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# **FY 2018 USSOCOM Financial Statement Reporting Package**



**September 30, 2018**

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**Department of Defense**  
**US Special Operations Command - US Special Operations Command**  
**CONSOLIDATED BALANCE SHEET**  
**As of September 30, 2018**

	<u>2018 Consolidated</u>
<b>1. ASSETS (Note 2)</b>	
A. Intragovernmental:	
1. Fund Balance with Treasury (Note 3)	\$ 10,188,817,196.67
3. Accounts Receivable (Note 5)	6,454,838.28
4. Other Assets (Note 6)	45,386.00
5. Total Intragovernmental Assets	<u>\$ 10,195,317,420.95</u>
C. Accounts Receivable,Net (Note 5)	1,753,979.37
F. General Property, Plant and Equipment,Net (Note 10)	12,810,745,188.58
H. Other Assets (Note 6)	193,391,176.18
<b>2. TOTAL ASSETS</b>	<u>\$ 23,201,207,765.08</u>
<b>3. STEWARDSHIP PROPERTY, PLANT &amp; EQUIPMENT (Note 10)</b>	
<b>4. LIABILITIES (Note 11)</b>	
A. Intragovernmental:	
1. Accounts Payable (Note 12)	\$ 302,455,929.95
3. Other Liabilities (Note 15 & Note 16)	7,423,360.13
4. Total Intragovernmental Liabilities	<u>\$ 309,879,290.08</u>
B. Accounts Payable (Note 12)	\$ 1,324,272,280.21
F. Other Liabilities (Note 15 & Note 16)	121,746,743.44
<b>5. TOTAL LIABILITIES</b>	<u>\$ 1,755,898,313.73</u>
<b>6. COMMITMENTS AND CONTINGENCIES (NOTE 16)</b>	
<b>7. NET POSITION</b>	
B. Unexpended Appropriations - Other Funds	8,490,028,656.65
D. Cumulative Results of Operations - Other Funds	12,955,280,794.70
<b>8. TOTAL NET POSITION</b>	<u>\$ 21,445,309,451.35</u>
<b>9. TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 23,201,207,765.08</u>

**Department of Defense**  
**US Special Operations Command - US Special Operations Command**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION**  
**For the period ended September 30, 2018**

	<b>2018 Consolidated</b>
<b>UNEXPENDED APPROPRIATIONS:</b>	
1. Beginning Balances	\$ 7,790,907,738.97
3. Beginning balances, as adjusted	<u>7,790,907,738.97</u>
<b>4. Budgetary Financing Sources:</b>	
4.A. Appropriations received	12,429,210,500.00
4.B. Appropriations transferred-in/out	268,337,334.00
4.C. Other adjustments (+/-)	(227,434,738.40)
4.D. Appropriations used	(11,770,992,177.92)
5. Total Budgetary Financing Sources	<u>699,120,917.68</u>
<b>6. Total Unexpended Appropriations</b>	<u>8,490,028,656.65</u>
<b>CUMULATIVE RESULTS OF OPERATIONS:</b>	
7. Beginning Balances	11,327,005,776.86
9. Beginning balances, as adjusted	<u>11,327,005,776.86</u>
<b>10. Budgetary Financing Sources:</b>	
10.A. Other adjustments (+/-)	(4,141,476.22)
10.B. Appropriations used	11,770,992,177.92
10.C. Nonexchange revenue	4,187.87
10.D. Donations and Forfeitures of Cash and Cash Equivalents	45,386.00
10.F. Other budgetary financing sources	0.00
<b>11. Other Financing Sources (Nonexchange):</b>	
11.A. Donations and forfeitures of property	0.00
11.B. Transfers-in/out without reimbursement (+/-)	47,947,948.47
11.C. Imputed financing from costs absorbed by others	21,579,065.16
11.D. Other (+/-)	1,381,058,164.67
12. Total Financing Sources	<u>13,217,485,453.87</u>
13. Net Cost of Operations (+/-)	11,589,210,436.03
14. Net Change	<u>1,628,275,017.84</u>
15. Cumulative Results of Operations	12,955,280,794.70
16. Net Position	<u>\$ 21,445,309,451.35</u>

**Department of Defense**  
**US Special Operations Command - US Special Operations Command**  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
**For the period ended September 30, 2018**

	<u>2018 Combined</u>
<b>Budgetary Resources:</b>	
1051 Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 2,187,661,313.18
1290 Appropriations (discretionary and mandatory)	12,714,544,834.00
1890 Spending Authority from offsetting collections (discretionary and mandatory)	486,359,623.87
1910 Total Budgetary Resources	<u>\$ 15,388,565,771.05</u>
<b>Status of Budgetary Resources:</b>	
2190 New obligations and upward adjustments (total) Unobligated balance, end of year	\$ 13,514,606,843.62
2204 Apportioned, unexpired accounts	1,522,133,660.48
2412 Unexpired unobligated balance, end of year	1,522,133,660.48
2413 Expired unobligated balance, end of year	351,825,266.95
2490 Unobligated balance, end of year (total)	<u>1,873,958,927.43</u>
2500 Total Budgetary Resources	<u>\$ 15,388,565,771.05</u>
<b>Outlays, net:</b>	
4190 Outlays, net (total) (discretionary and mandatory)	<u>11,569,441,145.13</u>
4210 Agency Outlays, net (discretionary and mandatory)	<u>\$ 11,569,441,145.13</u>

**Department of Defense**  
**US Special Operations Command - US Special Operations Command**  
**CONSOLIDATED STATEMENT OF NET COST**  
**For the period ended September 30, 2018**

	<b>2018 Consolidated</b>
<b>1. Program Costs</b>	
A. Gross Costs	\$ 11,962,953,203.99
Operations, Readiness & Support	9,168,816,166.90
Procurement	2,032,281,570.58
Research, Development, Test & Evaluation	671,357,494.82
Family Housing & Military Construction	90,497,971.69
	<hr/>
B. (Less: Earned Revenue)	(373,742,767.96)
C. Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	<hr/> 11,589,210,436.03
E. Net Program Costs Including Assumption Changes	11,589,210,436.03
<b>2. Net Cost of Operations</b>	<hr/> <b>\$ 11,589,210,436.03</b> <hr/>

<b>Note 1.</b>	<b>Significant Accounting Policies</b>
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**1.A. Basis of Presentation**

These financial statements have been prepared to report the financial position and results of operations of United States Special Operations Command (USSOCOM), as required by the OSD Memorandum for Internal Reporting for USSOCOM Financial Statements, the Department of Defense (DoD), Financial Management Regulation (FMR), and the DOD Financial Statement Audit Guide. These financial statements have been prepared from the USSOCOM financial data obtained from the military department financial systems: Army, Navy and Air Force and related non-financial system data in accordance with, and to the extent possible, U.S. generally accepted accounting principles (USGAAP); and the Department of Defense (DoD), Financial Management Regulation (FMR). The accompanying financial statements account for all resources for which USSOCOM is responsible unless otherwise noted.

Information relative to classified assets, programs, and operations is being reported in such a manner that it is not discernible.

USSOCOM is unable to fully implement all elements of US GAAP 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 USGAAP. USSOCOM continues to implement process and system improvements addressing these limitations.

**1.B. Mission of the Reporting Entity**

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

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

This mission makes it a unique unified combatant command. USSOCOM is comprised of the following components and sub-unified command, whose responsibilities are to ensure their SOF are highly trained, equipped and rapidly deployable to support national security interests around the world:

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

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

- Naval Special Warfare Command (NAVSPECWARCOM)

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

- Air Force Special Operations Command (AFSOC)

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

- Marine Corps Forces Special Operations Command (MARSOC)

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

- Joint Special Operations Command (JSOC)

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

Per 10 United States Code (USC) 165: "the Secretary of a military department is responsible for the administration and support of forces assigned by him to a combatant command" (USSOCOM). Administrative support is provided by combatant command support agents within each military component. Per DoD Directive (DODD) 5100.03: "Administrative and logistical support for the Combatant Command headquarters, and the subordinate unified command headquarters shall be provided by the Combatant Command Support Agents (CCSA)." USSOCOM Service Components' processes, controls, and systems, including accounting systems are aligned with their "parent" Service (Army, Navy, Airforce, Marine Corps); USSOCOM Headquarters element and Sub-Unified Commands' processes and controls are aligned with their CCSA.

USSOCOM, through additional sub-unified commands or Theater Special Operations Commands (TSOCs) supports the Geographic Combatant Commands. 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)



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

Theater Special Operations Command - Central (SOCCENT)

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

Theater Special Operations Command - Europe (SOCEUR)

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

Theater Special Operations Command - Korea (SOCKOR)

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. SOCKOR is a functional component command of United States Forces Korea, tasked to plan and conduct special operations in the Korean theater of operations. SOCKOR continues to be the only theater SOC 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)

SOCNORTH, in partnership with the interagency and regional SOF, synchronize operations against terrorist networks and their acquisition or use of weapons of mass destruction, and when directed, employs fully capable SOF to defend the homeland in depth and respond to crisis. 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)

SOCPAC is a sub-unified command of USSOCOM under the operational control U.S. Indo-Pacific Command and serves as the functional component for all special operations missions deployed throughout the Indo-Asia-Pacific region. SOCPAC coordinates, plans, and directs all special operations in the Pacific theater supporting commander, United States Indo-Pacific Command (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)

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

### **1.C. Appropriations and Funds**

USSOCOM is a Treasury Index (TI) 97 entity. The TI-97 entities are DoD Components, such as Defense Agencies, that execute Defense-wide appropriations rather than appropriations to and for the Military Departments. USSOCOM receives appropriations and funds as general funds. General funds are used for financial transactions funded by congressional appropriations, including, operation and maintenance, research and development, procurement, and construction. The Office of Management and Budget (OMB) manages and approves apportionments at the Treasury appropriation fund symbol (TAFS) level. Following approval of apportionment/reapportionment requests by the OMB, the Office of the Under Secretary of Defense (Comptroller) OUSD(C), allocates funding to the Military Services, USSOCOM, and other Defense Agencies. Once allocated, USSOCOM uses these funds to execute its missions and subsequently report on resource usage.

USSOCOM is a unique organization in that it is a unified combatant command with legislated military department-like authorities. To ensure that special operations are adequately funded, Congress directed the Department of Defense to include a special operations budget category, MFP-11. USSOCOM specific funding addresses requirements that are unique to special operations, with the military departments being responsible for funding those items that are common among their service (MFP-2).

MFP-11 provides USSOCOM with funding authority to acquire and/or develop, including through the conduct of research, SO-Peculiar equipment, and other SO-Peculiar material, supplies, and/or services. Pursuant to DoD 5100.03, USSOCOM programs and budgets for SO-Peculiar support of the USSOCOM headquarters, TSOC headquarters, and other joint special operations commands established within the Combatant Commands. DoD 5100.03 defines SO-Peculiar as: "Equipment, material, supplies, and services required for special operations missions for which there is no Service-common requirement." Service-common is defined in DoD 5100.03 as: "Equipment, material, supplies, and services adopted by a Military Service for use by its own forces and activities."

USSOCOM is a party to allocation transfers with other DOD entities as a receiving (child) and providing (parent) 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.

USSOCOM receives allocation transfers from the following agencies: OSD, Chemical and Biological Defense Program (CBDP), Defense Threat Reduction Agency (DTRA), and Defense Security Cooperation (DSCA).

As a parent, USSOCOM reports in these financial statements **MFP-11** funding allocated to SOCOM components and TSOCs. MFP-2 funding is reported on the Military Departments financial statements.

### **1.D. Basis of Accounting**

Due to the limitations of various systems, lack of effective internal controls, and the sensitive nature of Departmental activities USSOCOM is not fully compliant with U.S. GAAP.

USSOCOM does not have a single accounting system equivalent to Military Services or Defense Agencies. Therefore, USSOCOM financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of USSOCOM components and TSOCs; USSOCOM Service Components' processes, controls, and systems, including accounting systems are aligned with their "parent" Service. USSOCOM Headquarters element and Sub-

Unified Commands' processes and controls are aligned with their Command Support Agents (CCSA).

The underlying financial 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. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated USSOCOM level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The DoD is continuing the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with US GAAP. One such action is the current 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 US GAAP, there will be instances when USSOCOM's financial data will be derived from budgetary transactions or data from nonfinancial feeder systems.

#### **1.E. Revenues and Other Financing Sources**

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

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

#### **1.F. Recognition of Expenses**

For financial reporting purposes, the DoD FMR volume 4, Chapter 7 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 Operating Materiel & Supplies (OM&S), operating expenses are generally recognized when the items are purchased. As of Q4, FY 2018, efforts are still underway to transition to the consumption method for recognizing OM&S expenses. Under the consumption method, OM&S would be expensed when consumed.

Some accounts such as civilian pay and accounts payable are presented on the accrual basis of accounting on the financial statements, as required by US GAAP.

#### **1.G. Accounting for Intragovernmental Activities**

Accounting standards require an entity to eliminate intra-governmental activity and balances from the Government-wide consolidated financial statements to prevent overstatement for business with itself. However, 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. The DoD is implementing replacement systems and a standard financial information structure that will incorporate the necessary elements to enable DoD to correctly report, reconcile, and eliminate intragovernmental balances.

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. While USSOCOM is unable to fully reconcile intragovernmental transactions with all federal agencies, USSOCOM is able to reconcile balances pertaining to Federal Employees’ Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management. USSOCOM is taking actions to fully reconcile intragovernmental transactions with all federal agencies.

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

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

#### **1.H. Funds with the U.S. Treasury**

The USSOCOM’s monetary financial resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), Military Services, 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 that provide information to U.S. Treasury on check issues, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and USACE Finance Center submit reports to U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records this information to the applicable Fund Balance with Treasury (FBWT) account. Differences between USSOCOM’s recorded balance in FBWT accounts and U.S. Treasury’s FBWT accounts sometimes result (see section 1.R.).

#### **1.I. Cash and Other Monetary Assets**

Cash is the total of cash resources under the control of DOD including coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. USSOCOM does not have any cash reported on the USSOCOM financial statements. Per the DOD FMR, Volume 4, “for funds held outside of the Treasury (cash on hand), the balance is not an asset of a DoD Component for external statement purposes because it represents Treasury cash advanced to Disbursing Officers under various authorities, including: 10 United States Code (U.S.C.) Section 2206 (disbursements out of available advances for obligations chargeable to appropriations of other departments/agencies), 31 U.S.C. § 3324 (advances), and 31 Code of Federal Regulations 240.12(a) (drawing disbursing cash).

#### **1.J. Accounts Receivable**

As presented in the Balance Sheet, Accounts Receivable includes three categories: accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. Pursuant to

Treasury's policy on intragovernmental receivables dated September 15, 2017 and reflected in TFM 2-4700, USSOCOM does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual at <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>.

#### **1.K. Inventories and Related Property**

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

Related property includes OM&S. The OM&S are valued at standard purchase price. USSOCOM currently uses the purchase method of accounting for OM&S. Under this method, materials and supplies are expensed when purchased. During FY 2018, USSOCOM expensed amounts using the purchase method, because management deemed that the item was in the hands of the end user and was an immaterial amount (see section 1.F.). As of Q4 FY 2018, USSOCOM is working to input OM&S into the new accountable property system of record (APSR), DPAS.

#### **1.L. General Property, Plant and Equipment**

USSOCOM's General Property, Plant, and Equipment (GPP&E) is comprised of General Equipment and Construction-in-progress (CIP). USSOCOM does not have acquisition values and acquisition dates for all equipment and uses cost methodologies to provide equipment values for financial statement reporting purposes (See Note 10).

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

#### **1.M. Leases**

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. Per the Q4 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. Payments for operating leases are charged to expense over the lease term as it becomes payable. Currently, USSOCOM reports operating leases only.

**1.N. Other Assets**

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on USSOCOM's Balance Sheet.

The USSOCOM conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, USSOCOM may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulations, Part 32, as authorized disbursements of monies 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 advance and interim payments, progress payments based on cost, and interim payments under certain cost-reimbursement contracts.

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. The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress.

The DoD's policy is to record advances and prepayments in accordance with GAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. Advances and prepayments are reduced and an expense is recorded or capitalized as an asset when goods or services are received, contract terms are met, progress is made under a contract, or prepaid expenses expire.

**1.O. Contingencies and Other Liabilities**

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government", as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation", defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. USSOCOM recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably 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. The USSOCOM's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to contract disputes.

**1.P. Accrued Leave**

The USSOCOM reports as liabilities civilian earned leave, except sick leave, that has been accrued and not used as of the Balance Sheet date. Sick leave is expensed as taken. The liability reported at the end of the accounting period reflects the current pay rates.

**1.Q. Net Position**

Net Position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

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

**1.R. Undistributed Disbursements and Collections**

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

ODA-T2 - USSOC - USSOCOM US Special Operations Command

<b>Note 2.</b>	<b>Non-Entity Assets</b>
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As of September 30	2018
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<b>1. Intragovernmental Assets</b>		
A. Fund Balance with Treasury	\$	0.00
B. Accounts Receivable		0.00
C. Other Assets		0.00
D. Total Intragovernmental Assets	\$	0.00
<b>2. Nonfederal Assets</b>		
A. Cash and Other Monetary Assets	\$	0.00
B. Accounts Receivable		51,473.59
C. Other Assets		0.00
D. Total Nonfederal Assets	\$	51,473.59
<b>3. Total Non-Entity Assets</b>	\$	51,473.59
<b>4. Total Entity Assets</b>	\$	23,201,156,291.49
<b>5. Total Assets</b>	\$	23,201,207,765.08

**Relevant Information for Comprehension**

Per SSFAS 1, 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.

**Nonfederal Assets - Accounts Receivable (Public)**

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



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<b>Note 3.</b>	<b>Fund Balance with Treasury</b>
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As of September 30	2018	
<b>Status of Fund Balance with Treasury</b>		
<b>1. Unobligated Balance</b>		
A. Available	\$	1,522,133,660.48
B. Unavailable		351,825,266.95
<b>2. Obligated Balance not yet Disbursed</b>	\$	8,643,073,184.25
<b>3. Non-budgetary FBWT</b>	\$	0.00
<b>4. Non-FBWT Budgetary Accounts</b>	\$	(328,214,915.01)
<b>5. Total</b>	\$	10,188,817,196.67

**Relevant Information for Comprehension**

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

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

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

Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services but not paid.

Non-FBWT Budgetary Accounts reduces the status of FBWT. Examples include unfilled orders without advance and reimbursements and other income earned.

Undistributed disbursement and collection adjustments totaling approximately \$495 million were recorded in order to reconcile the general ledger amount to the Treasury amount reported.

**Note 4. Investments**

This note is not applicable to USSOCOM. USSOCOM does not have any investments.

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<b>Note 5.</b>	<b>Accounts Receivable</b>
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As of September 30	2018		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
<b>1. Intragovernmental Receivables</b>	\$ 6,454,838.28	N/A	\$ 6,454,838.28
<b>2. Nonfederal Receivables (From the Public)</b>	\$ 1,886,782.61	\$ (132,803.24)	\$ 1,753,979.37
<b>3. Total Accounts Receivable</b>	\$ 8,341,620.89	\$ (132,803.24)	\$ 8,208,817.65

**Relevant Information for Comprehension**

Accounts receivable represent USSOCOM's claim for payment from other entities. USSOCOM only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules. USSOCOM uses historical accounts receivable data to compute the allowance for doubtful accounts. Amounts with an age greater than 2 years are considered doubtful for collection, these amounts are used to record the allowance.

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<b>Note 6.</b>	<b>Other Assets</b>
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As of September 30	2018
<b>1. Intragovernmental Other Assets</b>	
A. Advances and Prepayments	\$ 0.00
B. Other Assets	45,386.00
C. Total Intragovernmental Other Assets	<u>\$ 45,386.00</u>
<b>2. Nonfederal Other Assets</b>	
A. Outstanding Contract Financing Payments	\$ 184,735,942.76
B. Advances and Prepayments	8,655,233.42
C. Other Assets (With the Public)	0.00
D. Total Nonfederal Other Assets	<u>\$ 193,391,176.18</u>
<b>3. Total Other Assets</b>	<u><u>\$ 193,436,562.18</u></u>

**Relevant Information for Comprehension**

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 includes \$132,425,175.37 in contract financing payments and an additional \$52,310,767.39 in estimated future payments to contractors upon delivery and government acceptance of a satisfactory product. The Contract Financing Payment asset is related to the Contingent Liabilities reported in Note 15, Other Liabilities.

**Note 7. Cash and Other Monetary Assets**

This note is not applicable to USSOCOM.

**Note 8. Direct Loans and or Loan Guarantee Programs**

This note is not applicable to USSOCOM.

**Note. 9 Inventory and Other Related Property**

This note is not applicable to USSOCOM.

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**Note 10. General PP&E, Net**

As of September 30	2018				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
<b>1. Major Asset Classes</b>					
A.Land	N/A	N/A	\$ 0.00	N/A	\$ 0.00
B.Buildings, Structures, and Facilities	S/L	20, 40 Or 45	0.00	\$ 0.00	0.00
C.Leasehold Improvements	S/L	lease term	0.00	0.00	0.00
D.Software	S/L	2-5 Or 10	0.00	0.00	0.00
E.General Equipment	S/L	Various	18,947,365,120.94	(7,043,684,587.34)	11,903,680,533.60
F.Assets Under Capital Lease	S/L	lease term	0.00	0.00	0.00
G. Construction-in- Progress	N/A	N/A	907,064,654.98	N/A	907,064,654.98
H.Other			0.00	0.00	0.00
I. Total General PP&E			\$ 19,854,429,775.92	\$ (7,043,684,587.34)	\$ 12,810,745,188.58

1 Note 15 for additional information on Capital Leases

Legend for Valuation Methods:

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

**Relevant Information for Comprehension**

USSOCOM's General PP&E is comprised of General Equipment and Construction-in-progress. With the exception of real property construction-in-progress, USSOCOM does not report any real property (See Note 1.L.).

USSOCOM's GPP&E capitalization threshold is \$250 thousand. The capitalization threshold applies to asset acquisitions and modifications/improvements placed into service after September 30, 2013. GPP&E assets acquired prior to October 1, 2013 were capitalized at prior threshold levels (\$100 thousand for equipment and \$20 thousand for real property) and are carried at the remaining net book value.

USSOCOM does not have acquisition values and acquisition dates for all General PP&E and uses cost methodologies to provide General PP&E values for financial statement reporting purposes. The Federal Accounting Standards Advisory Board issued SFFAS No. 50, "Establishing Opening Balances for General Property, Plant and Equipment" permitting alternative methods in establishing opening balances for General PP&E.

USSOCOM has valued some of its General Fund Property Plant and Equipment (PP&E) using Deemed



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

Significant accounting adjustments have been made to the USSOCOMs mission critical assets to ensure accuracy of values based on ongoing audit remediation efforts. These accounting adjustments were recognized in current year gain/loss accounts when auditable data was not available to support restatement of prior period financial statements. Specifically, in FY 2018, there was a change to the useful life tables for rotary wing and fixed wing assets acquired from Army. Rotary wing assets useful life increased to 25 years from 10 years, while fixed wing increased to 20 years from 10. Extending the useful life of the assets also results in a decrease to the accumulated depreciation and an increase in the net book value of General PP&E in the amount of \$2.7B.

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Categories	Measure Quantity	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and Structures	Each	2	0	0	2
Archeological Sites	Each	0	0	0	0
Museum Collection Items (Objects, Not Including Fine Art)	Each	7,520	0	0	7,520
Museum Collection Items (Objects, Fine Art)	Each	546	0	0	546

(Acres in Thousands)

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9110	Government Owned Land	0	0	0	0
9111	State Owned Land	0	0	0	0
9120	Withdrawn Public land	0	0	0	0
9130	Licensed and Permitted Land	0	0	0	0
9140	Public Land	0	0	0	0
9210	Land Easement	0	0	0	0
9220	In-leased Land	0	0	0	0
9230	Foreign Land	0	0	0	0
Grand Total					0
TOTAL - All Other Lands					0
TOTAL - Stewardship Lands					0

**Stewardship PP&E**

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

**Buildings and Structures**

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

**Museum Collection Items**

Museum collection items are items that have historical or natural significance; cultural, educational, or artistic importance (including fine art, items such as portraits and artist depictions of historical value); or significant technical or architectural characteristics. Museum collection items are divided into two subcategories: fine art and objects. Fine art includes paintings, sculptures and other three-dimensional art. Objects are current use, excess, obsolete, or condemned material; war trophies; personal property such as uniforms, medals, or diaries, and military equipment.

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<b>Note 11.</b>	<b>Liabilities Not Covered by Budgetary Resources</b>
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As of September 30

2018

<b>1. Intragovernmental Liabilities</b>		
A. Accounts Payable	\$	51,009.71
B. Debt		0.00
C. Other		0.00
<b>D. Total Intragovernmental Liabilities</b>	\$	<u>51,009.71</u>
<b>2. Nonfederal Liabilities</b>		
A. Accounts Payable	\$	34,663,206.46
B. Military Retirement and Other Federal Employment Benefits		0.00
C. Environmental and Disposal Liabilities		0.00
D. Other Liabilities		35,203,755.29
<b>E. Total Nonfederal Liabilities</b>	\$	<u>69,866,961.75</u>
<b>3. Total Liabilities Not Covered by Budgetary Resources</b>	\$	69,917,971.46
<b>4. Total Liabilities Covered by Budgetary Resources</b>	\$	1,685,980,342.27
<b>5. Total Liabilities Not Requiring Budgetary Resources</b>	\$	<u>0.00</u>
<b>6. Total Liabilities</b>	\$	<u><u>1,755,898,313.73</u></u>

**Relevant Information for Comprehension**

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

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

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<b>Note 12.</b>	<b>Accounts Payable</b>
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As of September 30	2018		
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total

1. Intragovernmental Payables	\$	302,455,929.95	\$	N/A	\$	302,455,929.95
2. Nonfederal Payables (to the Public)		1,324,268,145.34		4,134.87		1,324,272,280.21
<b>3. Total</b>	<b>\$</b>	<b>1,626,724,075.29</b>	<b>\$</b>	<b>4,134.87</b>	<b>\$</b>	<b>1,626,728,210.16</b>

**Relevant Information for Comprehension**

Accounts Payable include amounts owed to federal and nonfederal entities for goods and services received by USSOCOM.

**Note 13. Debt**

This note is not applicable to USSOCOM.

**Note 14. Environmental Liabilities and Environmental Disposal Liabilities**

This note is not applicable to USSOCOM.

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<b>Note 15.</b>	<b>Other Liabilities</b>
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As of September 30	2018		
	Current Liability	Noncurrent Liability	Total
<b>1. Intragovernmental</b>			
A. Advances from Others	\$ 4,342,675.65	\$ 0.00	\$ 4,342,675.65
B. Deposit Funds and Suspense Account Liabilities	0.00	0.00	0.00
C. Disbursing Officer Cash	0.00	0.00	0.00
D. Judgment Fund Liabilities	0.00	0.00	0.00
E. FECA Reimbursement to the Department of Labor	0.00	0.00	0.00
F. Custodial Liabilities	46,398.12	5,075.47	51,473.59
G. Employer Contribution and Payroll Taxes Payable	3,029,210.89	0.00	3,029,210.89
H. Other Liabilities	0.00	0.00	0.00
I. Total Intragovernmental Other Liabilities	\$ 7,418,284.66	\$ 5,075.47	\$ 7,423,360.13
<b>2. Nonfederal</b>			
A. Accrued Funded Payroll and Benefits	\$ 29,645,082.28	\$ 0.00	\$ 29,645,082.28
B. Advances from Others	887,663.89	0.00	887,663.89
C. Deferred Credits	0.00	0.00	0.00
D. Deposit Funds and Suspense Accounts	0.00	0.00	0.00
E. Temporary Early Retirement Authority	0.00	0.00	0.00
F. Nonenvironmental Disposal Liabilities			
(1) Military Equipment (Nonnuclear)	0.00	0.00	0.00
(2) Excess/Obsolete Structures	0.00	0.00	0.00
(3) Conventional Munitions Disposal	0.00	0.00	0.00
G. Accrued Unfunded Annual Leave	35,203,642.29	0.00	35,203,642.29
H. Capital Lease Liability	0.00	0.00	0.00
I. Contract Holdbacks	2,497,522.47	137,478.17	2,635,000.64

J. Employer Contribution and Payroll Taxes Payable	1,064,218.92	0.00	1,064,218.92
K. Contingent Liabilities	8,349,504.44	43,961,375.95	52,310,880.39
L. Other Liabilities	255.03	0.00	255.03
M. Total Nonfederal Other Liabilities	\$ 77,647,889.32	\$ 44,098,854.12	\$ 121,746,743.44
<b>3. Total Other Liabilities</b>	<b>\$ 85,066,173.98</b>	<b>\$ 44,103,929.59</b>	<b>\$ 129,170,103.57</b>

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### Comprehension Custodial Liabilities

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

### Employer Contribution and Payroll Taxes Payable (Intragovernmental)

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

### Accrued Funded Payroll and Benefits

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

### Accrued Unfunded Annual Leave

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

### Contract Holdbacks

Contact holdbacks are amounts withheld from contractors pending completion of contracts. These contract holdbacks are related to military construction.

### Contingent Liabilities

Contingent liabilities includes \$52 million related to contracts authorizing progress payments based on cost as defined in the Federal Acquisition Regulation (FAR). In accordance with contract terms, specific rights to the contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. USSOCOM is under no obligation to pay contractors for amounts in excess of progress payments authorized in contracts until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the USSOCOM has recognized a contingent liability for the estimated unpaid costs considered conditional for payment pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the FAR. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

See Note 1.O., for policy information pertaining to Contingent legal liabilities. Additionally, see Note 16, below.



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**Note 16. Commitments and Contingencies****Legal Contingencies:**

USSOCOM is a party in various administrative proceedings and legal actions related to claims for equal opportunity matters, and contractual related claims.

USSOCOM will accrue contingent liabilities for legal actions where the Office of the Staff Judge Advocate (SOJA) considers an adverse decision probable and the amount of loss measurable. In the event of an adverse judgment against the Government, per Contract Disputes Act (CDA) and the Notification of Federal Employee Antidiscrimination and Retaliation Act (No FEAR), some of the liabilities may be payable from the U.S. Treasury Judgment Fund. USSOCOM records contingent liabilities in Note 15, Other Liabilities. Claims and litigation having a reasonably possible liability are estimated at \$4.7 million. Claims and litigations that were probable and measurable are estimated at \$53K. The latter cases are immaterial and were not reported as a liability on the face of the statement. Neither past payments nor the current contingent liability estimate provides a basis for accurately projecting the results of any individual lawsuit or claim.

As of Sept 30, 2018, USSOCOM was party to 44 claims and litigation actions. The amounts disclosed for litigation claims and assessments are fully supportable and must agree with USSOCOM's interim legal representation letters and management summary schedule.

**Commitments and Contingencies:**

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

**Note 17. Military Retirement and Other Federal Employment Benefits**

This note is not applicable to USSOCOM.

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<b>Note 18.</b>	<b>General Disclosures Related to the Statement of Net Cost</b>
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Intragovernmental Costs and Exchange Revenue	
As of September 30	2018
<b>Military Retirement Benefits</b>	
1. Gross Cost	\$ 0.00
2. Less: Earned Revenue	0.00
3. Losses/(Gains) from Actuarial Assumption	
Changes for Military Retirement Benefits	\$ 0.00
Total Net Cost	\$ 0.00
<b>Civil Works</b>	
1. Gross Cost	\$ 0.00
2. Less: Earned Revenue	0.00
3. Losses/(Gains) from Actuarial Assumption	
Changes for Military Retirement Benefits	\$ 0.00
Total Net Cost	\$ 0.00
<b>Military Personnel</b>	
1. Gross Cost	\$ 0.00
2. Less: Earned Revenue	0.00
3. Losses/(Gains) from Actuarial Assumption	
Changes for Military Retirement Benefits	\$ 0.00
Total Net Cost	\$ 0.00
<b>Operations, Readiness &amp; Support</b>	
1. Gross Cost	\$ 9,168,816,166.90
2. Less: Earned Revenue	(335,111,161.11)
3. Losses/(Gains) from Actuarial Assumption	
Changes for Military Retirement Benefits	\$ 0.00
Total Net Cost	\$ 8,833,705,005.79
<b>Procurement</b>	
1. Gross Cost	\$ 2,032,281,570.58
2. Less: Earned Revenue	(12,011,385.43)
3. Losses/(Gains) from Actuarial Assumption	
Changes for Military Retirement Benefits	\$ 0.00
Total Net Cost	\$ 2,020,270,185.15
<b>Research, Development, Test &amp; Evaluation</b>	
1. Gross Cost	\$ 671,357,494.82
2. Less: Earned Revenue	(26,620,221.42)

3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0.00
<b>Total Net Cost</b>	<b>\$</b>	<b>644,737,273.40</b>
<b>Family Housing &amp; Military Construction</b>		
1. Gross Cost	\$	90,497,971.69
2. Less: Earned Revenue		0.00
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0.00
<b>Total Net Cost</b>	<b>\$</b>	<b>90,497,971.69</b>
<b>Consolidated</b>		
1. Gross Cost	\$	11,962,953,203.99
2. Less: Earned Revenue		(373,742,767.96)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	\$	0.00
4. Costs Not Assigned to Programs	\$	0.00
5. (Less: Earned Revenues) Not Attributed to Programs	\$	0.00
<b>Total Net Cost</b>	<b>\$</b>	<b>11,589,210,436.03</b>

**Relevant Information for Comprehension**

The Statement of Net Cost (SNC) represents the net cost of programs and organizations of the USSOCOM that are supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The DoD's current processes and systems capture costs based on appropriations groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the Government Performance and Results Act. The DoD is in the process of reviewing available data and developing a cost reporting methodology as required by the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 55, "Amending Inter-Entity Cost Provisions."

Effective Fiscal Year 2018, the Department has elected early implementation of SFFAS No. 55 which rescinds SFFAS No. 30, "Inter-Entity Cost Implementation: Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts and Interpretation 6, Accounting for Imputed Intradepartmental Costs: An Interpretation of SFFAS No. 4."

**Note 19. Disclosure Related to the Statement of Changes in Net Position**

USSOCOM does not have any disclosures related to the Statement of Changes in Net Position.

<b>Note 20.</b>	<b>Disclosures Related to the Statement of Budgetary Resources</b>
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As of September 30	2018
<b>1. Intragovernmental Budgetary Resources Obligated for Undelivered Orders:</b>	
A. Unpaid	1,341,328,450.69
B. Prepaid/Advanced	0.00
C. Total Intragovernmental	\$ 1,341,328,450.69
<b>2. Nonfederal Budgetary Resources Obligated for Undelivered Orders:</b>	
A. Unpaid	5,657,606,476.74
B. Prepaid/Advanced	141,080,408.79
C. Total Nonfederal	\$ 5,798,686,885.53
<b>3. Budgetary Resources Obligated for Undelivered Orders at the End of the Period</b>	\$ 7,140,015,336.22
<b>4. Available Borrowing and Contract Authority at the End of the Period</b>	\$ 0.00

**Relevant Information for Comprehension**

Although the new A-136 requirement to break out undelivered orders at the end of the period by federal/non-federal and by paid/unpaid is being handled with a change to the Note 20 schedule in DDRS-AFS, the amounts will be populated using new F accounts. The totals will still be mapped to the schedule using the trial balance data. More information is forthcoming by FR AFS.

**Apportionment Categories for New Obligations and upward adjustments**

USSOCOM reported \$6.3 billion in direct obligations in category A, amounts apportioned quarterly; \$6.7 billion in direct obligations, category B, amounts apportioned on a basis other than quarterly; \$5.3 million in direct obligations, category E, exempt from apportionment; \$34 million in reimbursable obligations, category A ; \$428 million in reimbursable obligations in category B.

**Other Disclosures**

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

USSOCOM does not receive permanent indefinite appropriations, contributed capital, or have any legal arrangements affecting the use of unobligated balances of budget authority

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**Note 21. Reconciliation of Net Cost of Operations to Budget**

As of September 30

2018

<b>Resources Used to Finance Activities:</b>	
Budgetary Resources Obligated:	
1. Obligations incurred	\$ 13,514,606,843.62
2. Less: Spending authority from offsetting collections and recoveries (-)	(1,094,533,053.21)
3. Obligations net of offsetting collections and recoveries	\$ 12,420,073,790.41
4. Less: Offsetting receipts (-)	0.00
5. Net obligations	\$ 12,420,073,790.41
Other Resources:	
6. Donations and forfeitures of property	0.00
7. Transfers in/out without reimbursement (+/-)	47,947,948.47
8. Imputed financing from costs absorbed by others	21,579,065.16
9. Other (+/-)	1,381,058,164.67
10. Net other resources used to finance activities	\$ 1,450,585,178.30
<b>11. Total resources used to finance activities</b>	<b>\$ 13,870,658,968.71</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>	
12. Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:	
12a. Undelivered Orders (-)	\$ (727,293,121.25)
12b. Unfilled Customer Orders	83,306,867.84
13. Resources that fund expenses recognized in prior Periods (-)	(8,419.90)
14. Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0.00
15. Resources that finance the acquisition of assets (-)	0.00
16. Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:	
16a. Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.00
16b. Other (+/-)	(1,429,006,113.14)
<b>17. Total resources used to finance items not part of the Net Cost of Operations</b>	<b>\$ (2,073,000,786.45)</b>
<b>18. Total resources used to finance the Net Cost of Operations</b>	<b>\$ 11,797,658,182.26</b>

ODA-T2 - USSOC - USSOCOM US Special Operations Command

As of September 30	2018
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**Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:**

Components Requiring or Generating Resources in Future Period:		
19. Increase in annual leave liability	\$	392,057.30
20. Increase in environmental and disposal liability		0.00
21. Upward/Downward reestimates of credit subsidy expense (+/-)		0.00
22. Increase in exchange revenue receivable from the public (-)		0.00
23. Other (+/-)		4,772,360.35
24. Total components of Net Cost of Operations that will Require or Generate Resources in future periods	\$	5,164,417.65
Components not Requiring or Generating Resources:		
25. Depreciation and amortization	\$	95,296,177.21
26. Revaluation of assets or liabilities (+/-)		25,642,492.59
27. Other (+/-)		
27a. Trust Fund Exchange Revenue		0.00
27b. Cost of Goods Sold		0.00
27c. Operating Material and Supplies Used		(155,404.49)
27d. Other		(334,395,429.19)
28. Total Components of Net Cost of Operations that will not Require or Generate Resources	\$	(213,612,163.88)
<b>29. Total components of Net Cost of Operations that will not Require or Generate Resources in the current period</b>	\$	(208,447,746.23)
<b>30. Net Cost of Operations</b>	\$	11,589,210,436.03

**Relevant Information for Comprehension**

This reconciliation shows the relationship between the net obligations derived from the SBR and net costs of operations derived from the SNC by identifying key items that affect one statement, but not the other. This reconciliation is required due to the inherent differences in timing and recognition between the accrual proprietary accounting method used to calculate net cost and the budgetary accounting method used to calculate budgetary resources and obligations.

Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated as intra-agency budgetary transactions are not eliminated:



- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Resources Used to Finance Activities, Other, and Resources Used to Finance Items not Part of the Net Cost of Operations, Other, is primarily comprised of other gains and losses totaling \$1.7 billion due to the changes to the useful life tables of assets acquired by military service accountable property system. The result of the change was a decrease in accumulated depreciation. The offset for this "unreserved assertion" adjustment is included in other gains/losses, to decrease the corresponding depreciation expense that previously closed into cumulative results.

Components not Requiring or Generating Resources, Other, is primarily comprised of \$309 million for Cost capitalization offsets from USACE – US Army Corp of Engineers and Naval Facilities (NAVAC). These balances represent and costs transferred to an "in-process" asset accounts such as construction in progress.

**Note 22. Disclosures Related to Incidental Custodial Collections**

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

**Note 23. Funds from Dedicated Collections**

This note is not applicable to USSOCOM.

**Note 24. Fiduciary Activities**

This note is not applicable to USSOCOM.

<b>Note 25.</b>	<b>Other Disclosures</b>
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As of September 30	2018			
	Asset Category			
	Land and Buildings	Equipment	Other	Total

**1. Intragovernmental  
Operating Leases**

 Future Payments Due  
Fiscal Year

Fiscal Year	Land and Buildings	Equipment	Other	Total
2019	8,020,542.00	0.00	0.00	8,020,542.00
2020	7,976,604.00	0.00	0.00	7,976,604.00
2021	6,617,044.00	0.00	0.00	6,617,044.00
2022	4,315,591.00	0.00	0.00	4,315,591.00
2023	2,756,089.00	0.00	0.00	2,756,089.00
After 5 Years	4,483,933.00	0.00	0.00	4,483,933.00

**Total Intragovernmental  
Future Lease  
Payments Due**

\$	34,169,803.00	\$	0.00	\$	0.00	\$	34,169,803.00
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**2. Nonfederal  
Operating Leases**

 Future Payments  
Due

Fiscal Year

Fiscal Year	Land and Buildings	Equipment	Other	Total
2019	3,986,644.00	544,967.00	0.00	4,531,611.00
2020	3,337,256.00	555,866.00	0.00	3,893,122.00
2021	2,939,467.00	377,285.00	0.00	3,316,752.00
2022	2,937,949.00	33,117.00	0.00	2,971,066.00
2023	2,044,835.00	0.00	0.00	2,044,835.00
After 5 Years	480,094.00	0.00	0.00	480,094.00

**Total Nonfederal  
Future Lease  
Payments Due**

\$	15,726,245.00	\$	1,511,235.00	\$	0.00	\$	17,237,480.00
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**3. Total Future Lease  
Payments Due**

\$	49,896,048.00	\$	1,511,235.00	\$	0.00	\$	51,407,283.00
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**Relevant Information for Comprehension**

During FY17, USSOCOM began using a new method for collecting operating lease information. USSOCOM reached out to all of its components and TSOs and received data call information to populate Note 25. With this data call, it was found that USSOCOM does not have any leases related to the "Other" category in FY 2018. USSOCOM only has leases related to buildings, land, and equipment.



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

November 14, 2018

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 Report on the U.S. Special  
Operations Command General Fund Financial Statements and Related  
Notes for FY 2018 (Project No. D2017-D000FP-0156.000,  
Report No. DODIG-2019-018)

We contracted with the independent public accounting firm of Grant Thornton to audit the U.S. Special Operations Command (USSOCOM) FY 2018 Financial Statements and related notes as of September 30, 2018, and for the years then ended, and to provide a report on internal control over financial reporting and compliance with laws and regulations. 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/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 2008.<sup>1</sup> 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 amount within the USSOCOM financial statements. As a result, Grant Thornton could not conclude whether the financial statements and related notes were fairly presented in accordance with Generally Accepted Accounting Principles. Accordingly, Grant Thornton did not express an opinion on the USSOCOM FY 2018 Financial Statements and related notes.

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<sup>1</sup> In June 2018, the Government Accountability Office issued an updated Financial Audit Manual. Grant Thornton updated its audit procedures to be in accordance with the updates issued in the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2018.

Grant Thornton's separate report on "Internal Control over Financial Reporting" discusses five material weaknesses related to USSOCOM's internal controls over financial reporting. Specifically, Grant Thornton found material weaknesses including: lack of adequate entity-level controls, inappropriate reliance on service organizations, lack of appropriate management controls over financial reporting, lack of adequate controls over the Fund Balance With Treasury reconciliation process, and lack of adequate controls over general equipment and construction in progress. Grant Thornton's additional report on "Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements" discusses two instances of noncompliance with applicable laws and regulations.

In connection with the contract, we reviewed Grant Thornton's report and related documentation and discussed the audit results with Grant Thornton representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we did not express, an opinion on the USSOCOM FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control, conclusions on whether USSOCOM's financial systems substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on whether USSOCOM complied with laws and regulations.

Grant Thornton is responsible for the attached reports, dated November 14, 2018, and the conclusions expressed in these reports. However, our review disclosed no instances in which Grant Thornton did not comply, in all material respects, with GAGAS.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945.



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

Attachments:  
As stated



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

General Raymond A. Thomas III  
 Commander  
 United States Special Operations Command  
 7701 Tampa Point Boulevard  
 MacDill Air Force Base, FL 33621-5323

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

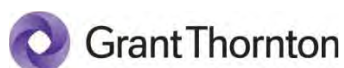
### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on conducting the 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 guidance included within the Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.





#### Basis for disclaimer of opinion

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

- provide a complete universe of transactions including adjustments and /or reclassifications to support balances on its financial statements.
- provide a comprehensive listing of systematic adjustments and reclassifications made during the USSOCOM financial statement compilation process.
- provide an audit trail that would allow auditors to reconcile non-standard general ledger balances to its unadjusted trial balance.
- reconcile the fund balance with treasury account balance.
- validate the valuation of its general equipment and construction in progress.

Furthermore, management was unable to provide adequate explanations of the nature of and/or adequate support for certain transactions, including apportioned balances, cash, contract holdbacks and revenue.

In addition, USSOCOM uses accounting systems, applications, and micro-applications owned and maintained by military departments and/or other defense organizations to account for the vast majority of its transactions. The scope of the audit contract excludes the execution of audit procedures for accounting systems, applications, and micro-applications owned and maintained by the military departments. Therefore, we were precluded from obtaining sufficient appropriate evidence of transactions processed within those systems.

#### 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 consolidated financial statements.

#### Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 14, 2018, on USSOCOM's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe our findings related to internal control over financial reporting and compliance, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit conducted in accordance with *Government Auditing Standards* in considering USSOCOM's internal control over financial reporting and compliance.

GRANT THORNTON LLP

Arlington, Virginia  
November 14, 2018



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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 Raymond A. Thomas III  
 Commander  
 United States Special Operations Command  
 7701 Tampa Point Boulevard  
 MacDill Air Force Base, FL 33621-5323

We were engaged to audit, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (“OMB”) Bulletin No. 19-01, *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, 2018, and the related consolidated statements of net cost, changes in net position, and budgetary resources for the year then ended, and the related notes to the consolidated financial statements. We have issued our report, dated November 14, 2018, on these financial statements. That reports 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.

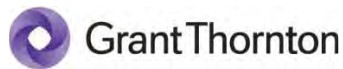
**Internal control over financial reporting**

**Management’s responsibility for internal control**

USSOCOM 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 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.

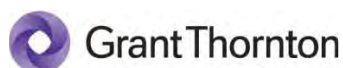
#### **Results of our consideration of internal control**

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses and significant deficiencies 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 are required to perform tests of USSOCOM's compliance with certain provisions of laws, regulations, contracts, and grant agreements consistent with the auditor's responsibility discussed below, in accordance with *Government Auditing Standards*. Noncompliance may occur that is not detected by these tests.



#### Management's responsibility

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

#### Auditor's responsibility

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

#### Results of our tests of compliance

Because of matters described in the basis for disclaimer of opinion paragraphs, included in our financial statement audit report dated November 14, 2018, we were not able to obtain sufficient appropriate audit evidence related to management's compliance with laws, regulations, contracts, and grant agreements which could have a direct and material effect on the determination of financial statement amounts and disclosures. However, our audit procedures disclosed instances of noncompliance described in the accompanying schedule of findings and responses that are required to be reported under *Government Auditing Standards*. The objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to USSOCOM. Accordingly, we do not express such an opinion.

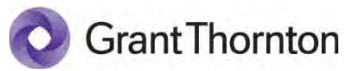
Under the Federal Financial Management Improvement Act ("FFMIA"), we are required to report whether USSOCOM's financial management systems substantially comply with FFMIA Section 803(a) requirements. Because of matters described in the basis for disclaimer of opinion paragraphs, included in our financial statement audit report dated November 14, 2018, we were not able to obtain sufficient appropriate audit evidence related to management's substantial compliance with FFMIA Section 803 (a) requirements. However, our audit procedures disclosed instances, as described in the accompanying schedule of findings and responses, in which USSOCOM's financial management systems did not substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the application of the USSGL at the transaction level as required by FFMIA. The objective of our tests was not to provide an opinion on compliance with FFMIA. Accordingly, we do not express such an opinion.

#### 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

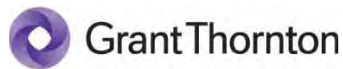


performed in accordance with *Government Auditing Standards* in considering USSOCOM's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

GRANT THORNTON LLP

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, slightly slanted style.

Arlington, Virginia  
November 14, 2018



## Schedule of Findings and Responses

### Material Weakness - Lack of Adequate Entity Level Controls

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

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

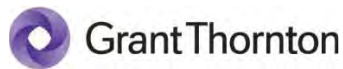
#### 1. Control Environment

The GAO Green Book defines control environment as the foundation for an internal control system. An entity's control environment provides the discipline and structure to help the entity achieve its objectives. The Green Book identifies five principles associated with an entity's control environment including: a) establishment of the organization's structure, b) documentation of the internal control system, and c) commitment to integrity and ethical values.

##### 1a. Establishment of the Organization's Structure

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

The vast majority of USSOCOM financial activities occurs within its commands, resulting in a decentralized environment. In addition, USSOCOM does not own the majority of the systems

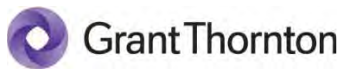


it uses to process its financial transactions, as those systems are owned by the military departments or DoD service organizations. DoD Financial Improvement and Audit Readiness (FIAR) Guidance defines service organizations as an organization or segment of an organization that provides services to user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

Our testing indicates that USSOCOM's oversight body has placed inappropriate reliance on the military departments and service organizations for the design, implementation, and operation of the majority of its internal control system to the military departments and DoD service organizations. Currently, the responsibility for understanding USSOCOM's end-to-end financial reporting process appears to reside within the Special Operations Financial Management - Auditable Financial Statement Division (SOFM-AF), composed primarily of liaisons and other support staff. In order to ensure that financial reporting internal control objectives are met, including internal controls over reporting, most entities include experienced accountants within their Chief Financial Officer (CFO) organizations. These individuals possess the right organizational experience, knowledge, and skills related to the process, financial systems, and accounting transactions executed throughout the organization. In addition, most entities have established working groups that include experienced members of their CFO organizations. The working groups often include leaders from the operations and information systems divisions who collaborate in the execution of internal control activities that ensure the organization's internal control objectives are met. In contrast, liaisons are typically only tasked with coordinating activities, such as the audit. This lack of adequate understanding of processes, financial systems, and financial data supporting the financial statements could lead to misstatements on the financial statements and related disclosures.

#### **1b. Documentation of the Internal Control System**

Management has not fully documented financially relevant processes and procedures including internal controls, as it has relegated this responsibility to the commands. Although documentation exists at the command-level, in some cases, existing documentation relates to the military department to which the command is aligned and has not been tailored to USSOCOM. Our audit also noted that in some cases documentation of financially-relevant process and procedures, including internal controls, did not exist. According to the GAO Green Book, in order to be effective, management documentation of the design of internal control should communicate to personnel the who, what, when, where, and why of internal control execution. The GAO Green Book further states that this type of documentation provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel. The documentation also provides a means to communicate, as needed, that knowledge to third parties, such as external auditors. In addition, lack of documentation identifying process controls can lead to inadequate communication to those responsible for control performance, as well as inappropriate execution and monitoring of controls.



### **1c. 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 has not yet established standards of conduct related to integrity and ethical values. Management relies on the military departments to provide guidance to the commands, which may be inconsistent with the expectations of USSOCOM management or its oversight body. USSOCOM does not have a process in place to evaluate performance against expectations.

### **2. Risk Assessment**

According to the GAO Green Book, management should assess the risks facing the entity as it seeks to achieve its objectives. The Green Book lists 4 principles that allow management to address risk assessment internal control objectives, as follows: a) defining objectives clearly to enable identification of risks and defining risk tolerances, b) identifying, analyzing, and responding to risks related to achieving the defined objectives, c) considering the potential for fraud, and d) responding to significant changes that could impact the internal control system.

USSOCOM management's risk assessment includes an identification of risks, risk ratings, proposed controls, and control ratings for USSOCOM Headquarters only. Management has also documented USSOCOM's strategic objectives, specifically mission-critical objectives and related risks. However, although guidance has been issued to the components to assess their own risks, management has not yet developed a comprehensive entity-level risk assessment that is tailored to USSOCOM as an organization and goes beyond its Headquarters and mission-critical objectives and risks. Such an entity-level risk assessment should include operational (including fraud), reporting, and compliance objectives and related risks associated with its service components, sub-unified commands/TSOCs, and service organizations. The lack of a comprehensive entity-wide risk assessment could inhibit USSOCOM's ability to respond to significant risks to the organization to include material misstatements to its financial statements, inaccurate and/or inadequate internal reports used by stakeholders to make decisions, fraud schemes going undetected, and non-compliance with laws and regulations.

### **3. Information and Communication**

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

### **4. Control Activities**

According to the GAO Green Book, control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information systems. The GAO Green Book





identifies 3 principles of control activities that management should execute to achieve objectives and respond to risk in the internal control system, as follows: a) design control activities to achieve objectives, b) design the entity's information systems and related control activities, and c) implement control activities through policies.

As previously noted, the vast majority of USSOCOM's activities occurs within its commands resulting in a decentralized environment. In addition, USSOCOM does not own the majority of the systems it uses to process its transactions; those systems are owned by the military departments or DoD service organizations. The majority of existing control activities, including information systems controls, have been designed by the military departments rather than USSOCOM. Our testing indicates that USSOCOM's oversight body has placed inappropriate reliance on the military departments and service organizations for the design, implementation, and operation of the majority of its internal control system to the military departments and DoD service organizations. This represents a significant risk for USSOCOM given previously identified weaknesses reported by DoD auditors over the systems used by the military departments and DoD service organizations supporting USSOCOM transactions. This lack of involvement by USSOCOM management in the design of control activities can lead to a lack of control activities, which mitigate the risk associated with USSOCOM control objectives.

#### 5. Monitoring Activities

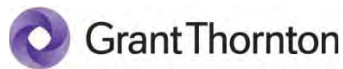
Given the decentralized environment in which USSOCOM operates, monitoring activities are a critical factor of management's ability to meet its internal control objectives. According to the GAO Green Book, management should establish and operate activities to monitor the internal control system, evaluate results, and remediate identified internal control deficiencies on a timely basis. OMB Circular A-123 provides specific requirements on how to perform evaluations and report on internal controls in the federal government. USSOCOM management has not yet finalized a formal internal control program that would allow them to meet the requirements for compliance with the FMFIA and the related OMB Circular A-123. As a result, management's support for USSOCOM's annual internal control evaluation did not include tests over its service components, sub-unified commands/TSOCs and/or service organizations to include deficiencies identified through the review of Service Auditors Examination reports or results of financial statement audits of the military services. Although management identified during their annual internal control evaluation some components of 3 material weaknesses identified by Grant Thornton, management did not identify as a material weakness USSOCOM's inappropriate reliance on service organizations. In addition, during our audit we noted a lack of management monitoring activities over the execution of financial reporting by USSOCOM's commands and DoD service organizations. The lack of adequate monitoring control inhibits USSOCOM management's ability to ensure accurate financial reporting as required by Federal Accounting Standards Advisory Board (FASAB) and Treasury Guidelines and represents a non-compliance with the FMFIA and OMB Circular A-123.

#### Recommendations

USSOCOM management should consider taking the following actions:

##### 1. Control Environment

1a. **Establishment of the Organization's Structure:** After executing a comprehensive entity-wide risk assessment that includes the identification of entity objectives, USSOCOM oversight body should obtain and document an understanding of existing internal controls and related weaknesses and appropriately design controls to mitigate those weaknesses. In addition, USSOCOM management should consider assigning individuals with the right organizational knowledge, experience, and skills to



be dedicated to the entity-wide oversight of the financial reporting process to include processes executed by the service components, sub-unified commands/TSOCs, and service organizations. These individuals should lead working groups that include members of USSOCOM operations and information technology organizations.

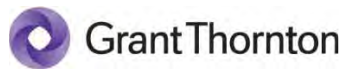
**1b. Documentation of the Internal Control System:** Ensure that end-to-end processes documentation exists and includes specific control activities performed by its service commands, sub-unified commands/TSOCs, and service organizations. These narratives should be tailored to USSOCOM and should be detailed enough so as to provide USSOCOM the ability to identify operational processes and risks, and communicate controls and objectives to the people responsible for performance of the controls.

**1c. Commitment to Integrity and Ethical Values:** USSOCOM's oversight body should establish and document within handbooks standards of conduct related to integrity and ethical values. USSOCOM should develop a process for communication, training, and evaluation against expectations.

2. **Risk Assessment:** Fully implement the Internal Control and Risk Management Guidebook to identify, analyze, and respond to risks at the entity wide-level and ensure that the assessment is in compliance with the GAO Green Book.
3. **Information and Communication:** Given the long-standing control weaknesses of the military departments' systems, USSOCOM management should consider transitioning to a stand-alone general ledger accounting system that complies with the requirements of Federal Financial Management Improvement Act of 1996 (FFMIA). A move to a modern and compliant system would eliminate USSOCOM dependency on military system that are non-compliant with federal financial system requirements, federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction-level. It would also eliminate the need for extensive and complex adjustments/reclassifications of financial data, which are prone to errors. USSOCOM management should also continue to work with the Office of the Undersecretary of Defense, Comptroller (OUSD(C)) to develop alternative methods of producing its financial statements. Alternatively, USSOCOM management should work with its financial reporting service organization and the military departments to develop corrective actions for long-standing system control weaknesses as well as to ensure controls are in place over the compilation process executed by its financial reporting service organization.
4. **Control Activities:** After executing a comprehensive entity-wide risk assessment that includes the identification of entity objectives, USSOCOM's oversight body should obtain and document an understanding of existing internal control activities and related weaknesses at each service component, sub-unified command/TSOC, and service organization. USSOCOM management should then identify control gaps and develop corrective action plans.
5. **Monitoring Activities:** Continue to design and implement an internal control monitoring program that meets the requirements of FMFIA, OMB Circular A-123, and the GAO Green Book.

#### Management Response:

USSOCOM agrees with the intent of these findings and will provide an overarching internal control structure to the entire enterprise that ties to each of the Military Departments' guidance.

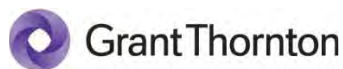


### Material Weakness - Inappropriate Reliance on Service Organizations

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's Green Book issued under the authority of FMFIA, management may engage service organizations to perform certain operational processes for the entity; however, it retains responsibility 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 assigned process as well as how the third-party internal control system impacts the entity's internal control system. According to DoD's FIAR Guidance, military departments performing services for other defense organizations (such as USSOCOM) are considered service organizations.

An entity's ability to achieve its internal control objectives depends on 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 vast majority of its transactions. The responsibility for the design and execution of those systems, including internal controls and responses to risks, is currently held exclusively by the military departments and/or service organizations without input or monitoring from USSOCOM. USSOCOM management has not:

1. **Documented Memorandums of Understanding (MOUs) outlining mutual responsibilities and expectations between USSOCOM and the military departments related to the execution of processes and transactions through third-party systems.** Although Management has in place an MOU between USSOCOM and the military departments regarding FIAR activities, due to the cumbersome nature of tailoring each MOU with the appropriate military department, the agreements do not outline specific responsibilities for authorization, initiation, processing, and recording of transactions as required by the FIAR Guidance. This can lead to inconsistencies between USSOCOM's expectations and actions taken by the military departments/service organizations that could result in misstatements to the financial statements.
2. **Developed a monitoring program that consistently evaluates/assesses actions taken by service organizations on USSOCOM's behalf.** Management has not implemented a comprehensive monitoring program to ensure service organizations meet USSOCOM expectations and fulfill their responsibilities as outlined within existing MOUs. For example:
  - The majority of Journal Vouchers (JVs), including systematic JVs, which impact the USSOCOM financial statements are initiated and posted by USSOCOM's financial reporting service organization without direct input or validation by USSOCOM.
  - Changes to service organizations' systems are made without proper validation of their impacts to USSOCOM prior to implementation, which could lead to misstatements to the financial statements. In fact, during our audit we noted that changes to the Department of the Navy (DON) systems led to the omission of the DON portion of Unfunded Annual Leave on USSOCOM's quarterly statements.
  - Exclusions of feeder file activity from USSOCOM financial statements by the USSOCOM financial reporting service organization are not reviewed for validity and/or impact to the USSOCOM financial statements by USSOCOM personnel.



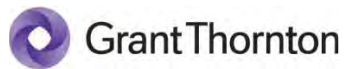
- Actions to map/crosswalk accounting and non-accounting system financial information to general ledger accounts during the compilation of USSOCOM's financial statements is executed solely by a USSOCOM financial reporting service organization with no validation by USSOCOM.
  - Management has not obtained and reviewed annual Statements of Assurance from the military departments to determine their compliance with internal control standards, as outlined within the respective FIAR MOUs.
3. **Taken action to mitigate risks affecting USSOCOM which were identified by service organizations or service organizations' auditors.** In most cases, service organizations undergo examinations of internal controls over systems and processes supporting their customers. The results of these examinations are documented in Service Organization Controls (SOC) 1 reports and include the independent service auditor's report, the service organization's management assertions, and identified Complimentary User Entity Controls (CUECs) that users of the service organization (e.g., USSOCOM) should have in place to supplement the service organization's internal controls. The SOC 1 reports are made available to the user entities for their analysis and action. However, not all service organizations undergo examinations of their controls. In the absence of an examination, service organization management annual assertions and the results of the auditor's evaluation of the service organization's control environment, including relevant systems, are available within the provider's annual statement of assurance or service organization's financial statement audit reports. USSOCOM has not yet implemented a process for analyzing relevant SOC 1 reports nor has it developed a process for the review of statements of assurance or results of financial statement audit results for those service organizations (e.g., military departments) for which SOCs are not available.
4. **Determined or evaluated user entity controls that must be in place for placing reliance on third-party execution of controls.** As previously noted USSOCOM has not yet finalized its analysis of relevant SOC 1 reports to include an analysis of the CUECs that must be in place at USSOCOM to ensure controls executed by the service organizations achieve their intended outcome. Therefore, USSOCOM is unable to validate that current controls at USSOCOM Headquarters, service components, and sub-unified commands/TSOCs are sufficient to mitigate financial reporting risks.

Our testing indicates that USSOCOM's oversight body has placed inappropriate reliance on the military departments and service organizations for the performance and execution of internal controls over processes executed by third parties. 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 to their financial statements. In addition, management has been hindered from identifying the nature of and providing adequate support for activity recorded within the various third-party feeder systems/general ledgers and within the USSOCOM financial statements.

**Recommendations:**

USSOCOM management should consider taking the following actions:

1. Update existing MOUs between USSOCOM and the military departments. The MOUs should include specific responsibilities for the authorization, initiation, processing, and

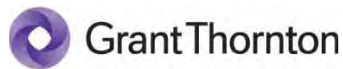


- recording of transactions as well as the preparation of financial reports as required by FIAR Guidance.
2. Develop a monitoring program over the activities executed by third parties on behalf of USSOCOM. The program should be tailored to each third party based on the type of service provided including the execution of routine financial transactions in military department accounting and non-accounting systems.
  3. Finalize the ongoing SOC 1 evaluation (i.e., Service Auditor Reports) and evaluate the results to determine the impact of any identified control weaknesses on USSOCOM's ability to meet its internal control objectives.
  4. Obtain the Military Services' annual statements of assurance as well as Financial Statement Audit Opinion reports and review the information to determine if control weaknesses exist that may impact USSOCOM.
  5. Develop corrective action plans, as needed, which would mitigate internal control weaknesses identified within DoD auditors' reports on third parties executing processes or controls on behalf of USSOCOM.
  6. Determine, design, and implement user entity controls that must be in place. Assess those controls on an annual or periodic basis depending on their impact to the organization's ability to meet its internal control objectives.

**Management Response:**

USSOCOM agrees with the intent of these findings. USSOCOM will develop corrective action plans to ensure controls are in place and responsibilities are clearly defined for service provider support.

USSOCOM will develop a more robust network with additional experience/knowledge in operations and information technology to ensure we meet the overall financial reporting internal controls objectives.



### **Material Weakness - Lack of Appropriate Management Controls over Financial Reporting**

In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve reliable financial reporting. According to the GAO Green Book issued under the authority of FMFIA, management is responsible for implementing and evaluating its internal control system, including internal controls to meet reporting objectives related to the preparation of reports for use by the entity, its stakeholders, or other external parties. Furthermore, USSOCOM does not own the vast majority of systems it uses to process its transactions; those systems are owned by the military departments or service organizations. According to the GAO's Green Book, management may engage external parties to perform certain operational processes for the entity; however, management retains responsibility for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. Despite these requirements, USSOCOM management has inappropriately delegated to others its responsibilities for the design, performance, and oversight of internal controls over financial reporting, resulting in the following control weaknesses over the USSOCOM financial reporting process, which can lead to misstatements of USSOCOM's financial statements:

1. **Lack of Comprehensive Understanding of Information Systems and Financial Data.** Management does not have a full understanding of the nature of, and factors impacting, specific line items within their financial statements, and often needs to conduct significant research to be able to explain internal and external factors impacting financial statement line item balances as well as fluctuations between current and prior years' financial disclosures. In addition, USSOCOM officials were unable to readily provide an accurate description of the data within the tool used to analyze the entity's financial transactions.
2. **Inadequate Documentation Describing the Entity's Significant Processes Including Related Accounting Policies and Controls.** Management has not fully documented financially relevant processes and policies, including internal controls. Although documentation exists at the command-level, in some cases, existing documentation relates to the military department to which the command is aligned and has not been tailored to USSOCOM. Our audit also noted that in some cases documentation of financially relevant processes and policies, including internal controls, did not exist.
3. **Lack of Validation Controls over Financial Transactions and Related Data.** Management lacked validation controls (e.g., control activities and/or monitoring activities), to include controls over the recording of journal vouchers, recording of routine transactions by USSOCOM's components, completeness of payroll transactional data, accuracy and completeness of funding received, receipt and acceptance of goods and services, as well as completeness and accuracy of the data included within the tool used to analyze USSOCOM's financial transactional data.

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

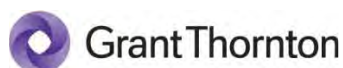
- Journal vouchers executed using improper accounting treatment, recorded in incorrect periods, and recorded using incorrect general ledger accounts, as well as, delays in posting correcting entries and omission of component data
- Errors in the initial posting of expenses and recording obligations to incorrect periods
- Incorrect calculation of unfunded leave



- Invalid recording of recoveries of unpaid prior year obligations representing 17 percent of our sample of recoveries, and
- Disagreements between amounts noted within Funding Authorization Documents (representing funding distributed to USSOCOM commands) and amounts reported within management-provided general ledger extracts

In addition, we noted instances where controls were inappropriately designed, in that evidence of the control execution is not generated or does not exist, and instances where management inconsistently executed existing validation controls, which led to:

- Lack of identification of errors within executed journal vouchers
  - Approval of journal vouchers by unauthorized personnel
  - Lack of proper approval of leave requests and timesheets, and
  - Inconsistencies between hours recorded on timesheets and the resulting leave and earnings statements
4. **Lack of or Inadequate Support Related to the Accuracy, Validity, or Completeness of Recorded Transactions.** Management was unable to provide sufficient and adequate supporting documentation for 32 percent of samples selected for Obligations, Recoveries, Expenses, Advances, Civilian Payroll, General Equipment, Construction in Progress, Funds Distributed, and systematic JVs.
5. **Lack of Controls over Financial Statement Compilation.** Management and its financial reporting service organization lack adequate controls over the financial statement compilation process, as follows:
- a. **Data Collection.** In order to compile USSOCOM financial statements, USSOCOM's financial reporting service organization obtains financial data from the various accounting and non-accounting systems used by USSOCOM, commonly referred to as feeder systems. Although the service organization obtains and ingests relevant USSOCOM financial data into its Defense Departmental Reporting System – Budgetary (DDRS-B), the data obtained and ingested is at a trial balance-level and not at the transactional-level. USSOCOM was not able to provide a complete population of transactional data supporting the financial statements.
  - b. **Automated Pre-Processing:** Accounting and non-accounting system data is received by DDRS-B in a summarized (trial balance-level), non-standard, system-specific format. This data must be standardized by the financial reporting service organization through pre-processing actions utilizing programmed, system-specific “crosswalk” logic within DDRS-B that defines how ingested data is mapped, transformed, and stored within DDRS-B to arrive at a USSOCOM USSGL-compliant summarized trial balance. The service organization has not yet sufficiently documented detailed descriptions of how each programmed crosswalk within DDRS-B functions to map, transform, and store feeder data within DDRS-B. In addition, there are no comprehensive reconciliations performed between the DDRS-B standardized data (post-processing) and the originally obtained summarized feeder data.
  - c. **Manual Pre-Processing:** Certain pre-processing actions require manual action by service organization personnel. For example, DDRS-B produces a report that displays feeder file records that have been excluded from pre-processing. Records may be excluded either manually, if an accountant recognizes an invalid attribute, or automatically (i.e., auto-excludes) if DDRS-B has previously been programmed



to systematically exclude the record due to an invalid attribute. Through our testing we noted a variety of issues with the internal controls over data exclusions, including: failure to review the appropriateness of omitting the excluded activity and related impact to the USSOCOM financial statements, as well as instances of a lack of review of auto-excludes, and omitted quantitative analysis. In addition we noted that if DDRS-B is unable to systematically map new feeder Lines of Accounting (LOAs), a service organization accountant manually maps the feeder LOA to a DDRS-B LOA, or excludes the feeder LOA from ingestion. There are no monitoring controls in place to validate the appropriateness and accuracy of feeder LOA to DDRS-B LOA mapping manually executed by the financial reporting service organization accountants.

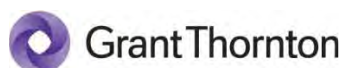
- d. **Processing:** USSOCOM's financial reporting service organization creates JVs for a multitude of reasons (e.g., as a result of a reconciliation, reclassification, identified errors, etc). JVs posted within DDRS-B and DDRS – Audited Financial Statements (DDRS-AFS) are designated as either “Supported” or “Unsupported.” Generally, JVs are designated as supported when transactional details supporting the amount of the JV are available. Alternatively, transactional details for JVs designated as unsupported are either unobtainable or unavailable. We noted that the “Supported” and “Unsupported” JV designations are not applied consistently and unsupported JVs are routinely recorded within DDRS-B and DDRS-AFS.

#### Recommendations:

USSOCOM management should consider taking the following actions:

1. **Lack of Comprehensive Understanding of Information Systems and Financial Data:** USSOCOM management should consider assigning individuals with the right organizational knowledge, experience, and skills to be dedicated to the entity-wide oversight of the financial reporting process, to include processes executed by the service components, sub-unified commands/TSOCs, and service organizations. These individuals should lead working groups that include members of USSOCOM operations and information technology organizations. USSOCOM management should also formally document and maintain documentation detailing the nature of external and internal factors impacting all financial statement line items, perform a periodic review of these findings and update documentation accordingly. USSOCOM management should also develop a formalized fluctuation analysis methodology to include analysis of factors impacting fluctuations deemed to be significant. Lastly, USSOCOM management should document the process for ingesting transactional data within its tool and develop controls to ensure that the information is complete.
2. **Lack of Adequate Documentation Describing the Entity's Significant Process Including Related Accounting Policies and Controls.** USSOCOM management should ensure the existence of end-to-end process documentation, including specific control activities performed by its service components, sub-unified commands/TSOCs, and service organizations. These narratives should be tailored to USSOCOM and should be detailed enough so as to provide USSOCOM the ability to identify operational processes and risks, and communicate controls and objectives to the people responsible for performance of the controls.
3. **Lack of Validation Controls over Financial Transactions and Related Data.** USSOCOM management should expand its FIAR-related activities to include an evaluation of all USSOCOM financial reporting transactions from inception to reporting, including the automated portion of the exclusion of transactions and



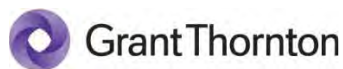


transactions and activities executed by USSOCOM's service organizations. USSOCOM management should obtain an understanding of existing financial reporting controls and monitoring activities, as well as related weaknesses, and appropriately design and implement controls to mitigate those deficiencies.

4. **Lack of or Inadequate Support Related to the Accuracy, Validity, or Completeness of Recorded Transactions.** 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.
5. **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 provider 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. In addition, for service organization processes for which SOC 1 Service Auditor reports are available, USSOCOM should identify, design, and test applicable CUECs.

#### **Management Response:**

USSOCOM agrees with the intent of these findings. USSOCOM will work with DFAS to completely understand and document their processes and procedures specific to USSOCOM's financial reporting.



### **Material Weakness – Lack of Adequate Controls over the Fund Balance with Treasury Reconciliation Process**

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

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

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

In order to assist ODOs in performing on a monthly basis the required FBWT reconciliations 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 FoxPro, which takes information gathered from HQARS to generate the CMR. The CMR is composed of consolidated disbursement and collection data as well as ODO funding data from the Program Budget and Accounting System and various DOD disbursing offices. The CMR identifies FBWT balances for each ODO or limit-level. Limits are four character codes that help identify, manage, and report the financial activity of each ODO.

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

#### ***Evaluation of FBWT Reconciliation Results***

During our review of the results of the USSOCOM FBWT reconciliation process, we noted the following related to the reconciliation:

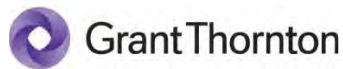


1. **Unidentified Differences.** USSOCOM's financial reporting service organization uses DRRT to prepare the TI-97 Audit Workbooks, which display TI-97 expenditure data and the partially reconciled FBWT balance for each ODO accounting system detail and the CMR. The Audit Workbooks also display unidentified differences/reconciling items and variance balances for each ODO. The service organization uses a number of different terms to distinguish between the different types of unidentified differences (e.g., valid unfunded, unallocated funds, edit errors, unvouchered intragovernmental payment and collection, treasury variances, and exclusions). As of June 2018, unidentified differences between the CMR and USSOCOM accounting system detail included within the TI-97 Audit Workbook, amounted to \$19 Billion. This represents the absolute value of transactions that could not be reconciled between the CMR which reflects balances at Treasury, and USSOCOM accounting system detail. In addition, the TI-97 Audit Workbooks included an amount of \$108 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 fiscal year 2013 or 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 \$385 Million as of Q2 fiscal year (FY) 2018.
3. **Out-of-Scope Appropriations.** Per review of the CMR, we noted that as of Q2 FY 2018, \$870 Million of funding was identified as "Out-of-Scope" from reconciliation, representing funding included on USSOCOM's FBWT balance for which no disbursements had been made to date. USSOCOM management was unable to provide support validating that USSOCOM had the right to that funding.

Unreconciled Differences and Out-of-Scope Appropriations described above represent Unsupported Balances in the amount of \$1.3 Billion. FBWT reconciliations for ODOs are extremely complex given the lack of stand-alone appropriations and related stand-alone Treasury accounts, for each ODO, including USSOCOM. This has resulted in the identification of unsupported FBWT transactions. Our testing indicates USSOCOM has inappropriately delegated its responsibility for FBWT to its financial reporting service provider and that controls and documentation around the process are insufficient. The existence of material unidentified differences between USSOCOM's FBWT balance and balances reported by Treasury, as well as material unsupported balances, increases the risk that USSOCOM's FBWT is misstated.

#### ***Evaluation of Information Systems used to Execute 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 the GAO's Green Book issued under the authority of FMFIA, Management should design control activities over the information technology infrastructure to support completeness, accuracy, and validity of information processing by information technology. We performed an evaluation over systems owned by USSOCOM's financial reporting service organization, specifically DRRT, HQARS, and FoxPro, which, among other objectives, support the FBWT reconciliation. We noted the following weaknesses arising from various causes, including: inadequate design of controls, inappropriate assessment of risk, and lack of understanding of industry standards:



1. **Security Management.** Appropriate security management controls provide reasonable assurance of the efficacy of the security of an Agency's information system (IS) control environment. Such controls include, among others, security management programs, periodic assessments, and validation of risks and security control policies and procedures. We noted that an annual assessment to validate the effectiveness of security controls for the HQARS system was not performed.

By not performing a periodic assessment of security controls, USSOCOM is unable to provide comprehensive risk mitigation in the protection of its resources. This increases the risk of systems being compromised and may result in the unauthorized use, modification, or disclosure of data.

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

#### HQARS

- User roles and profiles are inaccurately documented within the policy

#### DRRT

- Access to information systems is not appropriately provisioned and de-provisioned to users, and
- Reviews are not performed to identify incompatible role assignments

#### FoxPro

- Reviews are not performed to validate the continued appropriateness of system role assignments and associated functions
- Monitoring of activities is not performed to identify suspicious activities, and
- Access control policies and procedures are not formally documented, to include: the provisioning and removal of access, access review, and segregation of duties

By not obtaining appropriate authorization to provision user access to systems, there is a risk that individuals are provided access to functions or data that is not required to perform their job responsibilities. This could allow for erroneous data entry or data changes. Further, failing to monitor suspicious activity and remove access in a timely fashion for users that no longer require access, increases the risk that unauthorized individuals may be able to access systems or data. Finally, users who have the ability to perform functions outside of their job responsibilities or execute key processes or transactions from initiation to completion, increases the risk of the system processing inaccurate, invalid, and/or unauthorized transactions. Therefore, there is a risk of unauthorized access to and/or modification of financially-relevant transactions or data.

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



following deficiencies during our review of USSOCOM's configuration management controls:

#### **HQARS and DRRT**

- Documentation supporting the initial authorization, validation, and/or authorization for implementation could not be provided, and
- Configuration changes could not be traced to change documentation

#### **FoxPro**

- Formal configuration management policies and procedures governing changes were not developed
- A complete listing of modifications made to systems could not be provided

Without formalized and comprehensive configuration management policies and procedures in place, the risk increases of having incomplete and/or inaccurate review and approval processes, audit trails of configuration changes, and configuration management documentation. This in turn increases the risk that unauthorized or erroneous changes could be introduced without detection by system owners.

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

#### **DRRT**

- Interface agreements between interfacing partners are outdated

#### **FoxPro**

- Interface design documents have not been developed

Without formalized interface/data transmission design documentation in place or up to date interface agreements, the risk that security requirements or requirements in place to validate the completeness and accuracy of data being processed between systems are not being applied which in turn can impact the completeness, accuracy, validity, confidentiality, and integrity of data.

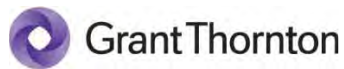
#### **Recommendations:**

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.

##### ***Evaluation of Information Systems used to Execute the FBWT Reconciliation***



USSOCOM management, including USSOCOM's Chief Information Officer (CIO), should work with financial reporting service organization's management to enforce and monitor the implementation of corrective actions as follows:

1. **Security Management.** Enforce requirements to assess security controls at least annually.
2. **Logical Access**
  - Ensure policies and procedures governing the provisioning and de-provisioning of access to information systems are periodically reviewed and updated and followed in a timely manner
  - Perform a periodic review of the appropriateness of individuals with access to systems, and
  - Review audit logs on a periodic basis for suspicious activity
3. **Configuration Management**
  - Establish a comprehensive configuration management plan that includes roles and responsibilities and outlines details supporting authorization, testing, and documentation requirements
  - Establish a process to systematically track configuration changes, and
  - Enforce existing policies and procedures that have been developed to support the configuration management process
4. **Interface Controls**
  - Develop documentation that outlines controls performed within systems to validate data being processed between systems, and
  - Enforce established policies to perform an annual review of agreements between interfacing partners

**Management Response:**

USSOCOM agrees with the intent of these findings. USSOCOM will work with DFAS to completely understand their processes and procedures that impact our financial reporting and will develop controls over the Fund Balance with Treasury Reconciliation process.



### **Material Weakness – Lack of Adequate Controls over General Equipment and Construction in Progress**

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

USSOCOM reported in its September 30, 2018, Balance Sheet a total of \$12.8 Billion in Property, Plant, and Equipment. The balance represents General Equipment (GE) and Construction in Progress (CIP). 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 September 30, 2018, Balance Sheet for Property, Plant, and Equipment. USSOCOM is currently in the process of implementing Statements of Federal Financial Accounting Standards (SFFAS) 50 *Establishing Opening Balances for General Property, Plant, and Equipment*.

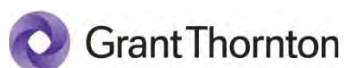
During our audit of existence of USSOCOM GE and CIP, we noted the following internal control weaknesses:

#### ***General Equipment***

1. **Lack of Adequate Inventory Procedures.** USSOCOM does not currently have established guidance related to the annual inventory process, including Book-to-Floor and Floor-to-Book count procedures; rather it relies on the individual commands to execute the counts. Additionally, we noted that due to a focus on recordation of capital assets, USSOCOM's acquisition office did not complete the recording of all of its accountable property within their property system by the end of the fiscal year.
2. **Outdated Documentation of Procedures over Year-End Reporting.** Documented procedures related to GE year-end reporting are not reflective of the procedures that are currently being executed as the documentation is outdated and under revision.
3. **Inability to Support Historical Acquisition Cost.** One of USSOCOM's property accountability systems, the Global Combat Support System-Army, as originally designed, does not track historical acquisition cost. Currently the system assigns current sales price as noted within the current asset catalog.
4. **Lack of Adequate Controls over Existence and Completeness.** Errors in the area of recording of disposals, asset location, asset existence, completeness of asset listing, and condition of assets were noted for 20 percent of assets in our sample. These errors were due, in part, to a failure to timely update USSOCOM property records to reflect asset changes.

#### ***Construction in Progress***

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



2. **Lack of Adequate Controls over Transfers of Assets.** Upon completion of Real Property CIP projects, USSOCOM transfers the assets to applicable military departments. Controls have not yet been designed and consistently implemented to ensure that CIP project costs are accumulated accurately and removed in a timely manner following acceptance of the asset by the military department.

The decentralized nature of USSOCOM operations and long-standing DoD property accountability weaknesses due to the use of property accountability systems that were not designed for financial reporting purposes, coupled with management's inappropriate reliance on its commands and inadequate property controls at headquarters has led to the control weaknesses noted. These weaknesses could further delay management's efforts to assert to the value of Property, Plant, & Equipment as reported on the Balance Sheet.

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

**Recommendations:**

USSOCOM management should consider taking the following actions:

***General Equipment***

1. **Lack of Adequate Inventory Procedures.** USSOCOM management should formally document inventory count policies and procedures to be executed across the organization and ensure its acquisition office keeps its property accountability system up to date with accurate counts.
2. **Outdated Documentation of Procedures over Year-End Reporting.** USSOCOM management should update its documentation of policies and procedures over the GE year-end reporting process.
3. **Inability to Support Historical Acquisition Cost.** USSOCOM management should implement SFFAS 50 to include, establishing a reliable method to maintain the acquisition cost data for all USSOCOM GE.
4. **Lack of Adequate Controls over Existence and Completeness.** USSOCOM management should perform testing over the assets recorded within its property systems as well as testing to identify any missing assets.

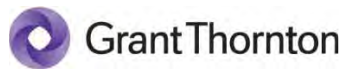
***Construction in Progress***

1. **Inadequate Design of Monitoring Control.** USSOCOM management should formally document and implement policies and procedures to ensure the CIP listings received from the financial reporting service organization are complete, accurate, and pertain to USSOCOM.
2. **Lack of Adequate Controls over Transfers of Assets.** USSOCOM management should design and implement controls to ensure the accurate accumulation of CIP project costs and the validation of removal of asset values upon acceptance of the transfers by the military departments.

**Management Response:**

USSOCOM agrees with the intent of these findings and will develop corrective action plans to ensure controls are in place over general equipment and construction in progress.





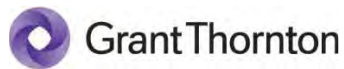
### Significant Deficiency - Lack of Adequate Controls over USSOCOM's Financial Information Systems

In accordance with FMFIA, management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. According to the 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 by information technology. We performed an evaluation over systems owned by USSOCOM that support sensitive activities and noted the following weaknesses:

1. **Security Management.** Appropriate security management controls provide reasonable assurance of the efficacy of the security of an Agency's IS 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:
  - The system security plan does not conform with National Institute of Standards and Technology (NIST) standards, and
  - Security controls are not assessed for effective implementation on a continuous basis and remediation activities for known system weaknesses are not tracked.

In the absence of a comprehensive, documented system security plan, personnel may not have an accurate understanding of the security requirements of the application, which may impact the effective implementation and monitoring of security controls that are necessary to maintain the confidentiality, integrity, and availability of financial data within the system. Furthermore, without a periodic assessment of security controls, USSOCOM is unable to provide comprehensive risk mitigation in the protection of its resources. This increases the risk of systems being compromised and may result in the unauthorized use, modification, or disclosure of data.

2. **Logical Access.** Access controls limit or detect inappropriate access to computer resources, protecting data from unauthorized modification, loss, and disclosure. Such controls include authentication requirements and limiting access to and actions which can be executed on files and other resources. We noted the following deficiencies during our review:
  - Access was not granted in accordance to policy
  - Access for a terminated employee was not removed in a timely manner
  - Reviews of user activity audit logs are not documented
  - Periodic reviews to validate user access are not performed
  - A population of database administrators and other users with elevated privileges could not be provided to validate appropriateness of access
  - The segregation of duties matrix does not outline all roles and possible roles and all combinations of role assignments that would cause a segregation of duties conflict
  - Formal access control policies and procedures have not been developed to include procedures related to access provisioning/modification/revocation, review of user access, segregation of duties, and the review and maintenance of audit logs



- A population of users with access to systems could not be provided to validate appropriateness of access
- Access to modify user activity audit logs is not restricted, and
- A formal process to disable and remove inactive accounts is not in place

By not obtaining appropriate authorization to provision user access to systems, there is a risk that individuals are provided access to functions or data that is not required to perform their job responsibilities. This could allow for erroneous data entry or data changes. Further, failing to monitor suspicious activity and removing access in a timely fashion when it is no longer required, increases the risk that unauthorized individuals may be able to access systems or data. Finally, users who have the ability to perform functions outside of their job responsibilities or execute key processes or transactions from initiation to completion, increase the risk of the system processing inaccurate, invalid, and/or unauthorized transactions. Therefore, there is a risk of unauthorized access to and/or modification of financially-relevant transactions or data.

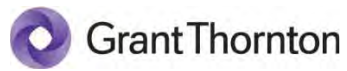
3. **Configuration Management.** Appropriate configuration management controls provide reasonable assurance that changes to information system resources are authorized and systems are configured and operating securely and as intended. Such controls include effective configuration management policies, plans, and procedures and proper authorization, testing, approval, and tracking of all configuration changes. We noted that a configuration management plan addressing policies, procedures and responsibilities has not been developed.

Without formalized and comprehensive configuration management policies and procedures in place, the risk increases of having incomplete and/or inaccurate review and approval processes, audit trails of configuration changes, and configuration management documentation. This in turn increases the risk that unauthorized or erroneous changes could be introduced without detection by system owners.

#### Recommendations:

USSOCOM management, including its CIO, should consider taking the following actions:

1. **Security Management**
  - Develop, implement, and disseminate a comprehensive system security plan that is in compliance with NIST requirements, and
  - Enforce requirements to assess security controls at least annually
2. **Logical Access**
  - Ensure policies and procedures governing the provisioning and de-provisioning of access to information systems are followed in a timely manner
  - Identify and document system roles and responsibilities that would cause a segregation of duties conflict
  - Perform a periodic review of the appropriateness of individuals with access to systems, and
  - Review audit logs on a periodic basis for suspicious activity
  - Configure systems to allow for user creation date to be captured for review purposes



3. **Configuration Management** - Establish a comprehensive configuration management plan that includes roles and responsibilities and outlines details supporting authorization, testing, and documentation requirements.

**Management Response:**

USSOCOM agrees with the intent of these findings and will develop corrective action plans to correct the issues.



### **Non-Compliance - Lack of Substantial Compliance with the Federal Managers' Financial Integrity Act of 1982**

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

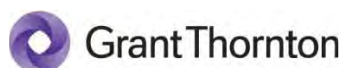
USSOCOM has not yet implemented a formal internal control program that would allow it to substantially comply with FMFIA and the related OMB Circular A-123 requirements. Specifically, USSOCOM was unable to provide evidence that it had: 1) fully documented Agency objectives (i.e., strategic, operational,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

#### **Recommendation:**

USSOCOM management should consider taking the following action: continue designing and implementing a formal internal control program that meets FMFIA and the related GAO Green Book and OMB Circular A-123 requirements.

#### **Management Response:**

USSOCOM agrees with the intent of these findings. USSOCOM is reviewing the implementation of the internal control program to ensure it meets the requirements of GAO Green Book and OMB Circular A-123



### **Non-Compliance - Lack of Substantial Compliance with the Federal Financial Management Improvement Act of 1996**

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

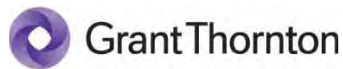
Because of matters described in the Basis for Disclaimer of Opinion paragraphs, included in our financial statement audit report dated November 14, 2018, we were not able to obtain sufficient appropriate audit evidence related to management's substantial compliance with FFMIA Section 803 (a) requirements.

However, during the audit we noted that USSOCOM does not own the majority of the systems it uses to process its transactions; those systems are owned by the military departments or DoD service organizations. Although our audit contract excluded the execution of audit procedures over the military department systems supporting USSOCOM, per our review of the Department of the Air Force, Department of the Army, and Department of the Navy FY 2017 annual financial reports, we noted that each of the departments is in non-compliance with the requirements of FFMIA. In turn, this has affected USSOCOM's ability to be in substantial compliance with the requirements of FFMIA. In addition, we noted the following instances of non-compliance through the execution of our audit procedures:

1. **Federal Financial Management System requirements.** Due to issues with internal controls over security management, logical access, and configuration management, USSOCOM owned and operated financial systems did not meet federal financial management system requirements.
2. **Applicable Federal Accounting Standards.** Management has asserted that, currently, it does not have adequate controls in place to validate the completeness and valuation reported within its September 30, 2018 Balance Sheet for Property, Plant, and Equipment. Additionally, management has asserted that limitations of its information systems prevent the full compliance with US generally accepted accounting principles and the accrual basis of accounting
3. **USSGL.** USSOCOM data is recorded across multiple "feeder" accounting and non-accounting systems, some of which are not USSGL compliant at the transaction-level. During the financial statement compilation process, the data is obtained at a summarized trial balance-level, and not at the transactional-level. This data is then converted to comply with USSGL at the transaction-level; however, the process for converting ("cross-walking") these non-USSGL financial data into USSGL compliant financial data is not documented, and therefore, management is unable to validate the adequacy of the conversion and compliance with this requirement.

#### **Recommendation:**

USSOCOM management should consider taking the following actions:  
Transitioning to a stand-alone general ledger system that complies with the requirements of FFMIA. A move to a modern and compliant system would eliminate USSOCOM dependency on military systems that are non-compliant with federal financial system requirements, federal



accounting standards, and the USSGL at the transaction-level. It would eliminate the need for extensive and complex adjustments/reclassifications of financial data which are prone to errors. USSOCOM management should also continue to work with the OUSD(C) to develop alternative methods of producing the USSOCOM financial statements.

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

- Developing, implementing, and monitoring the effectiveness of security controls to ensure compliance with NIST and DoD Instruction requirements
- Developing a comprehensive plan, including milestones, to implement both SFFAS and DoD Guidance in a timely manner, and
- Documenting and implementing controls over the valuation of General Property, Plant and Equipment

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

#### **Management Response:**

USSOCOM agrees with the intent of these findings. USSOCOM relies on financial management systems it does not own. USSOCOM will be in compliance once those systems are in compliance. There is no plan in place to implement a new accounting system.

USSOCOM will develop corrective actions over security management, logical access, and configuration management, for USSOCOM owned financial applications.