FY 2021 USSOCOM Financial Statement Reporting Package

September 30, 2021

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Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED BALANCE SHEET
As of September 30, 2021 and 2020
(dollars in thousands)

		2021 Consolidated		Restated 2020 Consolidated
Assets (Note 2)				
Intragovernmental:				
1. Fund Balance with Treasury (Note 3)	$	11,382,429	$	11,871,873
3. Accounts Receivable, Net (Note 6)		19,248		20,282
6. Total Intragovernmental	$	11,401,677	$	11,892,155
Other Than Intragovernmental:				
8. Accounts Receivable, Net (Note 6)	$	2,364	$	2,071
10. Inventory and Related Property, Net (Note 8)		2,509,937		2,234,078
11. General Property, Plant and Equipment, Net (Note 9)		3,576,635		3,829,013
12. Advances and Prepayments (Note 10)		360,001		242,274
15. Total Other Than Intragovernmental		6,448,937		6,307,436
16. Total Assets	$	17,850,614	$	18,199,591
Stewardship PP&E (Note 9)				
LIABILITIES (Note 11)				
Intragovernmental:				
17. Accounts Payable	$	112,776	$	162,224
19. Other Liabilities (Notes 13 and 15)		21,883		16,660
20. Total Intragovernmental	$	134,659	$	178,884
Other Than Intragovernmental:				
21. Accounts Payable	$	1,513,611	$	1,618,980
22. Federal Employee and Veteran Benefits Payable (Note 13)		64,181		67,418
27. Other Liabilities (Notes 15, 16 and 17)		47,186		104,198
28. Total Other Than Intragovernmental	$	1,624,978	$	1,790,596
29. Total Liabilities	$	1,759,637	$	1,969,480
Commitments and Contingencies (Note 17)				
NET POSITION				
30.2 Unexpended Appropriations - Funds Other than Dedicated Collections	$	10,237,420	$	10,494,992
30. Total Unexpended Appropriations (Consolidated)		10,237,420		10,494,992
31.2 Cumulative Results of Operations – Funds Other than Dedicated Collections		5,853,554		5,735,119
31. Total Cumulative Results of Operations (Consolidated)		5,853,554		5,735,119
32. Total Net Position	$	16,090,974	$	16,230,111
33. Total Liabilities and Net Position	$	17,850,611	$	18,199,591

The accompanying notes are an integral part of these statements.

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2021 and 2020
(dollars in thousands)

	2021 Consolidated	Restated 2020 Consolidated
UNEXPENDED APPROPRIATIONS:		
1. Beginning Balances (Includes Funds from Dedicated Collections - See Note 18)	$ 10,495,034	$ 9,909,023
2. Prior Period Adjustments:		
3. Beginning balances, as adjusted	10,495,034	9,909,023
4. Appropriations received	13,079,599	13,725,044
5. Appropriations transferred-in/out	7,829	60,610
6. Other adjustments (+/-)	(274,029)	(153,286)
7. Appropriations used	(13,071,013)	(13,046,399)
8. Net Change in Unexpended Appropriations (Includes Funds from Dedicated Collections – See Note 18)	(257,614)	585,969
9. Total Unexpended Appropriations, Ending Balance (Includes Funds from Dedicated Collections - See Note 18)	$ 10,237,420	$ 10,494,992
CUMULATIVE RESULTS OF OPERATIONS:		
10. Beginning Balances	5,735,119	3,220,479
11. Prior Period Adjustments:		
11.B. Corrections of errors (+/-)	0.00	2,234,078
12. Beginning balances, as adjusted (Includes Funds from Dedicated Collections - See Note 18)	5,735,119	5,454,557
13. Other adjustments (+/-)	(28)	(81,750)
14. Appropriations used	13,071,013	13,046,399
15. Non-exchange revenue (Note 20)	2	(2)
17. Transfers in/out without reimbursement	(269,270)	(303,359)
19. Imputed financing	18,001	15,170
20. Other (+/-)	209	592,298
21. Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections - See Note 18)	12,701,492	12,988,195
22. Net Change in Cumulative Results of Operations	118,435	280,562
23. Cumulative Results of Operations, Ending (Includes Funds from Dedicated Collections - See Note 18)	5,853,554	5,735,119
24. Net Position	$ 16,090,974	$ 16,230,111

The accompanying notes are an integral part of these statements.

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
COMBINED STATEMENT OF BUDGETARY RESOURCES
As of September 30, 2021 and 2020
(dollars in thousands)

		2021 Combined		2020 Combined
Budgetary Resources:				
1071 Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 21)	$	2,143,392	$	2,330,253
1290 Appropriations (discretionary and mandatory)		13,046,095		13,756,302
1890 Spending Authority from offsetting collections (discretionary and mandatory)		518,337		401,953
1910 Total Budgetary Resources	$	15,707,824	$	16,488,508
Status of Budgetary Resources:				
2190 New obligations and upward adjustments (total) Unobligated balance, end of year	$	13,890,155	$	14,748,978
2204 Apportioned, unexpired accounts		1,185,417		1,033,808
2404 Unapportioned, unexpired accounts		257,057		305,498
2412 Unexpired unobligated balance, end of year		1,442,474		1,339,306
2413 Expired unobligated balance, end of year		375,195		400,225
2490 Unobligated balance, end of year (total)		1,817,669		1,739,531
2500 Total Budgetary Resources	$	15,707,824	$	16,488,508
Outlays, Net:				
4190 Outlays, net (total) (discretionary and mandatory)		13,302,857		12,773,510
4210 Agency Outlays, net (discretionary and mandatory)	$	13,302,857	$	12,773,510

The accompanying notes are an integral part of these statements.

Department of Defense
Other Defense Activities - Tier 2 - US Special Operations Command
CONSOLIDATED STATEMENT OF NET COST
For the periods ended September 30, 2021 and 2020
(dollars in thousands)

	2021 Consolidated	2020 Consolidated
1. Program Costs (Note 19)		
A. Gross Costs	$ 13,072,581	$ 13,389,648
Operations, Readiness & Support	9,209,366	9,664,707
Procurement	2,983,299	2,923,647
Research, Development, Test & Evaluation	801,166	754,205
Family Housing & Military Construction	78,750	47,089
B. (Less: Earned Revenue)	(371,089)	(401,453)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	12,701,492	12,988,195
E. Net Program Costs Including Assumption Changes	12,701,492	12,988,195
2. Net Cost of Operations	$ 12,701,492	$ 12,988,195

The accompanying notes are an integral part of these statements.

Note 1.	Summary of Significant Accounting Policies - Unaudited

1.A. Reporting Entity

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

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

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

- Naval Special Warfare Command (NAVSPECWARCOM or NSWC)

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

- Air Force Special Operations Command (AFSOC)

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

- Marine Corps Forces Special Operations Command (MARSOC)

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

- Joint Special Operations Command (JSOC)

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

Per 10 United States Code (USC) 165, "the Secretary of a military department is responsible for the administration and support of forces assigned by him to a Combatant Command" (i.e., USSOCOM). Combatant Command Support Agents (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 (TSOC), supports the Geographic Combatant Commands (GCCs). The TSOCs are responsible for planning special operations throughout their assigned areas of responsibility, planning and conducting peacetime joint training exercises, and orchestrating command and control of peacetime and wartime special operations:

- Theater Special Operations Command - Africa (SOCAFRICA)

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

- Theater Special Operations Command - Central (SOCCENT)

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

- Theater Special Operations Command - Europe (SOCEUR)

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

- Theater Special Operations Command - Korea (SOCKOR)

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

- Theater Special Operations Command - North (SOCNORTH)

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

- Theater Special Operations Command - Pacific (SOCPAC)

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

- Theater Special Operations Command - South (SOCSOUTH)

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

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 SOF need to work together for an operation, USSOCOM becomes the Joint Command of the operation.

To achieve this mission, SOF Commanders and staff must plan and lead a full range of lethal and non-lethal special operations missions in complex and ambiguous environments. Additionally, USSOCOM accomplishes these missions through the use of four service component Commands, seven TSOCs, and JSOC. SOF personnel serve as key members of Joint, Interagency, and International teams and must be prepared to employ all assigned authorities and apply all available elements of power to accomplish the assigned missions. This mission makes it a unique Unified Combatant Command.

1.C. Basis of Presentation

These financial statements have been prepared to report the financial position 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 the Standard Operation and Maintenance Army Research and Development System (SOMARDS) and the Standard Financial System (STANFINS). Under the accrual basis, revenues are recognized when earned and expenses are recognized when incurred, without regard to the timing of receipt or payment of cash. Whereas, under the budgetary basis the legal commitment or obligation of funds is recognized in advance of the proprietary accruals and in compliance with legal requirements and controls over the use of Federal funds.

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

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

2.) SFFAS 50: *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and rescinding SFFAS 35*. Issued on August 4, 2016. Effective Date: For periods beginning after September 30, 2016.

USSOCOM plans to utilize deemed cost to value beginning balances for general property, plant, and equipment (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.

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

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

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

The FBWT represents the aggregate amount of USSOCOM's available budget spending authority available to pay current liabilities and finance future authorized purchases. USSOCOM's monetary financial resources of collections and disbursements are maintained in the Department of the Treasury (Treasury) accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Departments, U.S. Army Corps of Engineers (USACE), and Department of State's financial service centers 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. 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

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

1.L. Inventories and Related Property

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

Related property includes Operating Materials and Supplies (OM&S). OM&S, including munitions not held for sale, are valued using moving average, latest acquisition, and historical cost methods. During prior years, USSOCOM inappropriately used the Purchases Method of Accounting for OM&S and expensed all OM&S when procured. Throughout Fiscal Year (FY) 2020, USSOCOM worked to commence its OM&S financial reporting process through the Consumption Method of Accounting. These efforts will continue into FY 2022.

As of FY 2020, there was a $2.2 billion (net) understatement of OM&S. USSOCOM restated its Financial Statements as of September 30, 2021 to correct errors (preceding the prior FY) in OM&S at the end of FY 2020. For additional detailed information, see Note 8 *Inventory and Related Property* and Note 28 *Restatements*.

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 (GE) and Construction-In-Progress (CIP). With the exception of real property (RP) CIP, USSOCOM does not report any RP.

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 GE on a straight-line basis. USSOCOM does not meet the recognition criteria to report RP (building, structures, and land) as described in the OUSD(Comptroller (C)) Memorandum, dated September 30, 2015, *Accounting Policy Update for Financial Statement Reporting for Real Property Assets*. Therefore, all completed USSOCOM-funded RP CIP projects are transferred and financially reported by the military departments/components. When it is in the best interest of the government, USSOCOM provides government property to contractors to complete contract work. USSOCOM either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured GPP&E exceeds 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

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 RP, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as CIP. Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion.

For additional information, see Note 10 *Other Assets*.

1.O. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. Per the 4th Quarter, FY 2021, lease data call information received from components and TSOCs, USSOCOM currently does not hold any capital leases. An operating lease does not substantially transfer all the benefits and risk of ownership to USSOCOM. Payments for operating leases are expensed on a straight line basis 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 include:

1.) Accrued payroll consists of estimates for salaries, wages, and other compensation earned by employees but not disbursed as of September 30, 2021 and September 30, 2020.

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

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

4.) 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.

5.) 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.

6.) 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.

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

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

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

1.V. Recognition of Expenses

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

In the case of OM&S, operating expenses are recognized when the items are consumed. USSOCOM has been working to input OM&S into the accountable property system of record (APSR), Defense Property Accountability System (DPAS), and is continuing the analysis to refine the Consumption Method of Accounting, newly implemented in 2021.

1.W. Treaties for Use of Foreign Bases

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

1.X. Use of Estimates

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

1.Y. Parent-Child Reporting

USSOCOM receives it's funding from OSD. USSOCOM is also party to allocation transfers with other DoD entities as a receiving (child) entity. An allocation transfer is an entity's legal delegation of authority to obligate budget authority and outlay funds on its behalf. 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, 2021 and 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.

1.CC. Standardized Balance Sheet and Related Footnotes – Comparative Year Presentation

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this Report to see how the amounts shown on the USSOCOM Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the Financial Report of the United States Government. The presentation of the FY 2020 Balance Sheet and the related footnotes was modified to be consistent with the FY 2021 presentation. The mapping of USSGLs, in combination with their attributes, to particular Balance Sheet lines and footnotes is directed by the guidance published periodically under Treasury Financial Manual, USSGL Bulletins, Section V: Crosswalks to Standard External Reports For FY 2021 Government-wide Treasury Account Symbol (GTAS) Reporting. The following lines of the FY 2021 financial statements have been reclassified to conform to the FY 2021 financial statement presentation: Intragovernmental Accounts Receivable, Net, Advances and Prepayments, Intragovernmental AP and Other Liabilities, Federal Employee and Veteran Benefits, and Other than Intragovernmental Other Liabilities. The footnotes affected by the modified presentation are Note 6, *Accounts* Receivable, Net; Note 10, *Other Assets*; Note 13 *Federal Employee and Veteran Benefits Payable*; Note 15 *Other Liabilities;* and Note 24 *Reconciliation of Net Cost to Net Outlays*.

Note 2. Non-Entity Assets - Unaudited

Table 2. Non-Entity Assets

As of September 30	2021	Restated 2020
(dollars in thousands)		
1. Intragovernmental Assets		
A. Fund Balance with Treasury	$ 0	$ 0
B. Accounts Receivable	0	0
C. Other Assets	0	0
D. Total Intragovernmental Assets	$ 0	$ 0
2. Non-Federal Assets		
A. Cash and Other Monetary Assets	$ 0	$ 0
B. Accounts Receivable	3	93
C. Other Assets	0	0
D. Total Non-Federal Assets	$ 3	$ 93
3. Total Non-Entity Assets	$ 3	$ 93
4. Total Entity Assets	$ 17,850,610	$ 18,199,498
5. Total Assets	$ 17,850,613	$ 18,199,591

During FY 2021, USSOCOM identified a $2.2 billion (Net) understatement of OM&S as of September 30, 2020. USSOCOM restated its FY 2020 financial statements to correct the known cumulative amount of errors stemming from FY 2020 and years prior in OM&S as of the end of 2020, which affects Total Entity Assets in Table 2. See Note 28 *Restatements* for further information.

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 interest, penalties, and fines as of 30 September 2021 and 30 September 2020. Each quarter, a manual input of Treasury Report on Receivables (TROR) informs the entry through a journal voucher into the Defense Departmental Reporting System (DDRS) to ensure the ending balance of the trial balance reconciles to the source system. Generally, USSOCOM cannot use these proceeds and must remit them to the U.S. Treasury unless permitted by law.

Note 3. Fund Balance with Treasury - Unaudited

Table 3. Status of Fund Balance with Treasury

As of September 30		2021		2020
(dollars in thousands)				
1. Unobligated Balance				
A. Available	$	1,185,417	$	1,033,808
B. Unavailable		632,252		705,723
Total Unobligated Balance	$	1,817,669	$	1,739,531
2. Obligated Balance not yet Disbursed	$	10,064,798	$	10,505,045
3. Non-Budgetary FBWT				
A. Clearing Accounts	$	0	$	0
B. Deposit Funds		0		0
C. Non-entity and Other		0		0
Total Non-Budgetary FBWT	$	0	$	0
4. Non-FBWT Budgetary Accounts				
A. Investments - Treasury Securities	$	0	$	0
B. Unfilled Customer Orders without Advance		(466,294)		(335,871)
C. Contract Authority		0		0
D. Borrowing Authority		0		0
E. Receivables and Other		(33,744)		(36,832)
Total Non-Budgetary FBWT	$	(500,038)	$	(372,703)
Total FBWT	$	11,382,429	$	11,871,873

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 fund balances with treasury consists of appropriation accounts.

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

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

Due to Coronavirus Aid, Relief and Economic Security (CARES) Act appropriations received during FY 2020, USSOCOM reported additional FBWT than prior years. The unobligated balance related to the CARES Act remaining as of September 30, 2020 was ~$214 thousand. See Note 29 *COVID-19 Activity.*

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

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

Based on Table 3 above, Non-FBWT Budgetary Accounts, such as unfilled customer orders and other receivables, reduces budgetary resources.

Total FBWT does not include funds held as a result of allocation transfers received from other federal agencies. USSOCOM received allocation transfers from other federal agencies for execution on their behalf in the amount of ~$36 million in FY 2021, and ~$32 million in FY 2020.

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 service provider to determine the accurate total undistributed amount. When research is completed, these transactions will be recorded in the appropriate individual detailed accounts in USSOCOM's general ledger accounts.

Note 4.	Cash and Other Monetary Assets - Unaudited

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	2021		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(dollars in thousands)			
1. Intragovernmental Receivables	$ 19,248	$ 0	$ 19,248
2. Non-Federal Receivables (From the Public)	$ 2,694	$ (330)	$ 2,364
Total Accounts Receivable	$ 21,942	$ (330)	$ 21,612

As of September 30	2020		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
(dollars in thousands)			
1. Intragovernmental Receivables	$ 20,282	$ 0	$ 20,282
2. Non-Federal Receivables (From the Public)	$ 2,297	$ (226)	$ 2,071
Total Accounts Receivable	$ 22,579	$ (226)	$ 22,353

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.

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

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

USSOCOM does not have any direct loan and loan guarantees.

Note 8. Inventory and Related Property, Net - Unaudited

Table 8A. Inventory and Related Property

As of September 30	2021	2020 (Restated)
(dollars in thousands)		
1. Inventory, Net	$ 0	$ 0
2. Operating Materiel & Supplies,	2,509,937	2,234,078
3. Stockpile Materiel, Net	0	0
4. Total Inventory and Related Property, Net	$ 2,509,937	$ 2,234,078

During FY 2021, USSOCOM identified a $2.2 billion (Net) understatement of OM&S as of September 30, 2020. USSOCOM restated its FY 2020 financial statements to correct the known cumulative amount of errors stemming from FY 2020 and years prior in OM&S as of the end of 2020, which affects Operating Material and Supplies in Table 8A.

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

See Table 8C. *OM&S Categories* and Note 28: *Restatements* for further information.

Table 8B. Inventory Categories
USSOCOM does not have Inventory assets.

Operating Materiel and Supplies, Net - Unaudited

Table 8C. OM&S Categories

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

As of September 30	2020 (Restated)			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
(dollars in thousands)				
A. Held for Use	$ 2,074,238	$ 0	$ 2,074,238	Note1
B. Held in Reserve for Future Use	122,175	0	122,175	Note1
C. Held for Repair	37,664	0	37,664	Note1
D. In Development	0	0	0	Note1
E. Excess, Obsolete, and Unserviceable	77,336	(77,336)	0	NRV
F. Total	$ 2,311,414	$ (77,336)	$ 2,234,078	

Legend for Valuation Methods:

Note 1: Moving Average Cost, Direct Method, Historical Cost, Replacement Price and Standard Price

NRV = Net Realizable Value

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

USSOCOM is reporting all munitions procured with MFP-11 funds. Further, with Navy concurrence, USSOCOM reports all munitions assets at the Naval Satellite Operations Center (NAVSOC). Navy transferred ownership of any Navy-procured MFP-2 funded munitions to USSOCOM for financial reporting. This is consistent with the GPP&E assets currently reported for NAVSOC. These are valued by Moving Average Cost. All remaining munitions are currently valued at latest acquisition costs (LAC).

Beginning in FY 2020, USSOCOM worked to transition its OM&S financial reporting process from the Purchases Method of Accounting to the Consumption Method of Accounting. These efforts will continue into FY 2022. During FY 2021, USSOCOM restated the FY 2020 financial statements to include the OM&S balance under I&RP on September 30, 2020. The restatement corrected an understatement of $2.2 billion (net). By category, the correction was for an understatement of $2.07 billion for Held-for-Use; an understatement of $122 million for Held in Reserve for Future Use; and an understatement of $38 million for Held for Repair.

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

Underlying economic event details pertaining to OM&S has been largely unavailable. This is primarily due OM&S tracking issues, and system limitations; therefore, USSOCOM is currently reporting the net effect of the change in OM&S from September 30, 2020 to September 30, 2021 on the financial statements as opposed to reporting based on the underlying activities: acquisitions, purchases, disposals gains, or losses. The OM&S balance on September 30, 2021 is calculated based on the current year change when comparing the beginning FY 2021 OM&S balance to the ending OM&S balance, which is informed by the Q4 FY 2021 OM&S inventory. See Note 28 *Restatements* for further information.

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

USSOCOM is in the process of applying deemed costs methods, in accordance with SFFAS 48 and/or SFFAS 3, to establish opening balances for OM&S. USSOCOM is currently not making its unreserved assertion to the completeness, valuation and accuracy of the OM&S beginning balances on September 30, 2021 and 2020. USSOCOM will apply various valuation methods when asserting to the OM&S line item: moving average, latest acquisition, and historical cost. USSOCOM’s systems, and the controls related to them, are not effective to support the fair presentation of the recorded balances in accordance with GAAP.

UAE is reported based on the property system of record identified condition codes; Navy munitions are categorized by the Ordnance Information System (OIS); all other remaining munitions currently provide no data to categorize them other than ‘Held for Use’.

Table 8D. Stockpile Materials Categories
USSOCOM does not have Stockpile Materials.

Note 9.	General PP&E, Net - Unaudited

Table 9A. Major General PP&E Asset Classes

As of September 30	2021				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(dollars in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0	N/A	$ 0
B. Buildings, Structures, and Facilities	S/L	35, 40, or 45*	0	$ 0	0
C. Leasehold Improvements	S/L	Lease term	0	0	0
D. Software	S/L	2-5 or 10	0	0	0
E. General Equipment	S/L	Various	4,741,378	(2,612,370)	2,129,008
F. Assets Under Capital Lease	S/L	Lease term	0	0	0
G. Construction-in-Progress	N/A	N/A	1,447,627	N/A	1,447,627
H. Other	N/A	N/A	0	0	0
Total General P&E			$ 6,189,005	$ (2,612,370)	$ 3,576,635

As of September 30	2020				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
(dollars in thousands)					
1. Major Asset Classes					
A. Land	N/A	N/A	$ 0	N/A	$ 0
B. Buildings, Structures, and Facilities	S/L	35, 40, or 45	0	$ 0	0
C. Leasehold Improvements	S/L	Lease term	0	0	0
D. Software	S/L	2-5 or 10	0	0	0
E. General Equipment	S/L	Various	5,120,532	(2,641,132)	2,479,400
F. Assets Under Capital Lease	S/L	Lease term	0	0	0
G. Construction-in-Progress	N/A	N/A	1,349,613	N/A	1,349,613
H. Other	N/A	N/A	0	0	0
Total General P&E			$ 6,470,145	$ (2,641,132)	$ 3,829,013

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's GPP&E is comprised of GE and CIP. With the exception of RP CIP, USSOCOM does not report any RP. USSOCOM's current capitalization threshold is $250 thousand. USSOCOM financially reports all capital GE assets procured with MFP-11 funds for all Components/TSOCs, plus NSWC which includes MFP-2 funded assets.

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. 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 and FY 2020, 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.

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

Table 9B. Heritage Assets

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

For the Period Ended September 30	2020			
(physical counts)				
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.

Museum Collection Items

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

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

Table 9C. Stewardship Land
USSOCOM does not have any stewardship land.

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

For the period ended September 30	2021	2020
(dollars in thousands)		
1. General PP&E, Net beginning of year	$ 3,829,014	$ 3,400,097
2. Capitalized acquisitions	492,188	557,254
3. Dispositions	(17,961)	(24,436)
4. Transfers in/(out) without reimbursement	(269,314)	(303,362)
5. Revaluations (+/-)	(428,530)	589,502
6. Depreciation expense	(28,762)	(390,042)
7. Donations	0	0
8. Other (+/-)	0	0
	0	
9. General PP&E, Net end of year	$ 3,576,635	$ 3,829,013

Note 10. Other Assets - Unaudited

Table 10. Other Assets

As of September 30	2021	2020
(dollars in thousands)		
1. Intragovernmental		
A. Advances and Prepayments	$ 0	$ 0
B. Other Assets	0	0
C. Total Intragovernmental	$ 0	$ 0
2. Other than Intragovernmental		
A. Outstanding Contract Financing Payments	$ 353,120	$ 235,149
B. Advances and Prepayments	6,881	7,125
C. Other Assets	0	0
D. Subtotal	360,001	242,274
E. Less: "Outstanding Contract Financing Payments" and "Advance and Prepayments" totaled and presented on the Balance Sheet as "Advances and Prepayments"	(360,001)	(242,274)
F. Net Other than Intragovernmental	$ 0	$ 0
3. Total Other Assets	0	0

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		2021		2020
(dollars in thousands)				
1. Intragovernmental Liabilities				
A. Accounts payable	$	640	$	986
B. Debt		0		0
C. Other		0		0
D. Total Intragovernmental Liabilities	$	640	$	986
2. Other than Intragovernmental Liabilities				
A. Accounts payable	$	165,125	$	200,567
B. Federal employee and veteran benefits payable		62,915		65,548
C. Environmental and disposal liabilities		0		0
D. Benefits due and payable		0		0
E. Other liabilities		0		58,919
F. Total Other than Intragovernmental Liabilities	$	228,040	$	325,034
3. Total Liabilities Not Covered by Budgetary Resources	$	228,680	$	326,020
4. Total Liabilities Covered by Budgetary Resources	$	1,530,957	$	1,643,460
5. Total Liabilities Not Requiring Budgetary Resources	$	0	$	0
6. Total Liabilities	$	1,759,637	$	1,969,480

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

Non-federal accounts payable not covered by budgetary resources represent amounts that are related to canceled appropriations. Non-federal other liabilities are related to unfunded employee leave. 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.	Federal Employee and Veteran Benefits Payable - Unaudited

Table 13A. Federal Employee and Veteran Benefits Liability

As of September 30	2021		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(dollars in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	0	0	0
2. Other Benefits			
A. FECA	0	0	0
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	64,181	(1,266)	62,915
E. Total Other Benefits	64,181	(1,266)	62,915
3. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	64,181	(1,266)	62,915
4. Other benefit-related payables included in Intragovernmental Accounts Payable on the Balance Sheet	0	0	0
5. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	5,582	(5,582)	0
6. Total Federal Employee and Veteran Benefits Payable	$ 69,763	$ (6,848)	$ 62,915

As of September 30	2020		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
(dollars in thousands)			
1. Pension and Health Benefits			
A. Military Retirement Pensions	$ 0	$ 0	$ 0
B. Military Pre Medicare-Eligible Retiree Health Benefits	0	0	0
C. Military Medicare-Eligible Retiree Health Benefits	0	0	0
D. Total Pension and Health Benefits	0	0	0
2. Other Benefits			
A. FECA	0	0	0
B. Voluntary Separation Incentive Programs	0	0	0
C. DoD Education Benefits Fund	0	0	0
D. Other	67,418	(1,871)	65,547
E. Total Other Benefits	67,418	(1,871)	65,547
3. Federal Employee and Veteran Benefits Payable (presented separately on the Balance Sheet)	67,418	(1,871)	65,547
4. Other benefit-related payables included in Intragovernmental Accounts Payable on the Balance Sheet	0	0	0
5. Other benefit-related payables included in Intragovernmental Other Liabilities on the Balance Sheet	4,847	(4,847)	0
6. Total Federal Employee and Veteran Benefits Payable	$ 72,265	$ (6,718)	$ 65,547

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

Table 13B. Reconciliation of Beginning and Ending Liability Balances for Military Retirement and Other Federal Employee 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.

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	2021		
	Current Liability	Non-Current Liability	Total
(dollars in thousands)			
1. Intragovernmental			
A. Advances from Others and Deferred Revenue	$ 16,298	$ 0	$ 16,298
B. Disbursing Officer Cash	0	0	0
C. Liabilities for Non-entity Assets	9	(6)	3
D. Other Liabilities	0	0	0
Subtotal	16,307	(6)	16,301
E. Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	5,582	0	5,582
F. Total Intragovernmental	$ 21,889	$ (6)	$ 21,883
2. Other than Intragovernmental			
A. Accrued Funded Payroll and Benefits	$ 40,826	$ 0	$ 40,826
B. Advances from Others and Deferred Revenue	(1,427)	0	(1,427)
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Non-Environmental Disposal Liabilities			
(1) Military Equipment (Non-Nuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	7,333	127	7,460
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	0	0
L. Other Liabilities without Related Budgetary Obligations	0	0	0
M. Other Liabilities with Related Budgetary Obligations	327	0	327
N. Total Other than Intragovernmental	$ 47,059	$ 127	$ 47,186
3. Total Other Liabilities	$ 68,948	$ 121	$ 69,069

As of September 30	2020		
	Current Liability	Non-Current Liability	Total
(dollars in thousands)			
1. Intragovernmental			
A. Advances from Others and Deferred Revenue	$ 11,720	$ 0	$ 11,720
B. Disbursing Officer Cash	0	0	0
C. Liabilities for Non-entity Assets	93	0	93
D. Other Liabilities	0	0	0
Subtotal	11,813	0	11,813
E. Other Liabilities reported on Note 13, *Federal Employee and Veteran Benefits Payable*	4,847	0	4,847
F. Total Intragovernmental	$ 16,660	$ 0	$ 16,660
2. Other than Intragovernmental			
A. Accrued Funded Payroll and Benefits	$ 43,020	$ 0	$ 43,020
B. Advances from Others and Deferred Revenue	55	0	55
C. Deferred Credits	0	0	0
D. Deposit Funds and Suspense Accounts	0	0	0
E. Temporary Early Retirement Authority	0	0	0
F. Non-Environmental Disposal Liabilities			
(1) Military Equipment (Non-Nuclear)	0	0	0
(2) Excess/Obsolete Structures	0	0	0
(3) Conventional Munitions Disposal	0	0	0
G. Accrued Unfunded Annual Leave	0	0	0
H. Capital Lease Liability	0	0	0
I. Contract Holdbacks	1,890	127	2,017
J. Employer Contribution and Payroll Taxes Payable	0	0	0
K. Contingent Liabilities	0	58,919	58,919
L. Other Liabilities without Related Budgetary Obligations	0	0	0
M. Other Liabilities with Related Budgetary Obligations	187	0	187
N. Total Other than Intragovernmental	$ 45,152	$ 59,046	$ 104,198
3. Total Other Liabilities	$ 61,812	$ 59,046	$ 120,858

Advances from Others
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.

Liabilities for Non-Entity Assets
Intragovernmental liabilities for Non-entity assets represents liabilities for collections reported as non-exchange revenues where USSOCOM is acting on behalf of another Federal entity. For balances reported during FY 2021 and FY 2020, 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.

Contract Holdbacks
Contract Holdbacks are amounts withheld from grantees or contractors pending completion of related contracts. For FY 2021 and FY 2020 contract holdbacks include $7.5 and $2.0 million for contracts authorization progress payments based on cost as defined in the Federal Acquisition Regulation (FAR).

Non-Federal Other Liabilities
Other Liabilities primarily consists of liabilities with related budgetary obligation transactions ingested into DDRS from the Naval Sea Systems Command (NAVSEA).

Note 16. Leases - Unaudited

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

As of September 30	2021			
	Asset Category			
(dollars in thousands)	Land and Buildings	Equipment	Other	Total
1. Federal				
Fiscal Year				
2022	$ 4,317	$ 0	$ 0	$ 4,317
2023	2,498	0	0	2,498
2024	61	0	0	61
2025	0	0	0	0
2026	0	0	0	0
After 5 Years	0	0	0	0
Total Federal Future Lease Payments	$ 6,876	$ 0	$ 0	$ 6,876
2. Non-Federal				
Fiscal Year				
2022	$ 4,580	$ 423	$ 0	$ 5,003
2023	4,131	383	0	4,514
2024	1,931	371	0	2,302
2025	1,027	367	0	1,394
2026	210	366	0	576
After 5 Years	0	61	0	61
Total Non-Federal Future Lease Payments	$ 11,879	$ 1,971	$ 0	$ 13,850
Total Future Lease Payments	$ 18,755	$ 1,971	$ 0	$ 20,726

The future payments due for operating leases disclosed in the “Future Payments Due for Non-Cancelable Operating Leases” Table are for non-cancelable leases only.

USSOCOM gathers operating lease information from all 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 2021 and 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 April 1, 2016 to November 30, 2026. 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 Field, and Cannon AFB. The dates for these leases range 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 May 31, 2024.

The non-federal equipment leases include multifunctional devices, production copiers and a crane. The date range for the leases is April 1, 2016 to November 30, 2026.

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

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 2021.

Table 17. Summary of Legal Contingent Liabilities*

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

As of September 30	2020		
	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
(dollars in thousands)			
Legal Contingent Liabilities			
Probable	$ 0	$ 0	$ 0
Reasonably Possible	0	0	15,063

The amounts in the tables above are consistent with the information summarized on USSOCOM's management schedule and legal representation letter. The probable legal contingent liability, with an estimated upper range of loss of $500 thousand, as of September 30, 2021 stems from a contract dispute regarding changed delivery terms and a termination for convenience. USSOCOM attorneys assessed the claim and estimated a probable loss of no more than $200 thousand. Due to the immateriality of this estimate, USSOCOM has not reported any accrued liabilities associated with this matter.

Note 18.	Funds from Dedicated Collections - Unaudited

USSOCOM does not have any funds from dedicated collections.

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

Table 19. Costs and Exchange Revenue by Appropriation Category

As of September 30	2021	2020
(dollars in thousands)		
Military Retirement Benefits		
1. Gross Cost	$ 0	$ 0
2. Less: Earned Revenue	0	0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Net Program Costs	$ 0	$ 0
Civil Works		
1. Gross Cost	$ 0	$ 0
2. Less: Earned Revenue	0	0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Net Program Costs	$ 0	$ 0
Military Personnel		
1. Gross Cost	$ 0	$ 0
2. Less: Earned Revenue	0	0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Net Program Costs	$ 0	$ 0
Operations, Readiness & Support		
1. Gross Cost	$ 9,209,366	$ 9,664,707
2. Less: Earned Revenue	(344,166)	(369,029)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Net Program Costs	$ 8,865,200	$ 9,295,678
Procurement		
1. Gross Cost	$ 2,983,299	$ 2,923,647
2. Less: Earned Revenue	(614)	(738)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0	$ 0
Net Program Costs	$ 2,982,685	$ 2,922,909

(dollars in thousands)

As of September 30		2021		2020
Research, Development, Test & Evaluation				
1. Gross Cost	$	801,166	$	754,205
2. Less: Earned Revenue		(26,309)		(31,686)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
Net Program Costs	$	774,857	$	722,519
Family Housing & Military Construction				
1. Gross Cost	$	78,750	$	47,089
2. Less: Earned Revenue		0		0
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
Net Program Costs	$	78,750	$	47,089
Consolidated				
1. Gross Cost	$	13,072,581	$	13,389,648
2. Less: Earned Revenue		(371,089)		(401,453)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	0	$	0
4. Costs Not Assigned to Programs	$	0	$	0
5. (Less: Earned Revenues) Not Attributed to Programs	$	0	$	0
Total Net Cost	$	12,701,492	$	12,988,195

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of USSOCOM supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. USSOCOM's current processes and systems capture costs based on appropriations groups as presented in the schedule above. These appropriations are considered Major Programs for USSOCOM. The DoD is in the process of reviewing available data and developing a cost reporting methodology required by 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

USSOCOM recorded a prior period adjustment under SFFAS 21: *Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources* and SFFAS 48: *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, that increased the FY 2021 beginning cumulative results of operation balance $2.2 billion from $3.5 billion to $5.7 billion. SFFAS 21 requires that reporting entities restate prior period financial statements for material errors discovered in the current period, if such statements are provided for comparative purposes, and if the effect of the error would be material to the financial statements in either period. This prior period adjustment is attributable to the Corrections of Errors. See the 'Restatements' section below.

The FASAB issued SFFAS 48 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 and OM&S using Deemed Cost methodologies as described in SFFAS 50. With the adoption of this methodology, USSOCOM utilizes other gains and losses to capture the adjustments within the Statement of Changes in Net Position (SCNP). 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 these line items.

Restatements

USSOCOM restated its financial statements as of September 30, 2020 to correct errors. The restatement correctly reports OM&S in:

- Inventory and Related Property (was understated by $2.2 billion)

See Note 28 *Restatements*.

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		2021		2020
(dollars in thousands)				
Appropriations, Statement of Budgetary Resources (SBR)	$	13,046,095	$	13,756,302
Permanent and Temporary Reductions	$	(29,838)	$	(25,000)
Miscellaneous Items - Transfers of Current		(3,666)		56,258
Total Reconciling Difference	$	(33,504)	$	31,258
Appropriations Received, Statement of Changes in Net Position	$	13,079,599	$	13,725,044

Permanent and Temporary Reductions are primarily attributable to the amount of prior year balances and current year budget authority permanently or temporarily reduced by enacted legislation. Miscellaneous Items consists of transfers of current year unexpended appropriations.

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 to prior year balances.

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	2021	2020
(dollars in thousands)		
1. Intragovernmental:		
A. Unpaid	$ 705,626	$ 951,572
B. Prepaid/Advanced	0	0
C. **Total Intragovernmental**	$ 705,626	$ 951,572
2. Non-Federal:		
A. Unpaid	$ 7,828,266	$ 7,903,765
B. Prepaid/Advanced	360,001	242,274
C. **Total Non-Federal**	$ 8,188,267	$ 8,146,039
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 8,893,893	$ 9,097,611

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 brought 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	2021		
	Federal	Non-Federal	Total
(dollars in thousands)			
1. Net Cost of Operations (SNC)	$ 1,380,781	$ 11,320,711	$ 12,701,492
Components of Net Cost Not Part of Net Outlays:			
2. General property, plant, and equipment, net changes	$ 0	$ (252,378)	$ (252,378)
3. Year-end credit reform subsidy re-estimates	0	0	0
4. Increase/(decrease) in assets:			
a. Accounts and taxes receivable, net	(3,639)	293	(3,346)
b. Loans receivable, net	0	0	0
c. Other assets	0	117,727	117,727
5. Decrease/(increase) in liabilities:			
a. Accounts payable	51,317	105,369	156,686
b. Loans guarantee liability	0	0	0
c. Insurance and guarantee program liabilities	0	0	0
d. Environmental and disposal liabilities	0	0	0
e. Benefits due and payable	0	0	0
f. Federal employee and veteran benefits payable	0	3,237	3,237
g. Other liabilities	(4,489)	57,012	52,523
6. Other financing sources:			
a. Imputed cost	(18,001)	0	(18,001)
b. Donated revenue	0	0	0
7. Total Components of Net Cost Not Part of Net Outlays	$ 25,189	$ 31,259	$ 56,448
Components of Net Outlays Not Part of Net Cost			
8. Acquisition of capital assets	$ 0	$ 0	$ 0
9. Investments	0	0	0
10. Inventories and related property	0	275,859	275,859
11. Debt	0	0	0
12. Other	0	0	0
13. Total Components of Net Outlays Not Part of Net Cost	$ 0	$ 275,859	$ 275,859

As of September 30	2021		
	Federal	Non-Federal	Total
Miscellaneous Reconciling Items			
14. Eliminations between financing and non-financing	$ 0	$ 0	$ 0
15. Distributed offsetting receipts	0	0	0
16. Other	269,270	(310)	268,960
17. Total Other Reconciling Items	$ 269,270	$ (310)	$ 268,960
18. Total Net Outlays	$ 1,675,240	$ 11,627,519	$ 13,302,759
19. Agency Outlays, Net (Statement of Budgetary Resources)			$ 13,302,857
20. Unreconciled Difference			$ (98)

As of September 30	2020 (Restated)		
	Federal	Non-Federal	Total
(dollars in thousands)			
1. Net Cost of Operations (SNC)	$ 1,387,754	$ 11,600,441	$ 12,988,195
Components of Net Cost Not Part of Net Outlays:			
2. General property, plant, and equipment, net changes	$ 0	$ 428,917	$ 428,917
3. Year-end credit reform subsidy re-estimates	0	0	0
4. Increase/(decrease) in assets			
a. Accounts and taxes receivable, net	(3,929)	404	(3,525)
b. Loans receivable, net	0	0	0
c. Other assets	0	34,247	34,247
5. Decrease/(increase) in liabilities:			
a. Accounts payable	(86,228)	(183,177)	(269,405)
b. Loans guarantee liability	0	0	0
c. Insurance and guarantee program liabilities	0	0	0
d. Environmental and disposal liabilities	0	0	0
e. Benefits due and payable	0	0	0
f. Federal employee and veteran benefits payable	0	(31,580)	(31,580)
g. Other liabilities	(1,551)	(67,680)	(69,231)

As of September 30	2020 (Restated)		
	Federal	Non-Federal	Total
6. Other financing sources:			
a. Imputed cost	$ (15,170)	$ 0	$ (15,170)
b. Donated revenue	0	0	0
7. Total Components of Net Cost Not Part of Net Outlays	$ (106,879)	$ 181,131	$ 74,252
Components of Net Outlays Not Part of Net Cost			
8. Acquisition of capital assets	$ 0	$ 0	$ 0
9. Investments	0	0	0
10. Inventories and related property	0	0	0
11. Debt	0	0	0
12. Other	0	0	0
13. Total Components of Net Outlays Not Part of Net Cost	$ 0	$ 0	$ 0
Miscellaneous Reconciling Items			
14. Eliminations between financing and non-financing	$ 0	$ 0	$ 0
15. Distributed offsetting receipts	0	0	0
16. Other	303,362	(593,698)	(290,335)
17. Total Other Reconciling Items	$ 303,362	$ (593,698)	$ (290,335)
18. Total Net Outlays	$ 1,584,238	$ 11,187,874	$ 12,772,112
19. Agency Outlays, Net (Statement of Budgetary Resources)			$ 12,773,510
20. Unreconciled Difference			$ (1,398)

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

The FY 2020 reconciliation was modified to conform to the FY 2021 presentation. The FY 2020 reconciliation conforms to presentational changes resulting from the Department's continual effort to accurately reconcile the Net Cost of Operations with Net Budgetary Outlays.

Note 25.	Public-Private Partnerships - Unaudited

As of September 30, 2021 and 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 any Security Assistance Accounts.

Note 28.	Restatements - Unaudited

During FY 2021, USSOCOM identified a $2.2 billion (Net) understatement of OM&S as of 30 September 2020. USSOCOM restated its FY 2020 financial statements to correct the known cumulative amount of errors stemming from FY 2020 and years prior in OM&S as of the end of 2020.

During prior years, USSOCOM inappropriately used the Purchases Method of Accounting for OM&S and expensed all OM&S when procured. Further analysis of OM&S balances across the USSOCOM Command, showed USSOCOM did not meet the criteria for using the Purchases Method of Accounting and thus required a change to the Consumption Method of Accounting. This necessitated the completion of a Prior Period Adjustment (PPA) thereby, resulting in a restatement to FY 2020 Financial Statements. USSOCOM considered this a correction of an error per SFFAS 21: *Reporting Corrections of Errors and Changes in Accounting Principles* and the DoD FMR Volume 4, Chapter 4 *Inventory and Related Property*.

Due to system limitations, historical OM&S cost data is not available for a large portion of USSOCOM OM&S; therefore, USSOCOM plans to use deemed cost valuation in determining the amount of any PPA's necessary in the future (as allowed under SFFAS 48) to correctly report OM&S. As USSOCOM continues to improve its financial reporting of OM&S and deemed cost efforts to determine estimated costs, PPA's resulting in restatement, may be required in the future until USSOCOM can make an unreserved assertion over the value of OM&S. USSOCOM estimates future applicable misstatements to be at least $88 million; this is based on the OM&S remainder that is still being identified and input into DPAS. The specific amounts are unknown at this time and cannot be determined without further investigation. Once effects are known, if material, USSOCOM will restate the financial statements at that time.

USSOCOM has restated the FY 2020 OM&S balance based on an inventory count and the application of the deemed cost valuation. Due to the lack of maintained data and system limitations, USSOCOM does not have the beginning FY 2020 OM&S balance, therefore, the correction of a known error has been applied using the ending FY 2020 balance. As USSOCOM continues to improve the OM&S reporting process, issues related to completeness, valuation, and accuracy of the OM&S line item will be addressed. See Note 8: *Inventory and Related Property* for further information.

The following notes were impacted by the restatement: Note 2: *Non-Entity Assets*; Note 8: *Inventory and Related Property*, and Note 24: *Reconciliation of Net Cost to Net Outlays*.

Table 28A. Effect On Financial Statement Footnotes

(dollars in thousands)	Original FY 2020 Total	Restated FY 2020 Total	Misstatement Total
Note 2, *Non-Entity Assets*:			
Total Assets	$ 15,965,513	$ 18,199,591	$ 2,234,078
Note 8, Inventory and Related Property			
Operating Material & Supplies, Net	$ 0	$ 2,234,078	$ 2,234,078
Note 24, Reconciliation of Net Cost to Net Outlays			
Components of Net Outlays That are Not Part of Net Cost:			
11. Inventory and related property	$ 0	$ 2,234,078	$ 2,234,078

Table 28B. Effect On FY 2020 Comparative Balances

(dollars in thousands)	Original FY 2020 Total	Restated FY 2020 Total	Misstatement Total
Balance Sheet			
Inventory and Related Property, Net	$ 0	$ 2,234,078	$ 2,234,078
Total Assets	$ 15,965,513	$ 18,199,591	$ 2,234,078
Cumulative Results of Operations (Funds Other than Dedicated Collections)	$ 3,501,041	$ 5,735,119	$ 2,234,078
Total Net Position	$ 13,996,033	$ 16,230,111	$ 2,234,078
Statement of Changes in Net Position			
Cumulative Results of Operations - Prior Period Adjustments: Corrections of errors	$ 0	$ 2,234,078	$ 2,234,078
Beginning Balances, as adjusted (Includes Funds from Dedicated Collections)	$ 3,220,479	$ 5,454,557	$ 2,234,078
Cumulative Results of Operations (Includes Funds from Dedicated Collections)	$ 3,501,041	$ 5,735,119	$ 2,234,078
Net Position	$ 13,996,033	$ 16,230,111	$ 2,234,078

Note 29. COVID-19 Activity - Unaudited

In response to societal and economic impacts of Coronavirus Disease 2019 (COVID-19), multiple public laws were enacted to soften the impact of this pandemic on individuals, businesses, and Federal, state, and local government operations. In FY 2020, one of these public laws had a direct impact on USSOCOM through the provision of $18.2 million in supplemental appropriations. Additional supplemental funding had not been received as of September 30, 2021.

Coronavirus Aid, Relief and Economic Security Act

On 27 March 2020, the CARES Act (Public Law 116-136) was signed into law, which provided FY 2020 supplemental appropriations for USSOCOM to respond to COVID-19. The supplemental appropriations were designated as emergency spending. In FY 2020, USSOCOM received $18.2 million of budgetary resources as a result of the CARES Act. Of the $18.2 million CARES Act funding received, USSOCOM has committed and obligated $18.0 million as of 30 September 2021. Of the $18.0 million, $6.5 million has been obligated and disbursed towards Personal Protection Equipment (PPE) - Medical Countermeasures, Pharmaceuticals and Medical Supplies and Cleaning Contracts and Non-Medical Supplies/Equipment; $215 thousand, in unobligated balances, remains for the CARES Act funding. The total impact of the funding on USSOCOM's assets, liabilities, costs, revenues, and net position has not been determined.

Operations and Maintenance

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

In FY 2021, USSOCOM committed and obligated $11.5 million toward COVID-19 response. Of the $11.5 million, $6.2 million has been disbursed toward the following general program categories: Facilities, Travel, Equipment, Supplies, Contracts and Other. Specifically, these resources are being used to purchase PPE supplies and equipment, pharmaceuticals, cleaning contracts, additional medical staff, and medical countermeasures. The total impact of the funding on USSOCOM's assets, liabilities, costs, revenues, and net position have not been determined.

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

Table 29A. COVID-19 Funding

As of September 30	2021				
	Total Funding	Commitments	Obligations	Disbursements	Unobligated Balance
(dollars in thousands)					
O&M		$ 11,457	$ 11,536	$ 6,243	

As of September 30	2020				
	Total Funding	Commitments	Obligations	Disbursements	Unobligated Balance
(dollars in thousands)					
CARES ACT	$ 18,224	$ 18,009	$ 18,009	$ 6,467	$ 215
O&M		43,854	45,793	32,597	

Note 30.	Subsequent Events - Unaudited

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

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

USSOCOM does not have any reclassifications.

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
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November 8, 2021

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the U.S. Special Operations Command Financial Statements and Related Notes for FY 2021 and FY 2020 (Project No. D2021-D000FP-0074.000, Report No. DODIG-2022-026)

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, 2021, and 2020. The contract required Grant Thornton to provide a report on internal control over financial reporting and compliance with provisions of applicable laws and regulations, contracts, and grant agreements, and to report on whether 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, Volume 1 (Updated, April 2020), Volume 2 (Updated, March 2021), and Volume 3 (Updated, September 2021). Grant Thornton's Independent Auditor's Reports are attached.

Grant Thornton's audit resulted in a disclaimer of opinion. Grant Thornton could not obtain sufficient, appropriate audit evidence to support the reported amounts within the USSOCOM Financial Statements. As a result, Grant Thornton could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles. Accordingly, Grant Thornton did not express an opinion on the USSOCOM FY 2021 and FY 2020 Financial Statements and related notes.

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

- ensure the effective design and operation of the five components of internal control—an effective control environment, risk assessment, control activities, information and communication, and monitoring activities;
- implement appropriate monitoring controls, and inappropriately relied on the Military Departments and other service organizations to perform processes and internal controls;
- fully implement an internal control program over financial reporting, and relied on service providers to perform key data functions without fully monitoring or reviewing their work;
- develop sufficient controls to fully reconcile Fund Balance With Treasury, and did not monitor its financial reporting service organization's reconciliation process; and
- support the balance and presentation of the General Equipment and Construction in Progress accounts.

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

In connection with the contract, we reviewed Grant Thornton's reports and related documentation and discussed them with Grant Thornton's representatives. Our review, as differentiated from an audit of the financial statements and related notes in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the USSOCOM FY 2021 and FY 2020 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of

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

internal control over financial reporting, on whether USSOCOM's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with provisions of applicable laws and regulations, contracts, and grant agreements. Our review disclosed no instances where Grant Thornton did not comply, in all material respects, with GAGAS. Grant Thornton is responsible for the attached November 8, 2021 reports, and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

General 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, 2021 and 2020, 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. 21-04, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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

- provide a complete universe of transactions to support balances on its financial statements;
- provide a comprehensive listing of, and explanation with sufficient appropriate audit evidence 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 Inventory and Related Property, Net and General Property, Plant and Equipment, Net; and,
- provide adequate explanations for the nature of, and adequate audit evidence for, certain transaction types, including apportioned balances, contract holdbacks, and revenue**.**

Due to continued travel precautions related to the Coronavirus Disease 2019 (COVID-19) global pandemic, we were unable to conduct planned internal control and substantive testing procedures related to completeness of physical assets, at USSOCOM installations. In addition, USSOCOM was unable to timely provide audit support for samples related to certain classified programs.

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.

Emphasis of matter
As discussed in Note 28, the fiscal year 2020 consolidated financial statements have been restated to correct a misstatement. Our disclaimer of opinion is not modified with respect to this matter.

Other reporting required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report, dated November 8, 2021, 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.

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Grant Thornton LLP

Arlington, VA
November 8, 2021

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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. 21-04, *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, 2021, and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements. We have issued our report, dated November 8, 2021, 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.

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 8, 2021, 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.

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.

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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 8, 2021, 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 8, 2021, 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 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.

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

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

Standards in considering USSOCOM's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

GRANT THORNTON LLP

Grant Thornton LLP

Arlington, VA
November 8, 2021

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Schedule of Findings and Responses

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

Department of Defense (DoD) Instruction 5010.40 requires DoD entities to comply with the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) and Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Circular A-123). FMFIA requires federal entities to establish internal controls in accordance with the Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (the GAO *Green Book*). The GAO *Green Book* defines entity-level controls as controls that have a pervasive effect on an entity's internal control system. Entity-level controls may include controls related to the entity's risk assessment process, control environment, service organizations, management override, and monitoring and may apply across multiple components of internal control. To determine if an entity's internal control system is effective, the GAO *Green Book* requires management to assess the design, implementation, and operating effectiveness of the five components and 17 principles (as applicable) of the entity's internal control system. Our entity-level controls testing covered the following components of internal control: Control Environment, Risk Assessment, Information and Communication, and Monitoring for which we noted deficiencies discussed below. Pervasive control activities were not identified within the scope of the entity-level controls testing. The findings identified associated with Control Activities are discussed throughout the remaining sections of this report.

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

   a. **Demonstrate Commitment to Integrity and Ethical Values**
      According to the GAO *Green Book*, management should establish standards of conduct to communicate expectations concerning integrity and ethical values. Management should also establish processes to evaluate performance against the entity's expected standards of conduct and address any deviations in a timely manner.

      USSOCOM management did not establish standards of conduct to communicate expectations concerning integrity and ethical values. The Special Operations Judge Advocate (SOJA) was responsible for the USSOCOM's ethics program, but it was not responsible for administrating ethical training. It was the responsibility of the components and Theatre Special Operations Commands (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.

b. **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 developed an organizational structure with an identification of overall responsibilities and alignment of those responsibilities to discrete units. In addition, key roles and internal control roles were assigned. However, the organizational chart structure varied among components. Not all organizational charts documented 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.

c. **Enforce Accountability**

USSOCOM's financial team works closely with and relies on the work performed by USSOCOM's financial reporting service organization. USSOCOM does not have a single, centralized accounting system and instead has financial information recorded across multiple accounting and non-accounting systems owned by various DoD components. Monthly, these system owners submit summary financial information to the various locations of the financial reporting service organization for data normalization and summarization, referred to as pre-processing, within the Defense Departmental Reporting System – Budgetary (DDRS-B). USSOCOM management has entered into Memorandums of Understanding/ Memorandums of Agreement (MOUs/MOAs) outlining mutual responsibilities and expectations between USSOCOM and the financial reporting service organization. However, the MOUs/MOAs were not completed for all locations of USSOCOM's financial reporting service organization. USSOCOM had made progress in establishing MOUs/MOAs for their service organizations; however, there was inconsistency in some of the MOUs/MOAs and not all MOUs/MOAs were finalized.

2. **Risk Assessment**

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

We performed audit procedures over USSOCOM's Risk Assessment and noted that USSOCOM did not have formal guidance that addressed setting risk tolerances and aligning decisions on responding to risks to financial, operational, or compliance related objectives to be enforced across the USSOCOM enterprise. USSOCOM had taken steps to develop its risk assessment process and each component provided feedback on how it responded to identified risk; however, there was no basis established for consistently making the determinations of the appropriate risk responses across the organization. In our testing of Entity-Level Control documentation provided by USSOCOM components, we noted the following through inspection of the risk assessment templates completed by sampled Major Assessable Units (MAUs):

- Not all risk descriptions met the definition of a risk as stated in the GAO *Green Book,* which demonstrates a lack of education on how to perform risk assessments.
- Control activities were identified when the risk response provided was Acceptance and/or Avoidance which is not consistent with the definitions of the risks responses as outlined in the GAO *Green Book*.
- For one of the MAUs the question of whether risk is related to fraud was not answered.

3. **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.

Based on audit procedures performed over 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 was not properly communicated to the appropriate person(s) or shared in the appropriate manner on a timely basis. We specifically noted the following weaknesses associated with aspects of the information and communication system:

   1. **USSOCOM Directive 5-1** - The USSOCOM has a directive to prescribe policies, responsibilities, objectives, standards, and procedures for an effective, compliant, and comprehensive Risk Management and Internal Control (RMIC) program and subsequent preparation of materials to support USSOCOM's Annual Statement of Assurance (SoA), however the Directive has not been updated since 2014 and is therefore out of date. 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. The RMIC began updating the Directive, but it was not done as of September 30, 2021. The Directive is not expected to be finalized until the first quarter of fiscal year 2022. Without current prescribed policies, responsibilities, objectives, standards, and procedures for an effective internal control system, quality information is not being communicated across USSOCOM. Additionally, management may report inaccurate information within the assurance statement, about whether the internal controls are implemented and operating effectively.

4. **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 were monitoring activities in place. However, as a result of USSOCOM's competing priorities and not finalizing the Directive 5-1 as described above, the process varied among components. The variations in the process are as follows:

1. **Internal Control Test Plan** – During our inspection of the Internal Control Test Plan template or equivalent documentation, we noted that a component command relied on inspections performed by external parties and did not perform its own evaluation of the internal controls. One of the component commands documented the monitoring of controls within their risk assessment worksheet; however, the documentation used by that component command did not conclude on the operating effectiveness of the internal control(s) or deficiencies identified.

   The Headquarters (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 inspection of the Testing Summary Workpaper, we noted the following:
   - One 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 Independent Public Accountant (IPA) or USSOCOM Office of Inspector General (OIG) testing. The HQ RMIC team noted that deficiencies were identified by the USSOCOM 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 deficiencies that external parties may not have detected during their review of the internal control.

2. **USSOCOM 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 USSOCOM OIG report to identify the deficiencies found or not reviewing the report. The components are not required to respond to the deficiencies identified in the USSOCOM OIG report.

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

USSOCOM relies on the Military Departments' IPAs to evaluate internal controls and to determine whether they are operating effectively, which indicates that not all components had their own appropriate monitoring in place. Additionally, components waited until the audit was finalized to determine what weaknesses and/or other deficiencies were identified by the IPA.

Statement of Assurance

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

During our inspection of USSOCOM's SoA, we noted that USSOCOM management did not conduct the following steps in performing an adequate internal control evaluation, as required by OMB Circular A-123 to support the SoA:

1. **Prepare a Summary of Internal Control Deficiencies** – USSOCOM did not prepare a complete log or summary of all internal control deficiencies identified during the year for *Green Book* Internal Control Components and Principles.

2. **Conclude on Internal Control Component and Principle Evaluation** – USSOCOM included an Entity-Level Control Matrix documenting its determination of whether the attributes of the 17 principles from the *Green Book* were designed, implemented, and operating effectively. However, USSOCOM did not provide a matrix evaluating the overall conclusion of the 17 principles of the *Green Book* and determining whether they are designed, implemented, and operating effectively. The OMB Circular A-123 indicates that management must summarize its determination for not only all the *Green Book* components, but also the related principles, in order to conclude that they are operating effectively.

3. **Conclude on Overall Assessment of a System of Internal Control** – USSOCOM's conclusion on the overall assessment of the Internal Control System asserts that the five components of the *Green Book* are designed, implemented, and operating effectively with the exception of Control Environment, Control Activities and Information and Communication. USSOCOM's assessment that the overall System of Internal Control is operating effectively was inconsistent with the conditions and findings identified within this report.

As noted in the findings related to control environment, risk assessment, information and communication, and monitoring, due to USSOCOM's competing priorities, management has not effectively designed, implemented, and placed into operation all components of internal control. This lack of controls inhibits USSOCOM management's ability to ensure accurate financial reporting as required by Federal Accounting Standards Advisory Board (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**.

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Recommendations

USSOCOM management should consider taking the following actions:

1. **Control Environment**

    - **Demonstrate Commitment to Integrity and Ethical Values**: USSOCOM should work with the SOJA to implement and require the following:
        i. Implement an annual ethical training to enable employees to identify and resolve 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. This may include assessing the programs put in place by the military services to determine sufficiency for USSOCOM and the processes for enforcing timely compliance.

    - **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, and rank of each position. Organizational charts should be reviewed at least yearly and updated if necessary.

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

2. **Risk Assessment**:
    - USSOCOM management should:
        a. Prioritize existing resources to focus additional support on further development of processes in accordance with GAO *Green Book* Risk Assessment Principles.
        b. Clearly define objectives to enable the identification of risk across all USSOCOM MAUs with responsibility in implementing USSOCOM's Internal Control Program.
        c. Define risk tolerances specific to USSOCOM's mission and strategic objectives.
        d. Implement procedures to enforce the consistent application of GAO *Green Book* Principles 6 (Define Objectives and Risk Tolerances) and 7 (Identify, Analyze, and Respond to Risks) on an annual basis.
        e. Perform a detailed review of Entity-Level Control Documentation and follow up with the MAUs timely to resolve errors identified.

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f. Provide education and training to the MAUs on the effective completion of Entity-Level Control documentation.
g. Prioritize the finalization of draft USSOCOM Directive 5-1 Risk Management and Internal Control.

3. **Information and Communication:**
   - **USSOCOM Directive 5-1**:
     a. The RMIC team should update the Directive regularly as practical and in accordance with DoD Guidance.
     b. Inform all RMIC managers about updates made to the Directive by communication means deemed most appropriate including via email and/or Microsoft Team meetings, or RMIC SharePoint Site.
     c. Request all RMIC Coordinators to sign an acknowledgement letter indicating that the Directive was read, and they understand their responsibilities for establishing and maintaining an effective internal control program. Additionally, the acknowledgement letter should define the RMIC Coordinators responsibilities to include communicating the Directive to all Assessable Unit Managers.

4. **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.

   - **USSOCOM OIG** – The components should perform their own evaluations of internal controls and not rely only on the inspections performed by USSOCOM OIG. The components should read the USSOCOM OIG reports to become aware of the deficiencies identified by the USSOCOM OIG and determine if corrective action is warranted. A report of the USSOCOM 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 Subject Matter Experts (SMEs) to their control activities.

Statement of Assurance

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

a. **Prepare a Summary of Internal Control Deficiencies.** Management should prepare a complete log or summary of all internal control deficiencies identified during the year to support its statement of assurance with the results of management evaluation of all of its components and service components, TSOCs, sub-unified command, and/or service providers to include deficiencies identified through the review of Service Auditors Examination reports and results of financial statement audits of the military services.

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

II. Material Weakness - Inadequate Monitoring of Service Organizations

In accordance with FMFIA, management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. According to the GAO *Green Book*, management may engage service organizations to perform certain operational processes for the entity; however, management remains responsible for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. Therefore, management needs to understand the controls each service organization has designed, implemented, and operated for the process as well as how the third-party internal control system impacts the entity's internal control system. According to DoD's Financial Improvement and Audit Readiness (FIAR) Guidance, military 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 were MOUs between USSOCOM and the military departments, the agreements were not all current and did not outline specific responsibilities for authorization, initiation, processing, and recording of transactions as required by the FIAR guidance. This can lead to inconsistencies between USSOCOM expectations and the actions taken by the military departments that could result in misstatements to the financial statements. USSOCOM management stated that they did not establish a Directorate, Division, and/or other personnel responsible for performing MOU facilitation functions. Further, management did not sufficiently establish procedures for initiating MOU reviews, MOU coordination and quality control**.**

2. **Developed a monitoring program that consistently evaluates/assesses actions taken by service organizations on USSOCOM's behalf.** USSOCOM management did not implement a comprehensive monitoring program to ensure service organizations meet USSOCOM expectations and fulfill their responsibilities as outlined within existing MOUs. For example:
   - The majority of Journal Vouchers (JVs), including systematic JVs, which impact the USSOCOM financial statements, were initiated and posted by USSOCOM's financial reporting service organization without direct input or validation by USSOCOM.
   - Exclusions of feeder file activity from USSOCOM financial statements by the USSOCOM financial reporting service organization (e.g., auto-excluded records) were not comprehensively reviewed for validity and/or impact to the USSOCOM financial statements by USSOCOM personnel.
   - The USSOCOM financial reporting service organization lacked comprehensive controls to reconcile between the DDRS-B data and accounting and non-accounting summary data. Additionally, while the service organization performed a reconciliation between DDRS-B and

DDRS-Audited Financial Statements (AFS), the reconciliation was performed after the quarterly financial statements had been finalized. As such, USSOCOM management was unable to demonstrate that all relevant financial activity recorded within its general ledger and feeder systems was appropriately included within the financial statements prepared by its financial reporting service organization.

3. **Taken action to assess the control environment and any associated risks to USSOCOM occurring at service organizations which do not receive a Service Organization Controls Type 1 (SOC 1) report.** In most cases, service organizations undergo examinations of internal controls over systems and processes supporting their customers. The results of these examinations are documented in SOC 1 reports and include the independent service auditor's report, the service organization's management assertions, and identified Complimentary User Entity Controls (CUECs) that users of the service organization (e.g., USSOCOM) must have in place in order for the service organization's internal controls to be effective and relied upon. The SOC 1 reports are made available to the user entities for their analysis and action. However, not all USSOCOM service organizations undergo examinations of their controls. A lack of a SOC 1 report does not relieve USSOCOM from its responsibility to maintain internal control over operations, reporting, and compliance with laws and regulations, including responsibility for actions taken by service organization ultimately impacting the USSOCOM control environment and USSOCOM financial statements. For those service organizations significantly impacting USSOCOM's internal control environment that are not subjected to SOC 1 examination procedures, USSOCOM management should obtain assurance regarding internal controls in place at the service organization. USSOCOM did not develop a process to evaluate the impact of control environments in place at service organizations which do not receive a SOC 1 report.

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

Our testing indicated that USSOCOM's oversight body relied on the military 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 with financial reporting service organizations yearly and document each review within the applicable agreement. All MOUs should include specific responsibilities for the authorization, initiation, processing, and recording of transactions, as well as expectations of competence to perform responsibilities. Updates should be made timely to MOUs based on reviews by USSOCOM or if deficiencies are identified by internal or external auditors. Updates should be clearly documented within the MOUs.

2. Develop a monitoring program over the activities executed by service organizations on behalf of USSOCOM. The program should be tailored to each service organization based on the type of service provided including the execution of routine financial transactions in military 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 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 the complex environment in which USSOCOM operates, USSOCOM relies on service organizations to perform key data functions without the necessary capability and/or capacity to fully monitor or review their work. The lack of comprehensive guidance and oversight can result in financial statements that are unsupported, erroneous, and do not accurately represent USSOCOM's financial position. The following control weaknesses were noted related to USSOCOM's financial reporting process:

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

2. **Lack of Validation Controls over Financial Transactions and Related Data.** USSOCOM management lacked validation controls (i.e., comprehensive control activities and/or monitoring activities) to verify the:
   - Recording of JVs or adjustments;
   - 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 and service organizations;
   - Completeness and accuracy of payroll transactional data;
   - Nature and cause of reconciling payroll transactions;
   - Completeness and accuracy of funding and its related status;
   - Funding distributed to USSOCOM's components were reviewed and approved;
   - Receipt and acceptance of goods and services;
   - Completeness and accuracy of USSOCOM's transactional financial data used for analysis and reporting; and,
   - Methodology used to record estimated obligations was sufficiently precise once the actual amount of obligation is known.

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

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

3. **Lack of or Inadequate Support Related to the Existence/Occurrence, Accuracy, or Completeness of Recorded Transactions or Balances**. USSOCOM management was unable to provide sufficient and adequate supporting documentation related to at least one of our testing attributes across the following testing areas:
   - Obligations and Upward Adjustments and related controls;
   - Gross Costs and related controls;
   - Sensitive Activities and related transactional data. Additionally, Management's inability to timely provide access to sensitive information precluded its ability to substantiate the propriety of its treatment of certain transactions;
   - Civilian Payroll;
   - General Equipment (GE);
   - Construction in Progress (CIP); and,
   - Manual JVs.

4. **Control Deficiencies over Accounts Payable**. USSOCOM was 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 was 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 were 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), under the Inventory and Related Property, Net (I&RP) line item or as Property, Plant and Equipment (PP&E).

7. **Lack of Completeness over Operating Materials and Supplies.** USSOCOM began reporting OM&S under the consumption method of accounting in Fiscal Year (FY) 2021 under the Inventory and Related Property, Net line item on the Balance Sheet. USSOCOM currently reports two categories of assets as OM&S: Uninstalled Aircraft Engines (UAE) and munitions, both of which are now treated using the consumption method of accounting. USSOCOM will ultimately report a third category of OM&S, the Defense Property Accountability System (DPAS) Remainder which consists of repair parts and assemblies but has not been able

to identify a population of the DPAS Remainder to report on its financial statements. USSOCOM management has stated USSOCOM does not have a mechanism in place to identify all of the OM&S held for use across the USSOCOM enterprise. Therefore, USSOCOM was unable to report a complete population of OM&S.

8. **Lack of Valuation over Operating Materials and Supplies**. USSOCOM began reporting of OM&S under the I&RP on the balance sheet in FY 2021; however, management was unable to make an unreserved assertion over the valuation of OM&S reported within its balance sheet for I&RP, in accordance with the SFFAS 48: Opening Balances for Inventory, OM&S, and Stockpile Materials. USSOCOM has asserted that it does not have the processes and controls in place to validate the valuation of OM&S. USSOCOM did not have oversight or visibility into inventory procedures over OM&S performed by the service organizations that is reported on the USSOCOM financial statements, nor did USSOCOM review any documentation resulting from inventories conducted by service organizations.

9. **Inability to Substantiate Operating Materials and Supplies Restatement and Current Year Adjustment.** USSOCOM was unable to support the economic events and underlying transactions related to the OM&S, a component of I&RP on the balance sheet, specifically pertaining to the purchases, consumptions, gains or losses of OM&S. USSOCOM restated the prior year 2020 financial statements by posting the Prior Period Adjustment (PPA) to establish the FY 2020 ending balance of OM&S; however, the PPA did not consider the impact on the 2020 Statement of Net Cost, but instead made the entire adjustment for the end of year amount to the 2020 beginning of year cumulative results of operations in the statement of changes in net position. USSOCOM did not have data or system capabilities which substantiate the economic events and underlying transactions supporting the FY 2020 PPA restatement and FY 2021 current year OM&S adjustment. Currently, accounting systems utilized by USSOCOM expenses OM&S upon acquisition and USSOCOM manually re-establishes the OM&S balance through a journal voucher in order to account for OM&S under the consumption method. USSOCOM did not have the processes in place to validate and separately identify the amounts of OM&S acquired, found/gained, and consumed during FY 2021 and FY 2020. As such, the FY 2021 activity within the statement of net cost related to OM&S was calculated as the difference between the FY 2020 ending balance and Quarter 4 FY 2021 ending balance, informed by inventory counts, and did not consider the actual amounts of OM&S acquired, found/gained, or consumed during FY 2021. As USSOCOM lacks data, system capability, and process supporting OM&S activity, as described above, management applied SFFAS 21: Reporting Corrections of Errors and Changes in Accounting Principles, Amendment of SFFAS 7, Accounting for Revenue and Other Financing Sources to the extent possible. However, without the data, system capability, and process to support OM&S economic events USSOCOM was unable to apply the journal entries that correct all of the relevant financial statements (e.g., Statement of Net Cost activity during 2020 and 2021).

10. **Lack of Compliance with the Accrual Basis of Accounting.** Certain USSOCOM components use legacy accounting systems for the recording of their daily accounting transactions. These systems were designed for execution and reporting of Agency budgets but not necessarily for financial reporting in compliance with U.S. generally accepted accounting principles, including the accrual basis of accounting. Grant Thornton noted that two systems use certain codes to record an obligation, expense, liability, and disbursement simultaneously. Through our testing we noted that USSOCOM 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. Through testing of Gross Costs, Grant Thornton noted some USSOCOM feeder systems do not post the expense and associated accounts payable when goods or services or the vendor invoice are received. Instead, the expense entry is recorded in conjunction with the payment made to the vendor. If the receipt of goods or services occurs in one FY and the payment takes place in the subsequent FY, this causes a misalignment of the expense to the incorrect FY. USSOCOM lacks internal controls to ensure the completeness, accuracy and timeliness of its year-end balance of Gross Costs and Accounts Payable. Additionally, USSOCOM's financial reporting service organization posts JVs on USSOCOM's behalf based on the amount of abnormal accounts payable occurring with the recording disbursements. These adjustments were not based on evidence of the receipt of goods or services.

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

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

    b. ***Reconciliation:*** USSOCOM does not have a single centralized accounting system and instead has financial information recorded across multiple accounting and non-accounting systems owned by various DoD components. Monthly, these systems owners submit summary financial information to USSOCOM's financial reporting service organization for data normalization and summarization, referred to as pre-processing, within DDRS-B. Presently, there are no comprehensive reconciliations performed between the DDRS-B standardized data (post-processing) and the originally obtained summarized feeder data. Furthermore, it was noted that, while a reconciliation is performed between DDRS-B and DDRS-AFS, the reconciliation is performed after the quarterly financial statements have been finalized, and therefore it would not prevent or detect 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 were routinely recorded within DDRS-B and DDRS-AFS for which transactional detail is not obtainable/available. Similar to JVs, Trial Balance Input Adjustments (TBIAs) are adjustments that can be made within DDRS-AFS. TBIAs help to allow data from DDRS-B interface into DDRS-AFS when the opening balances between the two systems do not agree. While a high-level summary of the issue (e.g. interface errors) can be provided, TBIAs cannot be connected to the underlying DDRS-B activity, whether caused by DDRS-B JVs, accounting system information ingested, non-accounting system information ingested, or specific interface issues.

e. ***Validation of Disclosures:*** While much of the USSOCOM financial statement preparation process is executed by 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 was unable to fully validate the data within the data calls. Furthermore, controls in place at USSOCOM were insufficient to prevent manual errors from causing misstatements (e.g., identify non-normal balances and/or misstated disclosures).

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

13. **Inadequate Controls for Information Systems used for Funds Distribution.** In accordance with the FMFIA, management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations**.** According to GAO's Green Book issued under the authority of the FMFIA, management should design control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing**.** We performed testing over systems owned by USSOCOM's service organizations, specifically the Program Budget Accounting System (PBAS), and the Enterprise Funds Distribution (EFD) System, which, among other applications, support the funds distribution process. Due to inconsistent adherence to policies and procedures related to key information

system controls, we noted the following deficiencies during our testing:

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

   i. PBAS
      - Users were granted unauthorized access.
      - Access reviews were not comprehensive and complete.
      - Privileges were not included in user listings.

   ii. EFD
      - The Segregation of Duties (SoD) matrix was not comprehensive and complete.
      - Access reviews were not comprehensive and complete.
      - Audit logging and monitoring controls were not implemented in accordance with formal policies and procedures.
      - Provisioning documentation was not commensurate with user access.

   Unauthorized access increases the risk that users can perform activities within the system in excess of their job responsibilities. Without a comprehensive understanding of application privileges, users may have access to perform incompatible functions within the application or have access to privileges outside of what is needed to perform their job responsibilities. Without reviewing users' access on periodic basis, there is risk that users may retain inappropriate access to the application. Lack of a comprehensive monitoring tool and review process increases the risk that the threatening activity is not addressed in a timely manner. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized use, modification, or disclosure of financially relevant transactions or data.

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

   i. EFD
      - A complete and accurate listing of changes to configurable 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.
      - Emergency changes were not approved prior to migration to production.
      - System settings were not reviewed and remediated.
      - Users had the ability to develop and mitigate changes.

Well established configuration management controls prevent unauthorized changes to the application and provide reasonable assurance that systems are configured and operating securely and as intended. Included in these configuration management controls is the ability to systematically track all changes that were modified and migrated to the production environment, validate that all changes migrated to production are authorized and valid, and separate development and migration duties. Furthermore, without reviewing all applicable security settings and tracking incorrect system settings for the application, application settings may not be enforced or secure**.** These issues may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

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

i. PBAS
- System documentation was not accurately tailored to the application.

ii. EFD
- System vulnerabilities were not remediated in a timely manner.
- System documentation was not accurately tailored to the application.
- Control weaknesses were not tracked to remediation.
- Continuous monitoring testing was not performed in a timely manner.
- Third-party agreements were not updated.

Without accurately specifying the party responsible for defining specific control parameters that outline how the application is tailored to meet National Institute of Standards and Technology (NIST) controls, personnel may not appropriately implement and monitor applicable NIST controls that strengthen the security of the application. Additionally, without the comprehensive testing and tracking of controls and vulnerabilities, a weakness may be left unremedied for a period of time. Furthermore, lack of review of third-party contract agreements increases the risk that (a) modifications or amendments to responsibilities and controls may go undetected, and (b) required updates are not documented and implemented. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

14. **Inadequate Controls for Information Systems Used for the General Ledger Accounting Purposes.** In accordance with the FMFIA, management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations**.** According to GAO's Green Book issued under the authority of the FMFIA, management should design control activities over the information technology infrastructure to support the

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completeness, accuracy, and validity of information processing**.** We performed testing over the Navy Standards Accounting, Budgeting, and Reporting System (NSABRS) which, among other applications, supports the general ledger accounting. Due to inconsistent adherence to policies and procedures related to key information system controls as well as lack of timely delivery of audit evidence, we noted the following weaknesses:

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

- Users were granted unauthorized access.
- Access reviews were not comprehensive and complete.
- Reviews of terminated and transferred users' access were not performed.

Unauthorized access increases the risk that users can perform activities within the system in excess of their job responsibilities. Additionally, without a comprehensive review of users' access on periodic basis, there is risk that users may retain inappropriate access to the application. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized use, modification, or disclosure of financially relevant transactions or data.

b. **Configuration Management.**

- A complete and accurate listing of changes to configurable items related to the application could not be provided.
- Evidence to support the traceability of changes could not be provided.
- Change management audit logs were not reviewed timely.

Without the ability to generate an audit log of direct data changes, unauthorized changes to the general ledger could be made. Without the ability to associate changes with change management documentation, there is an increased risk that unauthorized, inappropriate, or untested changes may be introduced into the application without detection. Without a timely review of monitoring reports, unauthorized changes can be implemented into production**.** These issues may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

c. **Security Management.**

- Third-party agreements were not updated.

Lack of review of third-party contract agreements increases the risk that (a) modifications or amendments to responsibilities and controls may go undetected, and (b) required updates are not documented and implemented. The issue presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

Recommendations

USSOCOM management should consider taking 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, Assessable Units (AUs), and business activities/events which can be utilized when researching financial statement line items and fluctuations.

2. **Lack of Validation Controls over Financial Transactions and Related Data.** USSOCOM management should 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 implement processes for monitoring the total actual obligations incurred when support becomes available, compare actuals to the related estimates, set thresholds for assessing the accuracy of the estimates, and improve its estimation methodology where the accuracy of estimates used falls below the established thresholds. USSOCOM Management should implement new and strengthen existing controls over the receipt and acceptance of goods and services, timely provisioning of sensitive information and data, and Gross Costs and New Obligations and Upward Adjustments transactions.

4. **Control Deficiencies over Accounts Payable.** 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 accurately.

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

6. **Inappropriate Accounting Treatment of Certain Assets.** USSOCOM management should complete an analysis that determines whether certain assets that lose their identity through incorporation into an end-item once utilized are appropriately categorized as materials (a component of OM&S) or as PP&E and make related adjustments to its accounting records as appropriate.

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

8. **Lack of Valuation over Operating Materials and Supplies**. USSOCOM management should develop a comprehensive plan, including milestones, to implement SFFAS 48 Opening Balances for Inventory, OM&S, and Stockpile Materials guidance. Additionally, USSOCOM management should develop, document, and implement controls over the valuation of OM&S.

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

10. **Lack of Compliance with the Accrual Basis of Accounting.** USSOCOM management should adopt policies and procedures to recognize expenses and liabilities only upon receipt and acceptance of goods and/or services. Additionally, USSOCOM should adopt general ledger systems designed to comply at the transaction level with U.S. generally accepted accounting principles, including the accrual basis of accounting. Furthermore, until compliant systems can be adopted, USSOCOM should evaluate whether legacy systems can be used without modification or modified to comply with the accrual basis of accounting**.** USSOCOM management should work with system owners to establish processes that ensure appropriate recording of economic events in a timely manner after they occur. USSOCOM should establish cut-off procedures to minimize the volume of transactions that are not recorded in the proper period and perform an analysis to determine which business processes result in a misalignment of receipt and acceptance of goods or services and recordation of the related expense and payable. Management should use the analysis to perform a cost/benefit determination over the possible variances across FYs. Finally, USSOCOM should implement a control to estimate the amount of unrecorded expenses at year-end and post an accrual entry to ensure the

alignment of expenses to the proper FY.

11. **Lack of Controls over Financial Statement Compilation.** USSOCOM management should continue to work with 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.

12. **Inability to Create a Comprehensive Universe of Transactions**. USSOCOM management should develop processes and procedures to obtain a full transactional population, or alternative documentation, which substantiates balances presented in the USSOCOM financial statements. USSOCOM should additionally develop and document a detailed understanding of the various types of activities supporting summarized financial statement balances, as well as perform an analysis of differing types of internal and external factors impacting operations.

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

    a. **Logical Access and Segregation of Duties**
        i. PBAS
            - Enforce access provisioning policies and procedures**.**
            - Review all account details as a part of the comprehensive periodic recertification.
            - Document specific privileges that are relevant to the application**.**

        ii. EFD
            - Document segregation of duties conflicts related to systematic roles.
            - Implement a process to review all access for users on a periodic basis.
            - Implement audit logging and monitoring controls in accordance with formal policies and procedures.
            - Describe how provisioning documentation reconciles to user access.

    b. **Configuration Management**
        i. EFD
            - Establish a mechanism to systematically track all configuration items that are migrated to production in order to produce a complete and accurate listing of all configuration items. Further, develop, document, implement, and enforce requirements and processes to periodically validate that all configuration items migrated to production are authorized and valid.
            - Establish a control to validate that an analysis of system settings is performed in accordance policies and procedures.

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- Separate development and migration duties.

c. **Security Management**
   i. PBAS
      - Establish a process to validate that system documentation is reviewed and updated to accurately reflect current operating conditions.
   ii. EFD
      - Track and remediate identified vulnerabilities and weaknesses in a timely manner.
      - Establish a process to validate that system documentation is reviewed and updated to accurately reflect current operating conditions.
      - Conduct testing of controls in accordance with policies and procedures.
      - Validate that the review of Service Level Agreements or Interconnection System Agreements occur in accordance with the agreement requirements.

In addition to the recommendations noted above, the auditor recommends that EFD system owners identify back up resources to continue audit support in the event of urgent mission requests that conflict with audit timelines.

14. **Inadequate Controls for Information Systems Used for the General Ledger Accounting Purposes.** 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**
   - Enforce access provisioning policies and procedures**.**
   - Perform comprehensive periodic recertification of user access**.**
   - Develop a mechanism to track all users that have been terminated or transferred.

b. **Configuration Management**
   - Implement a method to demonstrate that all direct data changes are authorized.
   - Provide change management documentation that supports the traceability of the changes.
   - Establish and enforce procedures to perform a timely review of the monitoring reports.

c. **Security Management**
   - Validate that the review of Service Level Agreement occurs in accordance with the agreement requirements.

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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 (TFM) Chapter 5100, Section 5120, requires agencies to implement effective and efficient reconciliation processes and perform timely reconciliations between their FBwT general ledger accounts and Treasury's CARS Account Statement.

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

Disbursing offices across DoD are responsible for processing disbursements and collections on behalf of the ODOs. The disbursements and collections processed by each disbursing office are compiled each month by USSOCOM's financial reporting service organization. The service organization's 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 identified the following weaknesses:

1. **Unidentified Differences.** USSOCOM's financial reporting service organization uses an Access database to prepare the TI-97 General Fund FBwT Workbook (TI-97 Audit Workbook), which displays TI-97 expenditure data and the partially reconciled FBwT balance for each ODO accounting system detail and the CMR. The TI-97 Audit Workbooks also display unidentified differences/reconciling items and variance balances for each ODO. The service organization uses a number of different terms to distinguish among the various types of unidentified differences (e.g., Unallocated Funds, Processing and Subhead Errors, Unvouchered Intragovernmental Payment and Collection (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, 2021, unidentified differences between the CMR and USSOCOM accounting system detail included within the TI-97 Audit Workbook amounted to $23.1 Billion. This represents the absolute value of transactions that could not be reconciled between the CMR, which reflects balances at Treasury and USSOCOM accounting system detail. In addition, the TI-97 Audit Workbook, as of September 30, 2021, included an amount of $88.2 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 $21 Million as of Quarter 2 FY 2021.

3. **Non-X Year Funding (Out-of-Scope Appropriations).** Based on our inspection of the CMR, we noted that as of Quarter 2 FY 2021, $14.9 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 $14.9 Billion at Quarter 2 FY 2021, as compared to less than $10.6 Billion at Quarter 2 FY 2019 and $14.2 Billion at Quarter 2 FY 2020. 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 there are multiple individual ODOs comprising TI-97; each ODO fund balance in the U.S. Treasury accounts is indistinguishable from the fund balances of the other ODOs. This has resulted in the identification of unsupported FBwT transactions. 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 were insufficient. Additionally, we noted that there were significant FBwT variances aged over 60 business days. Through our testing of the FBwT suspense and CMR differences, Grant Thornton was unable to conclude rights and obligations

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of these differences due to insufficient and/or lack of supporting documentation. Furthermore, Grant Thornton noted through suspense testing that samples with USSOCOM economic events were erroneously included in other DoD agency financial data. The existence of material unidentified differences between USSOCOM's FBwT balance and balances reported by Treasury, as well as material unsupported aged balances, increases the risk that USSOCOM's FBwT is misstated.

Evaluation of Information Systems used to Perform the FBwT Reconciliation
In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. According to GAO's *Green Book* issued under the authority of FMFIA, management should design control activities over the information technology infrastructure to support the completeness, accuracy, and validity of information processing**.** We performed testing over HQARS and the CMR Tool, which is owned by USSOCOM's financial reporting service organization.

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

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

    - HQARS
        - Periodic access reviews were not complete and comprehensive.

    Lack of a comprehensive recertification presents the risk that individuals maintain unsupported and/or unauthorized access to the application. Users with the ability to perform functions outside of their job responsibilities increases the risk of inaccurate, invalid and/or unauthorized transactions being processed by the system. 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.

2. **Configuration Management.**
    - HQARS
        - Unit testing was not performed**.**
    - CMR Tool
        - Configuration Management policies and procedures were not updated to reflect current operating conditions.

    Without appropriate change management documentation (to include testing results), there is an increased risk that unauthorized, inappropriate, or untested changes may be introduced into the application without detection. Furthermore, without formalized and comprehensive configuration management policies and procedures, management is not able to adequately monitor the system's configuration baselines, and the change management lifecycle. 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 documentation.

3. **Security Management.**
    - HQARS

- System documentation was not accurately tailored to the application.

- CMR Tool
  - Security policies and procedures were not updated to reflect current operating conditions.

Without accurately specifying the party responsible for defining specific control parameters that outline how the application is tailored to meet NIST controls, there is an increased risk that personnel may inaccurately or improperly identify the party responsible for implementing and monitoring applicable NIST controls that strengthen the security of the application. Furthermore, without formalized and comprehensive security management policies and procedures, management is unable to adequately monitor the system's security posture or identify vulnerabilities in the environment. The issues presented above may increase the risk of financial systems being compromised and may result in the unauthorized processing, use, modification, or disclosure of financially relevant transactions or data.

Recommendations

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

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

   - HQARS
     - Review all account details as a part of the comprehensive periodic recertification.

2. **Configuration Management**

   - HQARS
     - Implement a process to perform all required testing of the change prior to migration to production.
   - CMR Tool
     - Update, implement and disseminate configuration management policies and procedures in accordance with NIST standards.

3. **Security Management**

   - HQARS

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- Establish a process to validate that system documentation is reviewed and updated to accurately reflect current operating conditions.

- CMR Tool
  - Update, implement and disseminate security management policies and procedures in accordance with NIST standards.

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

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

USSOCOM reported on its September 30, 2021, Balance Sheet a total of $3.5 Billion in PP&E, Net. The balance represents GE and CIP. USSOCOM is in the process of implementing SFFAS 50, *Establishing Opening Balances for General Property, Plant, and Equipment.* However, USSOCOM management had not yet completed the necessary steps to make an unreserved assertion over its balance of PP&E within the Balance Sheet.

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

General Equipment

1. **Incomplete Recording of Accountable Assets.** USSOCOM's acquisition office did not complete the recording of all of its accountable property within their property system by the end of FY 2021.

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.** During our testing, we identified errors related to the existence and valuation of GE sampled that included acquisition cost not supported by documentation**.** Additionally, we identified errors related to the improper inclusion of certain GE assets that were not procured by USSOCOM or in the possession of USSOCOM. We also noted a lack of timeliness in recording GE assets acquired/transferred-in and dispositioned/transferred-out of the APSR. Furthermore, USSOCOM management did not 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 could not conduct appropriate reviews of the changes in composition of GE balances. Finally, during our inspection of documentation evidencing recurring inventory controls in place at a USSOCOM component, we identified an instance in which control procedures were not completed for all assets.

Construction in Progress

1. **Inability to Support Capitalized Construction Costs.** During our testing, we noted USSOCOM's inability to provide documentation for sampled CIP projects to validate the proper inclusion or exclusion of capitalized construction costs within the CIP balance.

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

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

Recommendations:

USSOCOM management should consider taking the following actions:

General Equipment

1. **Incomplete Recording of Accountable Assets.** USSOCOM management should enforce controls that ensure its acquisition office maintains its property accountability system up-to-date with accurate counts and develop milestones which ensure all accountable assets are added to the APSR.

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

3. **Lack of Adequate Controls over Existence 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 APSR, is up to date and changes are made in a timely manner; continue efforts to obtain historical acquisition cost documentation for assets and complete alternative processes to establish acquisition cost and date when historical documentation is not available. USSOCOM management should enforce controls to ensure acquisitions/transfers-in and disposals/transfers-out of GE assets are recorded in the APSR in the period in which the transaction occurs. Additionally, USSOCOM management should develop processes and procedures to prepare a listing of GE that separately identifies transfers in/out, additions, and disposals from internal transfers to support analysis of GE. Furthermore, USSOCOM management should implement procedures to ensure all assets are subject to inventory controls at regular intervals.

Construction in Progress

1. **Inability to Support Capitalized Construction Costs.** USSOCOM management should design and implement controls to ensure accumulated CIP project costs

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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. In prior years, Grant Thornton evaluated a selection of accounting systems that are owned and operated by USSOCOM and noted control deficiencies. To remediate these deficiencies, select USSOCOM components plan to migrate to a new general ledger system, General Fund Enterprise Business System - Sensitive Activities (GFEBS-SA), and thus USSOCOM is not making any enhancements to its current legacy systems. As a result, Grant Thornton did not perform additional audit procedures over their current legacy environment. The conditions noted below are deficiencies identified in prior years that continue to impact the control environment in FY 2021.

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

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

   a. USSOCOM Component No. 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 No. 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 the 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.
      - 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 and 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.**
   a. USSOCOM Component No. 1 System
      - Comprehensive configuration management policies and procedures were not documented and formalized.

   b. USSOCOM Component No. 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.**
   a. USSOCOM Component No. 2 Systems
      - The authority to operate (ATO) was expired.
      - The application system security plan (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 No. 1 and Component No. 2 are in the process of retiring the systems related to the deficiencies identified above and plans to implement a

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new system at a future date. As a result, corrective actions are not being developed to address these deficiencies.

Recommendations

USSOCOM management should work to enforce and monitor the implementation of corrective actions as follows:

1. **Logical Access and Segregation of Duties**
   a. USSOCOM Component No. 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 log.
      - Document the reviews of audit logs. Furthermore, retain evidence of the review.

   b. USSOCOM Component No. 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 No. 1 System
      - Finalize and implement comprehensive configuration management policies and procedures.

   b. USSOCOM Component No. 2 Systems
      - Finalize and implement comprehensive configuration management policies and procedures.

3. **Security Management**
   a. USSOCOM Component No. 2 Systems
      - Conduct required assessment and authorization activities in order to authorize the application in accordance with NIST standards.
      - Update the application SSP to align with NIST standards.
      - Conduct continuous monitoring and risk assessment activities in a comprehensive and consistent manner.
      - Develop mechanisms to track weaknesses pertaining to the application boundary to remediation.

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

DoD Instruction 5010.40 requires DoD entities to comply with the requirements of the FMFIA and the requirements of OMB Circular A-123. FMFIA and OMB Circular A-123 require federal entities to establish internal controls in accordance with the GAO *Green Book*, conduct evaluations of their internal controls, and annually prepare a 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) prepared a complete log or summary of all internal control deficiencies identified during the year for *Green Book* Internal Control Components and Principles and 2) documented its determination about whether its controls were designed, implemented, and operating effectively in accordance with the 17 *Green Book* principles. As a result, USSOCOM management did not ensure substantial compliance with FMFIA. Specific examples of USSOCOM's non-compliance with FMFIA that are included in material weaknesses noted in Sections I through IV of this report.

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

- USSOCOM's organizational structure did not appropriately reflect the lines of reporting.
- USSOCOM did not provide process documentation supporting the implementation of controls.
- USSOCOM did not have controls in place to ensure transactions were properly recorded.
- USSOCOM's (buyer-side) data is adjusted, or replaced, using seller-side data submitted from other organizations due to USSOCOM's inability to reconcile.

Furthermore, we noted that within the Appendix of USSOCOM's FY 2021 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, USSOCOM's assessment that the overall System of Internal Control is operating effectively is inconsistent with the conditions and findings identified within this report.

<u>Recommendations:</u>

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:

- The 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 Federal Financial Management Improvement Act of 1996 (FFMIA) requires that Agencies establish and maintain financial management systems that substantially comply with the following three FFMIA Section 803 (a) requirements: Federal Financial Management System requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. USSOCOM management has asserted that they do not comply with the requirements of FFMIA.

Because of matters described in the Basis for Disclaimer of Opinion paragraphs included in our financial statement audit report dated November 8, 2021, 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 other DoD service organizations. While our audit contract does not preclude Grant Thornton from evaluating the military department systems supporting USSOCOM, the current contract does not include a formal mechanism for this evaluation. However, based on our inspection of the Department of the Air Force, Department of the Army, Department of the Navy, and United States Marine Corps FY 2020 annual financial reports, we noted that each of the departments and the United States Marine Corps are not in compliance with the requirements of FFMIA. 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 did not comply with applicable federal accounting standards in multiple instances such as:
    - USSOCOM management has asserted that, currently, it does not have adequate controls in place to validate the completeness and accuracy of the value reported within its Balance Sheet for PP&E.
    - Intra-entity revenue was recorded as exchange revenue within certain accounting systems.
    - No reports could be generated which would allow for the assessment of risk related to aged invoices and abnormal balances at the invoice or vendor level.
    - Processes were not in place to consistently accrue accounts payable in all instances.
    - USSOCOM could not attest to the completeness of the OM&S balance on the financial statements and full application of the consumption method of accounting of the OM&S.
    - USSOCOM management has asserted that it does not have the processes and controls in place to validate the valuation of OM&S and therefore could not make an unreserved assertion over the value reported within its balance sheet for Inventory and Related Property, Net.
    - Certain USSOCOM information systems were not designed for compliance with the accrual basis of accounting (e.g., Standard Operation

and Maintenance Army Research and Development System (SOMARDS)) and USSOCOM lacks the policies and controls to ensure 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 PP&E.
- There were certain Military Standard Requisitioning and Issue Procedures (MILSTRIP) supply bulk transactions and summary transactions recorded within the General Accounting and Finance System (GAFS) for which underlying support was unavailable.

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

Alternatively, USSOCOM management should work with their service organizations 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.

SOFM 8 November 2021

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

SUBJECT: Management Response to the Fiscal Year 2021 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) 2021 Financial Statement Audit. USSOCOM also appreciates the opportunity to respond to the Draft Schedule of Findings and Responses received on 1 November 2021. Although the FY 2021 audit resulted in a Disclaimer of Opinion, USSOCOM recognizes this was its fourth full scope audit and occurring for the second year under significantly difficult circumstances due to the pandemic while further highlighting the complex nature of our organization and our dependencies on the Military Departments/Agencies. Still, USSOCOM has identified 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 has made significant progress in Entity Level Controls. In FY 2021, USSOCOM introduced its first Risk Management and Internal Control (RMIC) Program Five-Year Plan, which further improved the Command's integration of Internal Controls over Operations into the annual RMIC Program activities. USSOCOM also performed its first Enterprise-wide Complementary User Entity Control evaluation, beginning with control identification and Test of Design activities. Additionally, USSOCOM identified, brought to record, and financially reported Operating Materials and Supplies on our financial statements. USSOCOM will continue to build upon the progress made in these areas, strengthening processes to improve financial reporting outcomes.

4. USSOCOM is a complex agency, which is dependent upon the Military Departments/Agencies' systems, policies, and procedures. We will continue to collaborate with relevant Service Providers, Military Departments, and Agencies to continue current corrective action plans and develop effective remediation strategies for new findings. USSOCOM will continue to make progress in reaching our ultimate goal of achieving a clean audit opinion.

D. Mark Peterson

D. MARK PETERSON
Chief Financial Officer/Comptroller