the deficiencies identified by the OIG. A report of the OIG's finding should be provided to the HQ RMIC team.

- **External Auditor Review** – USSOCOM should perform their own monitoring and evaluation of internal controls and not rely only on the IPAs' inspections, as USSOCOM personnel are SMEs to their control activities.

Note: USSOCOM should maintain adequate controls over the transactions processed by service organizations. In addition, the USSOCOM should periodically monitor the service organizations to ensure they are properly performing the agreed-upon services. Refer to Section **II. Material Weakness – Inadequate Monitoring of Service Organizations** for more details.

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II. Material Weakness - Inadequate Monitoring of Service Organizations

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

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

1. **Documented all MOUs outlining mutual responsibilities and expectations between USSOCOM and the military departments related to the execution of processes and transactions through third-party systems**. While there are MOUs between USSOCOM and the military departments, the agreements are not all current and do not outline specific responsibilities for authorization, initiation, processing, and recording of transactions as required by the FIAR guidance. This can lead to inconsistencies between USSOCOM expectations and the actions taken by the military departments that could result in misstatements to the financial statements**.**

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

3. **Taken action to assess the control environment and any associated risks to USSOCOM occurring at service organizations which do not receive a 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 Service Organization Controls (SOC) 1 reports and include the independent service auditor's report, the service organization's management assertions, and identified Complimentary User Entity Controls (CUECs) that users of the service organization (e.g., USSOCOM) should have in place in order for the service organization's internal controls to be effective and relied upon. The SOC 1 reports are made available to the user entities for their analysis and action. However, not all service organizations undergo examinations of their controls. 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 organization ultimately impacting the USSOCOM control environment and USSOCOM financial statements. For those service organizations significantly impacting USSOCOM's internal control environment, USSOCOM management should obtain assurance regarding internal controls in place at the service organization. USSOCOM has not developed 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 has not yet completed a comprehensive review of relevant SOC 1 reports to include an analysis of CUECs in place that have been validated by USSOCOM management as operating effectively. Therefore, USSOCOM is unable to assess whether current controls at USSOCOM Headquarters, service components, and sub-unified commands/TSOCs are sufficient to mitigate financial reporting risks.

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

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

Recommendations:

USSOCOM management should consider taking the following actions:

1. Review all MOUs annually and document each review within the applicable agreement. The MOUs should include specific responsibilities for the authorization, initiation, processing, and recording of transactions, as well as expectations of competence to perform responsibilities.

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

3. 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.

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

In accordance with OMB Circular A-123 issued under the authority of FMFIA and the Government Performance and Results Act Modernization Act, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. According to the GAO *Green Book*, management is responsible for implementing and evaluating its internal control system, including internal controls, to meet reporting objectives related to the preparation of reports for use by the entity, its stakeholders, or other external parties. Furthermore, USSOCOM does not own the majority of systems it uses to process its transactions; those systems are owned by the military departments or 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 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 does 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:
   - Recording of JVs;
   - Exclusions of data during financial statement preparation;
   - Manual inclusion of data provided by others into the financial statement footnotes by USSOCOM management;
   - Recording of routine transactions by USSOCOM's components;
   - Completeness and accuracy of payroll transactional data;
   - Accuracy and completeness of funding received;
   - Receipt and acceptance of goods and services;
   - Completeness and accuracy of USSOCOM's transactional financial data used for analysis and reporting; and,
   - Recording of obligations based on estimates that far exceed the legal obligations incurred

   The lack of validation controls may have contributed to misstatements, including:
   - JVs executed using improper accounting treatment;
   - Errors in the initial posting of expenses; and,
   - Recording obligations to incorrect periods.

   In addition, we noted instances where controls were inappropriately designed as evidence that the control was performed is not consistently retained or does not exist.

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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:
   - Obligations and Upward Adjustments;
   - Downward Adjustments;
   - Gross Costs and related controls;
   - Civilian Payroll;
   - General Equipment;
   - Construction in Progress;
   - Manual JVs.

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

5. **Improper Reporting of Revenue.** USSOCOM management has not established a formal revenue recognition policy resulting in the majority of the Earned Revenue balance on the financial statements not meeting the definition of "exchange revenue" as defined by federal accounting standards. Specifically, Earned Revenue includes activity between USSOCOM components, which is not properly eliminated on the face of the Statement of Net Cost (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 has not conducted a sufficient analysis to determine whether certain assets that lose their identity through incorporation into an end-item once utilized are appropriately categorized as materials (a component of Operating Materials and Supplies (OM&S)) or as Property, Plant and Equipment (PP&E).

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

8. **Lack of Compliance with the Accrual Basis of Accounting.** Some USSOCOM components use legacy accounting systems for the recording of their daily accounting transactions. These systems were designed for execution and reporting of Agency budgets but not necessarily for financial reporting in compliance with U.S. generally accepted accounting principles, including the

accrual basis of accounting. 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 components sometimes use these codes upon receipt of signed contracts, reimbursable work orders, or other obligating documents, before any goods or services have been received or accepted. We noted that 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. Additionally, USSOCOM's financial reporting service organization posts JVs on USSOCOM's behalf based the amount of abnormal accounts payable occurring with the recording disbursements. These adjustments are not based on evidence of the receipt of goods or services.

9. **Lack of Controls over Financial Statement Compilation**. USSOCOM management and its financial reporting service organization lack adequate controls over the financial statement compilation process 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 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-Audited Financial Statements (DDRS-AFS), the reconciliation is performed after the quarterly financial statements have been finalized, and therefore it would not prevent or detect errors from being presented on the financial statements.

   c. ***Manual Pre-Processing:*** Certain pre-processing actions require manual action by service organization personnel. For example, DDRS-B produces a report that displays feeder file records that have been excluded from pre-processing. Records may be excluded either manually, if an accountant recognizes an invalid attribute, or automatically (i.e., auto-excludes) if DDRS-B has previously been programmed to systematically exclude the record due to an invalid attribute. Through our testing, we noted a variety of issues with the internal controls over data exclusions, including 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 creates JVs for a multitude of reasons (e.g., as a result of a reconciliation, reclassification, identified errors, etc.). JVs posted within DDRS-B and DDRS-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 are 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 a 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 has been unable to fully validate the data within the data calls. Furthermore, controls in place at USSOCOM and its service organization responsible for financial reporting are insufficient to prevent manual errors from causing misstatements (e.g., identify non-normal balances, misstated disclosures, etc.) .

10. **Nonconformance with Requirements of OMB Circular A-136**. OMB Circular A-136, *Financial Reporting Requirements*, specifies requirements for the form and content of federal financial statements and related disclosures. USSOCOM financial statements are not in conformity with the requirements of OMB Circular A-136 as the SNC is presented by appropriation group rather than major program as required. This is due to DDRS-AFS being configured to generate the SNC by appropriation group, rather than major program. There are currently no plans for USSOCOM's financial reporting service organization to change the presentation of the SNC.

11. **Inability to Create a Comprehensive Universe of Transactions.** USSOCOM is unable to provide transaction-level detail supporting financial statement impact for one accounting system and several non-accounting systems. Additionally, USSOCOM is unable to provide transaction-level detail for any systems prior to FY 2003, with the majority of systems having transactional details available related 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.

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

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

        a. PBAS
        - Users were granted inappropriate application access.
        - Access reviews were not performed on a periodic basis.
        - Daily and monthly reviews of audit logs did not comply with internal process requirements.

        b. EFD
        - Comprehensive documentation outlining roles and associated privileges is not complete. Furthermore, a comprehensive segregation of duties (SoD) matrix, which outlines the population of user roles and privileges that conflict with one another, was not documented.
        - Documentation of monthly access reviews was not retained.
        - Controls pertaining to audit logging and monitoring of actions were not implemented in accordance with formal policies and procedures.

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

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

a. EFD
   - A complete and accurate listing of changes to configurable items related to the application could not be provided. Furthermore, controls to validate that changes migrated to production were authorized and validated were not designed and implemented.

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

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

a. PBAS
   - For a subset of National Institute of Standards and Technology (NIST) controls, descriptions of how controls should be designed and implemented were not defined and documented.
   - Plans of Action and Milestones (POA&Ms) were not reviewed in a timely manner.

b. EFD
   - System vulnerabilities were not remediated in a timely manner.
   - Documentation to support the closure of POA&Ms was not provided in a timely manner. Further, in some cases, documentation to support the closure of POA&Ms was outdated.

Undefined and undocumented security control parameters present the risk that personnel do not adhere to controls and processes that have been implemented to minimize risks to applications. Furthermore, without comprehensive tracking and review of vulnerabilities, there is an increased risk that vulnerabilities are not remediated. 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.

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

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

1. **Lack of Comprehensive Understanding of Information Systems and Financial Data.** USSOCOM management should 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, 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 expand its FIAR-related activities to include an evaluation of all USSOCOM financial reporting transactions from inception to reporting, including the exclusion of transactions during financial statement preparation, as well as activities executed by USSOCOM's service organizations and USSOCOM accountants 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 also ensure controls surrounding system-generated evidence provide management assurance that transactions were executed properly and are substantiated. 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.

4. **Control Deficiencies over Accounts Payable.** USSOCOM management should work with its service organization and relevant system owners to obtain USSOCOM Accounts Payable 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 a schedule of Accounts Payable that can be summarized at the vendor 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

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accurately.

5. **Improper Reporting of Revenue.** USSOCOM management 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.

7. **Insufficiently Supported Adoption of Purchase Method.** 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 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 FMR.

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

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

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

11. **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

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of activities underpinning summarized financial statement balances, as well as perform an analysis of differing types of internal and external factors impacting operations.

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

    a. **Logical Access and Segregation of Duties**
        a. PBAS
            - Ensure access provisioning policies and procedures are followed to include validating requested roles and privileges are commensurate with job duties and functions.
            - Perform a comprehensive periodic access review in accordance with internal processes.
            - Review audit logs in a timely manner for violations or suspicious activity and perform follow-up actions in accordance with formalized policies and procedures.

        b. EFD
            - Document access rights to include roles, role descriptions, and privileges or activities associated with each role. Further, document role assignments that may cause a SoD conflict.
            - Retain documentation of the periodic review that determines the appropriateness of users with access to the application.
            - Implement audit logging and monitoring controls in accordance with formal policies and procedures.

    b. **Configuration Management**
        a. EFD
            - Establish a mechanism to systematically track all configuration items that are migrated to production to be able to produce a complete and accurate listing of all configuration items for both internal and external purposes, which will support closer monitoring and management of the configuration management process.

    c. **Security Management**
        a. PBAS
            - Define and document descriptions of how NIST controls that pertain to the application should be designed and implemented.
            - Perform periodic reviews of POA&Ms in a timely manner.
        b. EFD
            - Track and remediate identified vulnerabilities in a timely manner.
            - Review evidence submitted as part of the POA&M closure process to determine whether it is relevant and timely.

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

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

USSOCOM is considered an Other Defense Organization (ODO). ODOs are entities authorized by the Secretary of Defense to perform select consolidated support and service functions to the DoD on a Department-wide basis. ODOs do not receive stand-alone appropriations; rather, their funding is included in various appropriations, including: Operations and Maintenance, Defense-Wide; Procurement, Defense-Wide; and Research, Development, Test, and Evaluation, Defense-Wide, among others. Similarly, Treasury aggregates the FBwT information for ODOs at 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 Headquarters 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 are performed using the Department 97 Reconciliation and Reporting Tool (DRRT) and Consolidated Cash Accountability System (CCAS), with a plan to transition FBwT reconciliation functions to Advancing Analytics (Advana) to further research and resolve FBwT variances.

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

1. **Unidentified Differences.** USSOCOM's financial reporting service organization uses an Access database to prepare the TI-97 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 service organization uses a number of different terms to distinguish between the various types of unidentified differences (e.g., Unallocated Funds, Processing and Subhead Errors, Unvouchered Intragovernmental Payment and Collection (IPAC), 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, 2020, unidentified differences between the CMR and USSOCOM accounting system detail included within the TI-97 Audit Workbook amounted to $20.7 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 Workbooks, as of September 30, 2020, included an amount of $89.3 Billion; this amount is noted as attributable to all ODOs, and therefore it could, at least partially, be attributable to USSOCOM.

2. **Unreconciled Differences.** A significant portion of the USSOCOM FBwT account balance is attributable to appropriated funds prior to FY 2013 or FY 2015, depending on the type of appropriation. Given long-standing issues in reconciling this data, management has discontinued any attempts to reconcile this data and excludes these amounts from their reconciliation. The total value of these unreconciled funds was $67.3 Million as of Quarter 2 FY 2020.

3. **Non-X Year Funding (Out-of-Scope Appropriations).** Based on our review of the CMR, we noted that as of Quarter 2 FY 2020, $14.1 Billion of funding was identified as Non-X year Funding/ "Out-of-Scope" from reconciliation, representing funding included in USSOCOM's FBwT balance to date. USSOCOM management was unable to provide support validating that USSOCOM had the rights to that funding.

Unreconciled Differences and out-of-scope funding described above represent Unsupported Balances in the amount of more than $14.2 Billion at Quarter 2 FY 2020, as compared to less than $10.6 Billion at Quarter 2 FY 2019. As a result of Sub-Allocation Holder Identifier (SAHI) limit conversion, whereby limits previously used to define USSOCOM transactions (e.g., 56SA, 56SF, etc.) were consolidated into a single limit (i.e., 5600), DRRT lost the ability to determine the impact of out-of-scope funding data to USSOCOM FBwT. This continues to be a primary cause of the significant increase in the unsupported balance included within FBwT. FBwT reconciliations for ODOs are complex given the lack of stand-alone appropriations and related stand-alone Treasury accounts for each ODO, including USSOCOM. This has resulted in the identification of unsupported FBwT transactions. Our testing indicates USSOCOM lacks monitoring over its financial reporting service organization as it relates to FBwT and that controls and documentation around the process are insufficient. Additionally, we noted significant FBwT variances aged over 60 days. The

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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 an evaluation over HQARS, which is owned by USSOCOM's financial reporting service organization. Additionally, USSOCOM and the financial reporting service organization were unable to support the audit of the CMR Tool due to travel restrictions related to the COVID-19 pandemic and the transition to a remote work environment for non-essential employees. The CMR Tool operates in a secured environment, and audit documentation supporting the application is also maintained in a secured environment that is not accessible remotely. As a result, Grant Thornton was unable to perform planned audit procedures for the CMR Tool in support of the FY 2020 USSOCOM audit, resulting in a scope limitation. We inspected corrective action plans to gain an understanding of the status of remediation activities.

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

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

   - HQARS
     - Periodic access reviews were not complete and comprehensive.
     - Reviews of terminated and transferred users were not timely and comprehensive.

   Lack of a comprehensive recertification and the untimely removal of access presents the risk that individuals maintain unsupported and / or unauthorized access to the application. 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. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

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

- HQARS
    - Configuration items could not be traced to supporting documentation**.**

Without a complete audit trail of changes, there is an increased risk that unauthorized or erroneous changes to applications may be introduced without detection by system owners. 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 documentation**.**

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

- HQARS
    - For a subset of National Institute of Standards and Technology (NIST) controls, parameter values were not defined and documented.

- CMR
    - Security management policies and procedures governing the CMR tool are in the process of being drafted and have not been finalized.

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. Further, undefined and undocumented security controls present the risk that personnel do not adhere to required controls. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

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

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

Lack of system balancing controls presents the risk that data in the target system is incomplete or inaccurate. The issue presented above may increase the risk of financial systems maintaining inaccurate or incomplete data to inform decision making.

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Recommendations

USSOCOM management should consider taking the following actions:

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

Recommendations for Information Systems used to Perform the FBwT Reconciliation
USSOCOM management, including USSOCOM's Chief Information Officer (CIO) and system service organizations, should work to enforce and monitor the implementation of corrective actions as follows:

1. **Logical Access and Segregation of Duties**
   - HQARS
     - Perform a comprehensive periodic review of the appropriateness of users with access to the application.
     - Conduct comprehensive and timely reviews of terminated and transferred users.

2. **Configuration Management**
   - HQARS
     - Maintain documentation of testing and approvals for changes migrated to production in accordance with the formalized change management process.

3. **Security Management**
   - HQARS
     - Define and document parameter values for NIST controls that pertain to the application.
   - CMR
     - Prepare and formalize security management policies and procedures governing the CMR tool.

4. **Interface Controls**
   - HQARS
     - Configure systematic controls to validate that data transmitted to the application is complete and accurate.

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

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

USSOCOM reported in its September 30, 2020, Balance Sheet a total of $3.8 Billion in Property, Plant, and Equipment, Net. The balance represents General Equipment (GE) and Construction in Progress (CIP). USSOCOM is in the process of implementing SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment.* However, USSOCOM management has not yet completed the necessary steps to make an unreserved assertion over its balance of Property, Plant, and Equipment within 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. **Lack of Adequate Inventory Procedures.** USSOCOM's acquisition office did not complete the recording of all of its accountable property within their property system by the end of the fiscal year.

2. **Inability to Support Historical Acquisition Cost.** As originally designed the Global Combat Support System-Army (GCSS-Army), one of the property accountability systems 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 and Completeness.** Errors were identified related to the existence and valuation of GE sampled that included acquisition cost not supported by documentation. Additionally, errors were identified for the improper inclusion of certain GE assets that were inoperable, disposed of, or never acquired. Furthermore, USSOCOM management has not produced 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 cannot conduct appropriate reviews of the changes in and composition of GE balances. Additionally, during our inspection of documentation evidencing recurring inventory controls in place at USSOCOM components, we identified instances in which control procedures were not completed for all assets.

Construction in Progress

1. **Inadequate Design of Monitoring Control**. On a quarterly basis, management receives a listing from USSOCOM's financial reporting service organization of total CIP values, representing the total Real Property CIP recorded on USSOCOM's Balance Sheet. While analyses are performed that compare final reported balances, summary reports, and system transactional detail, these analyses currently result in material unresolved variances still under review by management.

2. **Inability to Support Capitalized Construction Costs.** Issues were noted in USSOCOM's ability to provide documentation 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 commands without proper monitoring controls in place, and inadequate property controls at headquarters has led to the control weaknesses noted. These weaknesses could further delay USSOCOM management's efforts to assert to the value of Property, Plant, and Equipment, 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. **Lack of Adequate Inventory Procedures.** USSOCOM management should enforce controls that ensure its acquisition office maintains its property accountability system up-to-date with accurate counts.

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

3. **Lack of Adequate Controls over Existence and Completeness.** USSOCOM management should continue to develop and revise its 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 in the APSRs, is up to date and changes are made in a timely manner; continue efforts to obtain historical acquisition cost documentation for assets; and complete alternative processes to establish acquisition cost and date when historical documentation is not available. 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 General Equipment. Furthermore, USSOCOM management should implement procedures to ensure all assets are subject to inventory controls at regular intervals.

Construction in Progress

1. **Inadequate Design of Monitoring Control**. USSOCOM management should resolve identified variances between different data sources impacting the USSOCOM reported CIP balance and implement policies and procedures to ensure the reported CIP balance is complete, accurate, and does not contain CIP assets that do not pertain to USSOCOM.

2. **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 reconciled to reported balances 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 departments.

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

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 a selection of accounting and non-accounting systems that are owned and operated by USSOCOM. USSOCOM management is in the process of implementing corrective actions that extend beyond FY 2020, resulting in the reissuance of some prior-year findings. Furthermore, due to travel restrictions related to the COVID-19 pandemic and the transition to a remote work environment for non-essential employees, a sub-unified command (USSOCOM Component # 2) was unable to support the audit of a selection of systems owned and operated by USSOCOM that operate within a secured environment. As a result, Grant Thornton was unable to perform planned audit procedures over these systems in support of the FY 2020 USSOCOM audit, resulting in a scope limitation and the reissuance of FY 2019 findings.

For systems owned and operated by USSOCOM, we noted the following deficiencies:

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

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

   b. USSOCOM Component # 2 Systems
      - Comprehensive audit logging and monitoring policies and procedures were not documented and formalized.
      - A complete and accurate listing of users with access to the applications could not be provided.
      - A comprehensive SoD matrix, which would outline the population of user roles, including those that conflict with one another, was not documented. Further, users had ability to perform administrator and business process functions.
      - Processes to revoke user access in a timely manner were not followed.
      - Comprehensive recertification of users was not conducted to determine appropriateness of access.

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- Evidence of review of audit logs was not retained.
- Users were permitted to sign-on to the network without their Common Access Card (CAC) credentials without having undergone formalized review and approval.

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

2. **Configuration Management.** Appropriate configuration management controls provide reasonable assurance that changes to information system resources are authorized and systems are configured and operating securely and as intended. Such controls include effective configuration management policies, plans, and procedures and proper authorization, testing, approval, and tracking of all configuration changes. We noted the following deficiencies during our testing:
   a. USSOCOM Component # 1 System
      - Comprehensive configuration management policies and procedures were not documented and formalized.

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

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

3. **Security Management.** Appropriate security management controls provide reasonable assurance of the efficacy of the security of an information system control environment. Such controls include, among others, security management programs, periodic assessments, and validation of risks and security control policies and procedures. We noted the following deficiencies during our testing:
   a. USSOCOM Component # 2 Systems
      - The authority to operate (ATO) was expired.
      - The application SSP did not align with NIST standards.
      - Continuous monitoring and risk assessment activities were not conducted in a comprehensive and consistent manner.

- A complete listing of weaknesses pertaining to the application and authorization boundary was not created and maintained.

Incomplete and inaccurate system documentation presents the risk that personnel do not adhere to required controls. Further, lack of comprehensive and consistent continuous monitoring activities and risk assessments presents the risk that personnel do not identify and remediate weaknesses in their environment in a timely manner. Additionally, lack of a complete listing of weaknesses pertaining to the boundary presents the risk vulnerabilities may not be remediated in a timely manner. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

USSOCOM Component #1 is in the process of retiring the system related to the deficiencies identified above. A new system will be implemented at a future date. As a result, corrective actions are not being developed to address these deficiencies.

USSOCOM Component #2 is in the process of implementing the Risk Management Framework (RMF). As a result, controls that are in alignment with the National Institute of Standards and Technology (NIST) requirements are in the process of being implemented.

Recommendations

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

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

   b. USSOCOM Component # 2 Systems
      - Finalize and implement comprehensive audit logging and monitoring policies and procedures.
      - Configure the system or develop a query to generate a complete and accurate listing of users with access to the applications.
      - Develop a comprehensive SoD matrix, which outlines the population of user roles, including those that conflict with one another. Further,

prohibit conflicting roles, or implement compensating controls to mitigate risks.
- Conduct reviews to determine the appropriateness of continued access.
- Retain evidence of review of audit logs.
- Implement a workflow that requires users to gain approvals prior to being permitted to sign-on to the network without their CAC credentials.

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

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

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

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

DoD Instruction 5010.40 requires DoD entities to comply with the requirements of the FMFIA and the requirements of OMB Circular A-123. FMFIA and OMB Circular A-123 require federal entities to establish internal controls in accordance with the GAO *Green Book*, conduct evaluations of their internal controls, and annually prepare an 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 FMFIA and the related OMB Circular A-123 requirements. Specifically, USSOCOM was unable to provide evidence that it had: 1) conducted assessments of its internal control to include all GAO *Green Book* internal control components and related principles across the entity, as well as service components, sub-unified commands/TSOCs, and service organizations; and 2) fully supported conclusions made within its SoA. As a result, USSOCOM management did not ensure substantial compliance with FMFIA. See specific examples of USSOCOM's non-compliance with FFMIA in Section **I**. **Material Weakness – Lack of Adequate Entity Level Controls**

In addition, we noted that within Appendix C of USSOCOM's FY 2020 SoA, USSOCOM management stated that the overall system of internal controls at USSOCOM was operating effectively, with the exception of the identified material weaknesses and significant deficiencies. However, based on our testing it has been determined that USSOCOM's overall system of internal controls is not operating effectively, and therefore USSOCOM's disclosure may be misleading

Recommendations:

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

- Across USSOCOM, standard templates or equivalent documentation is used when identifying risk, including fraud risks;
- Annual SoA fully and accurately addresses the five components of internal control and the related principles within each component; and,
- The assurance statement conclusions are clearly stated, accurate, and well-supported.

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

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

Because of matters described in the Basis for Disclaimer of Opinion paragraphs included in our financial statement audit report dated November 9, 2020, we were not able to obtain sufficient appropriate audit evidence related to USSOCOM management's substantial compliance with FFMIA Section 803 (a) requirements.

During the audit, we noted that USSOCOM does not own the majority of the systems it uses to process its transactions; those systems are owned by the military departments or DoD service organizations. Our audit contract excluded the execution of sufficient audit procedures over the military department systems supporting USSOCOM, and no alternative mechanisms were in place to obtain audit evidence. However, based on our review of the Department of the Air Force, Department of the Army, Department of the Navy, and United States Marine Corps FY 2019 annual financial reports, we noted that each of the departments and the United States Marine Corps are in non-compliance with the requirements of FFMIA. In turn, this affects USSOCOM's ability to substantially comply with the requirements of FFMIA. In addition, we noted the following instances of non-compliance through the execution of our audit procedures:

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

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

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

3. **USSGL at the Transaction Level.** USSOCOM data is recorded across multiple accounting and non-accounting systems, some of which are not USSGL compliant at the transaction level. Monthly, systems owners submit summary financial information to USSOCOM's financial reporting service organization for data normalization and summarization, referred to as pre-processing, within DDRS-B. During pre-processing, non-USSGL compliant summary information is converted 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.

Recommendations:

USSOCOM management should consider transitioning to a stand-alone general ledger system that complies with the requirements of FFMIA. A move to a modern and compliant system would eliminate USSOCOM's dependency on military systems that are non-compliant with federal financial system requirements, federal accounting standards, and the USSGL at the transaction level. It would 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 Undersecretary of Defense, Comptroller (OUSD(C)) to develop alternative methods of producing the USSOCOM financial statements.

Alternatively, USSOCOM management should work with the USSOCOM financial reporting service organization and the Military Departments to develop corrective actions for long-standing system control weaknesses and to ensure that controls are in place for every step of the compilation process executed by its financial reporting service organization, including:

1. 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;
2. Develop processes/procedures to obtain a full transactional population;
3. Conduct assessments to ensure compliance with:
    - TFM USSGL at the transaction level; and,
    - Applicable federal accounting standards.
4. Develop, implement, and monitor the effectiveness of security controls to ensure compliance with NIST and DoD Instruction requirements; and
5. Develop a comprehensive plan, including milestones, to implement both SFFAS and DoD Guidance in a timely manner.

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

UNITED STATES SPECIAL OPERATIONS COMMAND
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MEMORANDUM FOR GRANT THORNTON, LLP, 1000 WILSON BOULEVARD, 14TH FLOOR, ARLINGTON, VA 22209

SUBJECT: Management Response to the Fiscal Year 2020 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) 2020 Financial Statement Audit. USSOCOM also appreciates the opportunity to respond to the Schedule of Findings and Responses received on 9 November 2020. Although the FY 2020 audit resulted in a Disclaimer of Opinion, USSOCOM recognizes this was our third full scope audit. FY20 brought significantly difficult circumstances due to the pandemic which further highlighted the complex nature of our organization and our dependencies on the Military Departments/Agencies. USSOCOM continues to identify areas of opportunity for improvement throughout the organization.

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

3. USSOCOM made significant progress with developing Entity Level Controls. FY 2020 marked the first year the Senior Management Council and Senior Assessment Team operated across the entire Risk Management and Internal Control Program annual cycle. USSOCOM implemented internal control test plans across the Special Operations Forces Enterprise, improving data available to Command functional proponents to identify enterprise-wide deficiencies. The risk assessment executed in FY 2020 was comprehensive, objective, and included specific assessments of fraud risks. USSOCOM also commenced executing in-depth Entity Level Control reviews at the Component and Theater Special Operations Command level in conjunction with the Special Operations Inspector General annual inspection program.

4. USSOCOM is a complex agency with dependence on Military Departments/Agencies' systems, policies, and procedures. We will continue to collaborate with the relevant Service Providers, Military Departments, and Agencies to execute current corrective action plans and develop effective remediation of new findings. USSOCOM will continue toward the ultimate goal of achieving a clean audit opinion.

D. MARK PETERSON
Chief Financial Officer/Comptroller