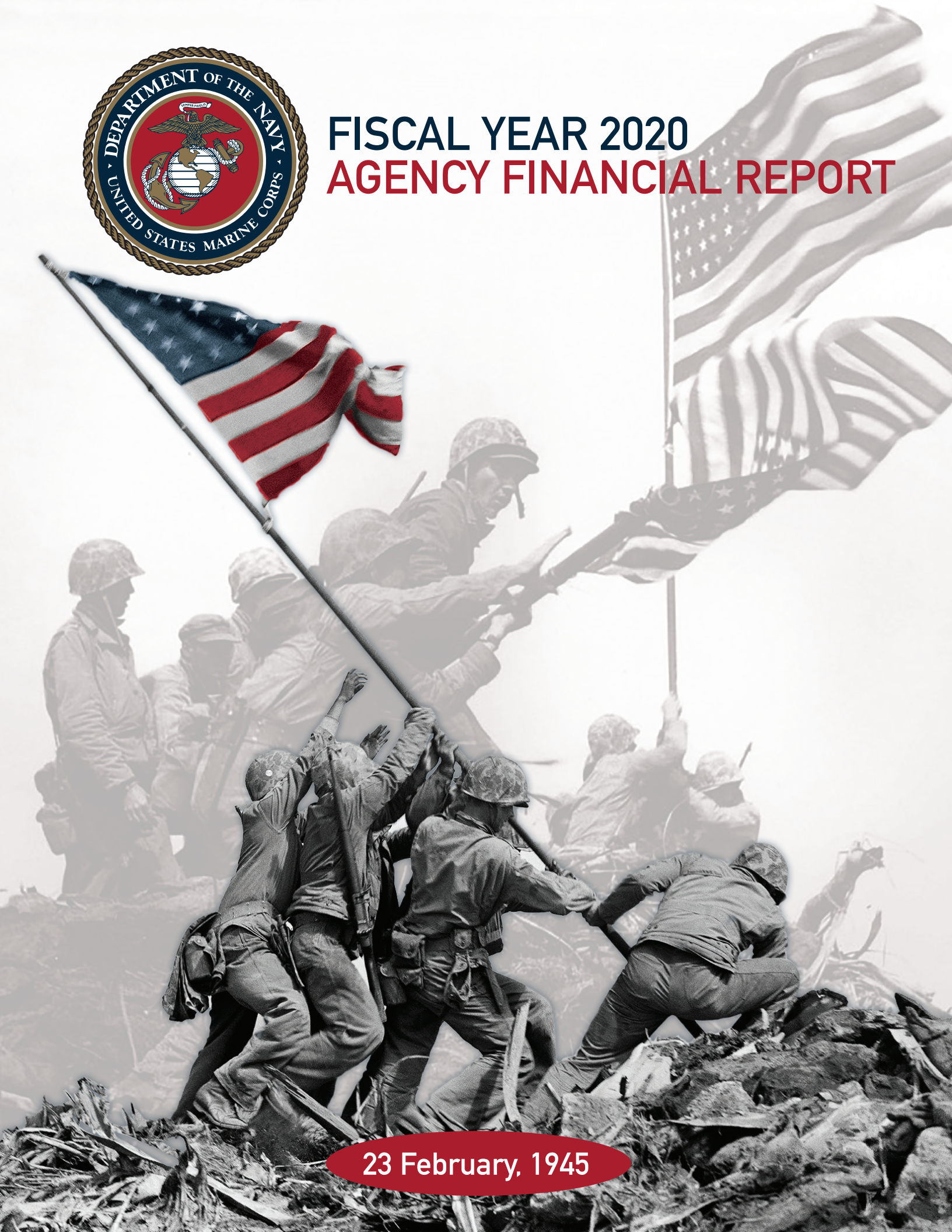




FISCAL YEAR 2020 AGENCY FINANCIAL REPORT



23 February, 1945



U.S. Marines perform during the Battle Color Ceremony at the 52 Area parade deck on Marine Corps Base Camp Pendleton, Calif., March 3, 2020. (U.S. Marine Corps photo by Lance Cpl. Alison Dostie)



Table of Contents

Message from the Commandant	3
Section 1: Management's Discussion and Analysis	6
Mission and Organizational Structure	7
Analysis of Performance Goals, Objectives, and Results.	13
Analysis of Financial Statements and Stewardship Information	15
Analysis of Systems, Controls, and Legal Compliance	19
Forward Looking Information	29
Section 2: Financial Section	30
Office of Inspector General Transmittal	31
Independent Auditor's Report.	35
Response to Independent Auditor's Report	92
Principal Financial Statements	93
Notes to the Principal Financial Statements.	98
Required Supplementary Information	126
Section 3: Other Information	129
Management Challenges	130
Summary of Financial Statement Audit and Management Assurances	131
Payment Integrity	133
Fraud Reduction Report	133
Acronyms	135



MESSAGE FROM THE COMMANDANT OF THE MARINE CORPS



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON DC 20350-3000

October 2020

The United States Marine Corps' Fiscal Year 2020 Agency Financial Report summarizes for the American public, Congress, and other interested stakeholders how our Marines serve the Nation and demonstrates our continued commitment to responsible stewardship of the resources and assets entrusted to us by the American taxpayer.

The annual audit of our financial statements provides an independent perspective and invaluable feedback as we continue to work to improve the overall management of our resources. This feedback will help us better align with the National Defense Strategy (NDS). During the past year, we divested of legacy capabilities and reformed our business processes, allowing us to shift resources toward investments that will increase our lethality and improve our operational readiness.



As we complete our fourth year of a full financial statement audit, our results continue to improve across all audit areas, bringing the Marine Corps ever closer to success. Despite a world-wide pandemic, which limited travel and impeded collaborative action, we were able to complete work not previously done in 2019. The support we received from leadership, our fellow services, and other DoD organizations was instrumental to our renewed progress, and those joint efforts will determine our achievements in 2021.

Thank you for your support as we continue to transform the Marine Corps and drive towards obtaining and maintaining an Unmodified Audit Opinion for the American taxpayer.

A handwritten signature in black ink, reading "D. H. Berger".

David H. Berger
General, U.S. Marine Corps
Commandant of the Marine Corps



IWO

2020 marks the 75th anniversary of the Marine Corps' victory on Iwo Jima, a hallmark achievement in our storied history. While Joe Rosenthal of the Associated Press captured the iconic picture of five Marines and a Navy Corpsman erecting Old Glory high atop Mt. Suribachi on February 23, 1945, this was just the beginning of five weeks of intense fighting code named Operation Detachment. From February 19 to March 26, Marines and sailors fought to conquer the island as part of a broader objective of establishing a strategic launching point for an attack on mainland Japan.

The march towards Japan was a combined force effort, integrating air, ground, and sea forces to advance from island to island, establishing progressive footholds to the north from Australia to Japan with Okinawa designated as the final launch point for a B-29 air raid on Tokyo.

Iwo Jima, now Iō-tō, a small volcanic island 760 miles south of Tokyo, measures 5 miles in length and 20 square miles with two landing beaches to the northwest and southeast portions of the island and two airfields at mid-island. The island also boasted a large dormant volcano to the south which the Japanese hollowed with a tunnel network to allow its Army to move quickly to pillboxes, blockhouses, and gun sites with ample protection. This fortress housed a Japanese garrison of ~21,000 Japanese soldiers with instructions to kill 10 enemy soldiers from within as opposed to the traditional suicidal banzai charge.

MajGen Harry Schmidt took charge of Marine operations, fielding a largely veteran 3rd, 4th, and 5th Marine divisions, totaling about 70,000 troops. Before landing his Marines on the beaches, Schmidt requested ten consecutive days of Naval bombardment to soften up the island; his request was denied and, instead, he received a mere three days, of which weather impeded the efforts and did little damage to the entrenched enemy.


Marines began to land on the beach in intervals at about 0900 on February 19, 1945 and quickly encounter embankments of volcanic ash towering some 15 feet high. Gen Schmidt employed Navy Seabees to clear the ash mound and by the end of the day, 28th Marines isolated Mt. Suribachi from the remainder of the island.






Iima

On February 21, while Gen Kuribayashi executed a kamikaze attack on U.S. Navy vessels, badly damaging several ships, Marines continued to press forward on land, and on February 23, they secured Mt. Suribachi. Marines twice raised the American flag on Suribachi's summit, the second flag the subject of the now iconic photograph. While surmounting Suribachi was a major achievement and morale booster, a month of heavy fighting remained. Measuring advances in yards, Marines crawled their way up the beach while the Japanese pounded them with artillery and laid mines along roadways. On February 27th, the Marines launched a coordinated assault through the center of the Japanese line and overran the heights near the unfinished airbase Motoyama 3. At the same time, intense fighting continued in the area that is now famously known as "the Meat Grinder," fighting finally concluding on March 2nd with Marines holding the ground.



As Marines seized the hills near the northeast shore, a small, but resilient group of enemies remained in an area known as Cushman's Pocket. In an effort to drive the Marines off the hill, Japanese Navy Capt. Samaji Inouye led a nighttime banzai attack against Gen Kuribayashi's orders on March 8th, an attack that would prove costly; the casualties inflicted to the enemy allowed the Marines on opening to clear the Amphitheater and Turkey Knob on March 10th. By March 16th, the US declared Iwo Jima secured, although small pockets of resistance persisted. In actuality, the island would not be secure until March 26 after a few hundred Japanese troops moved behind enemy lines toward Motoyama 1 and killed about 100 Americans in their sleep before Marines countered and eliminated the threat.



Operation Detachment is among the deadliest conflicts in Marine Corps history. The Japanese death toll was ~18,500 soldiers while 6,800 Marines were killed and 19,200 were wounded. Twenty-seven Medals of Honor were awarded at the conclusion of the battle. The fact that Marines were forced to kill the Japanese virtually to the last man is a testament to the iron grip that Japan's military indoctrination had on its service men. Gen Kuribayashi refused to surrender in the end, by some accounts preferring to commit hara-kiri, or suicide, rather than surrender to the Americans.



SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS

Marines with the U.S. Marine Corps Silent Drill Platoon march in formation during the 2019 Veteran's Day Parade in New York, New York, Nov. 11, 2019. The Veteran's Day Parade is hosted annually to commemorate the service and sacrifice of service members and their families.
(U.S. Marine Corps photo by Lance Cpl. James Bourgeois)



On November 10, 1775, the Second Continental Congress established the Continental Marines—later to become the United States Marine Corps (hereafter referred to as the USMC or the Marine Corps)—which has since served in nearly every military conflict in United States history. The USMC’s ability to rapidly respond on short notice to expeditionary crises has made, and continues to make, a significant impact on United States National Defense Strategy (NDS). Carrying out duties given to them directly by the President of the United States, the Marine Corps serves as an all-purpose, fast-response task force, capable of quick action in areas requiring emergency intervention.

Marine tactics and doctrine tend to emphasize aggressiveness and being on the offensive. Initially created to conduct ship-to-ship fighting operations during the American War of Independence, the USMC has been central in developing groundbreaking tactics for maneuver warfare and can be credited with the development of helicopter insertion doctrine and modern amphibious assault. As a force, the Marine Corps consistently uses all essential elements of combat (i.e., air, ground, and sea) together; a trademark that allows the Marines to maintain integrated, multi-element task forces under a single command, while bringing flexibility and lethality to address ever-changing threats.

Mission and Organizational Structure

Mission

The roles and missions of the USMC are codified in (1) 10 United States Code (U.S.C.) § 5063, *United States Marine Corps: composition; functions*, (2) Public Law 80-253, 61 Stat 495, *National Security Act of 1947*, and (3) Department of Defense (DoD) Directive 5100.01, *Functions of the Department of Defense and Its Major Components*.

These roles and missions are to:

- Seize and defend advanced naval bases or lodgments to facilitate subsequent joint operations;
- Provide close air support for ground forces;
- Conduct land and air operations essential to the prosecution of a naval campaign as directed;
- Conduct complex expeditionary operations in the urban littorals and other challenging environments;
- Conduct amphibious operations, including engagement, crisis response, and power projection operations to assure access;
- Develop amphibious doctrine, tactics, techniques, and equipment;
- Conduct security and stability operations and assist with the initial establishment of a military government pending transfer of this responsibility to other authority; and
- Provide security detachments and units for service on armed vessels of the Navy, protection of naval property at naval stations and bases, security at designated U.S. embassies and consulates, and perform other such duties as the President or the Secretary of the Defense may direct.

Organizational Structure

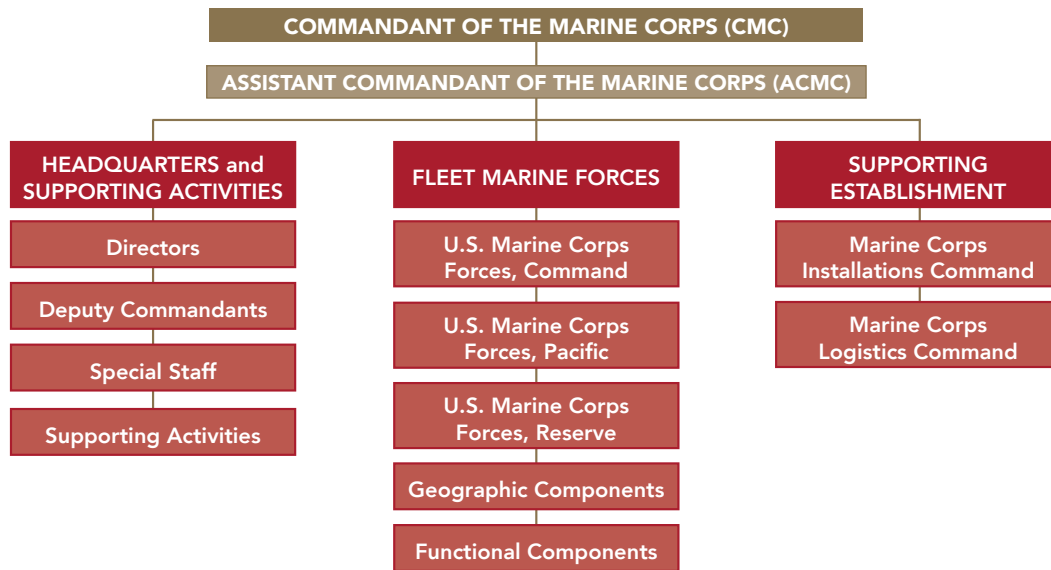


Figure 1. USMC Organizational Structure

The USMC, led by the Commandant of the Marine Corps (CMC), is a component reporting entity of the U.S. Department of the Navy (DoN), headed by the Secretary of the Navy (SECNAV). The USMC is comprised of Headquarters, U.S. Marine Corps (HQMC) and Supporting Activities, the Fleet Marine Forces, and the Supporting Establishment.

Headquarters, U.S. Marine Corps, and Supporting Activities

HQMC consists of directorates, deputy commandants, and special staff agencies that advise and assist in discharging the Commandant's responsibilities as prescribed by law. Under the authority, direction, and control of the SECNAV through the CMC, HQMC coordinates the recruiting and training of Marines; facilitates the general administration of the organization; supplies and equips (including research and development) the force; initiates mobilization and demobilization efforts; and assists in the execution of any power, duty, or function of the SECNAV or the CMC.

HQMC Directorates consist of the following:

- Director, United States Marine Corps Staff
- Director, Health Services
- Communication Directorate

HQMC Deputy Commandants consist of the following:

- Deputy Commandant, Manpower and Reserve Affairs
- Deputy Commandant, Plans, Policy, and Operations

- Deputy Commandant, Aviation
- Deputy Commandant, Installations and Logistics
- Deputy Commandant, Combat Development and Integration
- Deputy Commandant, Programs and Resources
- Deputy Commandant, Information

HQMC Special Staff Agencies consist of the following:

- Staff Judge Advocate to the Commandant of the Marine Corps
- Counsel for the Commandant of the Marine Corps
- Chaplain of the Marine Corps
- Sergeant Major of the Marine Corps
- Office of the Legislative Assistant to the Commandant of Marine Corps
- Inspector General of the Marine Corps
- Talent Management
- Directorate of Analytics and Performance Optimization

HQMC is located throughout the Washington, D.C. metro area, including the Pentagon, Henderson Hall, Marine Barracks Washington, D.C., Marine Corps Base Quantico, Virginia, and the Washington Navy Yard.

Supporting Activities

Supporting Activities report directly to the CMC or the Assistant Commandant of the Marine Corps with the exception of the Marine Corps Systems Command, which reports directly to the Assistant Secretary of Navy, Research and Development, and Acquisition. The supporting activities are as follows:

- Marine Corps Combat Development Command
- Marine Corps Recruiting Command
- Marine Barracks Washington DC
- Marine Corps Systems Command
- Other activities outside the organizational scope of Fleet Marine Forces and Supporting Establishment

Fleet Marine Forces

The Fleet Marine Forces are the heart of the Marine Corps. They maintain a constant state of readiness through an organizational structure that enables rapid, global response by air, land, and sea. The President establishes unified combatant commands to execute broad and continuing missions at the strategic level. These combatant commands typically have geographic or functional responsibilities. Fleet Marine Forces are generally assigned to the combatant commands by the SECNAV for contingency planning as directed by the Secretary of Defense.

The Fleet Marine Forces generally operate as Marine Air-Ground Task Forces (MAGTFs), which are integrated, combined arms forces that include air, ground, and logistics units under a single commander. They provide the forward presence, crisis response, and combat power that the Marine Corps makes available to combatant commanders. MAGTFs are organized, trained, and equipped from the operating forces of Marine Forces Command (MARFORCOM), Marine Forces Pacific (MARFORPAC), and Marine Forces Reserve (MARFORRES).



U.S. Marine Corps Forces, Command

MARFORCOM commands Active Component of Fleet Marine Forces, while serving as Command General, Fleet Marine Forces Atlantic and directs deployment planning and execution of forces in support of service requirements. MARFORCOM also provides required Marine Corps forces to joint and combatant commanders. MARFORCOM coordinates USMC and Navy integration of operation initiatives and advises the Commander, U.S. Fleet Forces Command, on support to Marine Corps forces assigned to naval ships, bases, and installations. MARFORCOM is located in Norfolk, Virginia.



U.S. Marine Corps Forces, Pacific

MARFORPAC is the largest field command in the Marine Corps and controls over two-thirds of the USMC operational forces. MARFORPAC operates in the Indo-Asia-Pacific region, the nation's largest theater stretching from Yuma, Arizona to Goa, India. MARFORPAC commands the USMC component of U.S. Indo-Asia-Pacific Command and Fleet Marine Forces, Pacific. In addition, MARFORPAC could be tasked to act as a joint task force command element. The Commander, MARFORPAC performs USMC component responsibilities in support of operational and concept plans, national and theater strategic objectives, theater security cooperation, foreign humanitarian assistance, homeland defense, and force posture. MARFORPAC headquarters is located at Camp H. M. Smith, Hawaii.



U.S. Marine Corps Forces, Reserve

MARFORRES is responsible for maintaining trained units and qualified Marines readily available for duty and service in times of war, national emergency, or in support of contingency operations. During times of peace, MARFORRES provides personnel and operational tempo relief for active component forces. Similar to the active component, MARFORRES is a combined-arms force with balanced ground, aviation, and logistics combat support units. MARFORRES capabilities are managed through MARFORCOM as part of its global force management responsibilities for the CMC. MARFORRES has units located all over the United States and in Puerto Rico. MARFORRES headquarters is located in New Orleans, Louisiana.

Commander, MARFORPAC and Commander, MARFORCOM provide the geographical combatant commanders with scalable MAGTFs that possess the unique ability to project mobile, reinforceable, sustainable combat power across a range of military operations. Commander, MARFORRES provides ready and responsive reserve Marine forces and Marines who augment and reinforce active component MAGTFs in their mission accomplishment.

Figure 2 presents the geographical regions where each U.S. Combatant Command conducts operations.

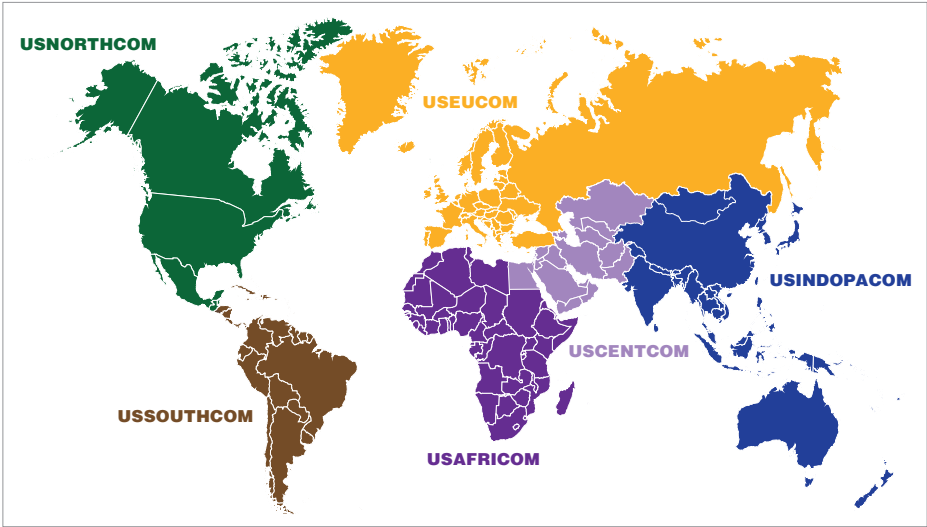


Figure 2. DoD geographical combatant commands

As highlighted in Figure 3, MAGTFs provide combatant commanders with scalable, versatile expeditionary forces able to assure allies, deter potential adversaries, provide persistent U.S. presence with little or no footprint ashore, and respond to a broad range of contingency, crisis, and conflict situations. A single commander leads and coordinates this combined-arms team through all phases of deployment and employment. MAGTF teams live and train together, further increasing their cohesion and fighting power. Tailored to meet combatant commanders’ requirements, MAGTFs operate as an integrated force in the air, land, maritime and cyberspace domains. The naval character of MAGTFs enhances their global mobility, lethality, and staying power.

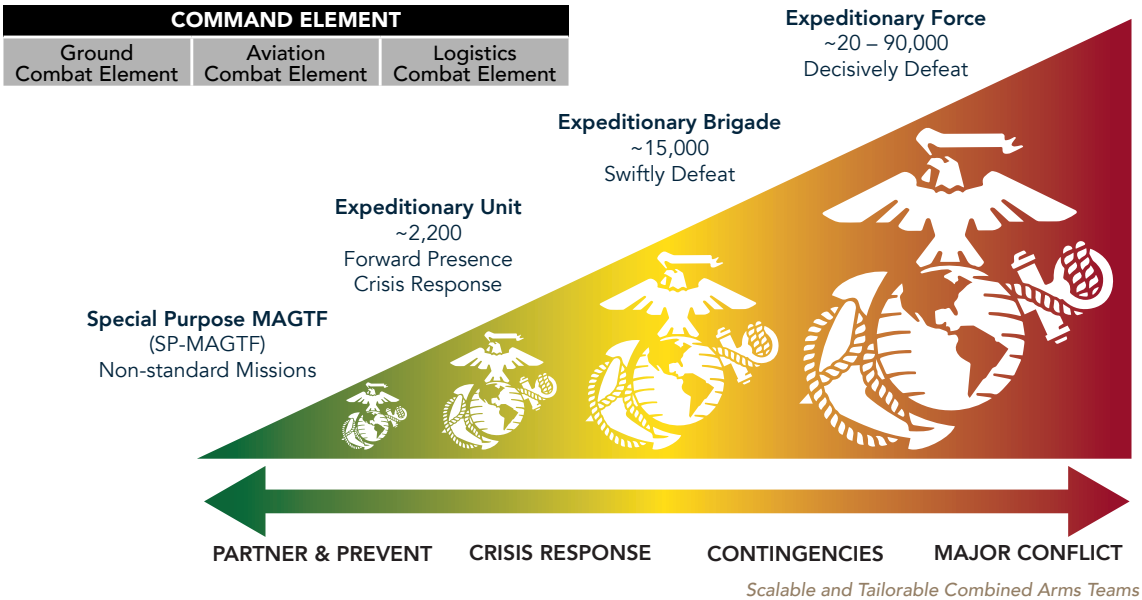


Figure 3. Types of MAGTFs

Fleet Marine Forces service components supporting the geographical combatant commands are as follows:



U.S. Marine Corps Forces, Northern Command

U.S. Marine Corps Forces, Northern Command (MARFORNORTH) is the USMC service component of U.S. Northern Command (USNORTHCOM). MARFORNORTH commands all Marine forces assigned to USNORTHCOM and advises Commander, USNORTHCOM on the proper employment and support of Marine forces. MARFORNORTH executes anti-terrorism program and force protection responsibilities, conducts homeland defense operations, and provides defense support to civil authorities. MARFORNORTH headquarters is co-located with MARFORRES in New Orleans, Louisiana.



U.S. Marine Corps Forces, Central Command

U.S. Marine Corps Forces, Central Command (MARCENT) is the USMC service component of U.S. Central Command (USCENTCOM). MARCENT commands all Marine forces assigned to USCENTCOM and conducts planning in support of Commander, USCENTCOM. MARCENT also commands Marine forces assigned to joint and multinational forces and advises joint force commanders on proper employment and support of Marine forces. MARCENT headquarters is located at MacDill Air Force Base, Florida.



U.S. Marine Corps Forces, Southern Command

U.S. Marine Corps Forces, Southern Command (MARFORSOUTH), is the USMC service component for U.S. Southern Command (USSOUTHCOM). MARFORSOUTH commands all USMC forces assigned to USSOUTHCOM and advises the Commander, USSOUTHCOM on the proper employment and support of Marine forces. MARFORSOUTH also conducts deployment and redeployment planning and execution of Marine forces assigned to USSOUTHCOM and accomplishes other operational missions as assigned. MARFORSOUTH headquarters is located in Miami, Florida.



U.S. Marine Corps Forces, Europe and U.S. Marine Corps Forces, Africa

U.S. Marine Corps Forces, Europe (MARFOREUR) and U.S. Marine Corps Forces, Africa (MARFORAF) are the USMC service components for U.S. European Command (USEUCOM) and U.S. Africa Command (USAFRICOM). MARFOREUR and MARFORAF provide Marine forces and support to USEUCOM and USAFRICOM commanders across all warfighting functions. MARFOREUR supports contingency operations in the USEUCOM area of responsibility by providing rotational forces and maintaining amphibious-oriented integration with key European allies. MARFORAF maintains crisis response capability in the USAFRICOM area of responsibility and protects U.S. personnel and facilities across the continent. MARFOREUR and MARFORAF headquarters is located in Böblingen, Germany and Stuttgart, Germany, respectively.



U.S. Marine Corps Forces, Korea

U.S. Marine Corps Forces, Korea (MARFORK) is the USMC service component for U.S. Forces Korea (USFK) and United Nations Command (UNC). It commands all Marine forces assigned to USFK and UNC and advises USFK and UNC on the capabilities, support, and proper employment of Marine forces. MARFORK supports the defense of the Republic of Korea by facilitating the rapid introduction of USMC forces onto the Korean Peninsula in order to maintain stability in Northeast Asia. MARFORK is the Marine Corps representative to the Commandant of the Republic of Korea Marine Corps. MARFORK headquarters is located in Seoul, South Korea.

Fleet Marine Forces service components supporting the functional combatant command are as follows:



U.S. Marine Corps Forces, Special Operations Command

U.S. Marine Corps Forces, Special Operations Command (MARSOC) is the USMC service component of U.S. Special Operations Command (USSOCOM). Under the direction of the Commander, USSOCOM, MARSOC deploys task-organized, scalable, and responsive Marine special operations forces worldwide in support of combatant commanders and other agencies. Over the years, MARSOC has conducted missions in over 30 different countries. Many of these missions have been focused on strengthening partner counter-terrorism capabilities, assisting with counter narco-terrorism efforts, and providing subject matter expertise and training to partner forces. In addition, MARSOC conducts missions related to foreign internal defense, special reconnaissance, and direct action. MARSOC headquarters is located at Camp Lejeune, North Carolina.



U.S. Marine Corps Forces, Strategic Command

U.S. Marine Corps Forces, Strategic Command (MARFORSTRAT) is the USMC service component command of U.S. Strategic Command (USSTRATCOM). MARFORSTRAT advises and assists other USMC commands and supporting establishment in the development of concepts, education, training, and doctrines. MARFORSTRAT also assists the commands and supporting establishment in developing capabilities in space, cyberspace, electronic warfare, and efforts to combat weapons of mass destruction. MARFORSTRAT advocates for capabilities in order to ensure coherent cross-mission situational awareness and integration between the USMC and USSTRATCOM. MARFORSTRAT headquarters is co-located with USSTRATCOM headquarters at Offutt Air Force Base, Nebraska.



U.S. Marine Corps Forces, Cyberspace Command

U.S. Marine Corps Forces, Cyberspace Command (MARFORCYBER) is the USMC service component for U.S. Cyber Command. MARFORCYBER performs full spectrum cyberspace operations, which includes the planning and direction of Marine Corps enterprise network operations, defensive cyberspace operations, and the planning and direction of offensive cyberspace operations in support of Joint and Coalition Forces. MARFORCYBER performs various functions to enable freedom of action across all warfighting domains and deny the same to adversarial forces. MARFORCYBER headquarters is located at Fort Meade, Maryland.

Supporting Establishment

The Marine Corps Supporting Establishment consists of those personnel, bases, and activities that support the Fleet Marine Forces. This infrastructure consists primarily of 16 major bases and stations in the United States and overseas and all the personnel, equipment, and facilities required to operate them—approximately 30,000 Marines. Additionally, the Supporting Establishment includes those civilian activities and agencies that provide support to Fleet Marine Forces.

In keeping with the Marine Corps' expeditionary nature, these installations that support the Marine Expeditionary Forces are strategically located near aerial ports and seaports of embarkation and are serviced by major truck routes and railheads to allow for the rapid and efficient movement of Marines and equipment.

Analysis of Performance Goals, Objectives, and Results

The primary mission and service of the USMC is to be a premier warfighting group prepared to take on challenges around the globe at a moment's notice. In line with its goal, for financial reporting purposes, the USMC defines itself as a responsibility segment and/or major program with one major output, which is military support. To execute its major program objectives, the USMC has sub-programs and related activities, managed through the establishment of performance goals and related objectives. The individual sub-program costs and related revenue applicable to specific activities are consolidated into the military support major program, presented on the Statement of Net Cost (SNC) as one responsibility segment.

Goal 1 – Design and Develop the Force

Design the Marine Corps for the next 25 years as prescribed in the 2018 NDS, National Military Strategy (NMS) and Defense Planning Guidance (DPG). Specifically, the 2018 NDS states “new concepts of warfare and competition that span the entire spectrum of conflict require a Joint Force structure to match this reality”. Make the necessary divestments from the current force and current program to accelerate the funding and modernization of the future force.

Objective 1.1: Design the future force

Results:

- Used force design results to develop and publish force development guidance for Program Objective Memorandum (POM)-22.
- Developed and published a Marine Corps capstone operating concept.
- Used the Marine Corps Force Design, service strategy, and operating concept to inform POM-22 and POM-23 planning.

Objective 1.2: Integrate Navy and USMC Planning, Programming, Budgeting, and Execution Processes

Results:

- Used the Marine Corps Force Design, service strategy, and operating concept to adjust President's Budget (PB)-21 budgeting and POM-22 planning and programming.

Objective 1.3: Refine concepts and transition them to doctrine through the systematic use of war-games, modeling, simulations, and tests

Results:

- Developed and published an integrated war-gaming, experimentation and test campaign plan to support Distributed Operations, Littoral Operations in a Contested Environment, Expeditionary Advanced Base Operations, and stand in forces.

Objective 1.4: Develop the future force

Results:

- Beginning with PB-21 budgeting, divested from legacy and low demand-signal capabilities.
- Developed a surface Long-Range Precision Fires capability.
- In coordination with the Navy, the Marine Corps War Fighting Lab provided recommendations through the Planning process to Deputy Commandant, Combat Development and Integration, and the Marine Requirements Oversight Council for apportionment of funds to test artificial intelligence, data science, and other emerging and disruptive technologies to include decision support tools for tactical commanders, and any system that automates time-consuming linear processes currently done by Marines.
- Reviewed and updated Service Level Training Exercise assessment models to increase rigor and establish a training environment against a peer adversary where failure to meet standards is assessed and rectified.

Goal 2 – Integrate with the Navy

Re-establish our identity as a naval expeditionary force, and enhance our relationship with the Fleets as an extension of naval power.

Objective 2.1: Update enterprise-level plans and policies to support changes to the way we organize, train, equip, and employ as part of a naval expeditionary force

Results:

- Reviewed, updated, and published the fiscal year (FY) 2020 Aviation Plan to incorporate Service Force Design decisions, and support Force Development and Service PPBE processes across the Future Years Defense Program.
- To enhance Interactive Courseware (ICW) Services and Global Command and Control System, reviewed 10 U.S. Code 5063 and made recommendations for changes specific to language related to “land operations as may be essential to the prosecution of a naval campaign”, and to enhance ICW, U.S. Navy determined if changes or refinements to the component relationship within the 1986 Goldwater-Nichols Act are necessary to improve integration between Navy and Marine Corps operating forces.
- Developed an installations plan that demolishes facilities beyond the scope of repair, prioritizes maintenance, and incorporates Training and Education (T&E) Command recommendations for modernizing training facilities.

Objective 2.2: Employ our operational forces in accordance with strategic guidance by integrating with Office of the Chief of Naval Operations, Fleet Forces and numbered fleets

Results:

- Reviewed and updated resident and non-resident Professional Military Education (PME) curricula to enable Marines to gain and maintain understanding of naval and joint operations.

Goal 3 – Increase Trust and Confidence

Reestablish our primacy within the DoD as the most innovative and revolutionary thinkers, the most well-disciplined and accountable force, and the most transparent and responsive force to our collective civilian leadership across the Joint Force and DoD.

Objective 3.1: Transform Training and Education from the Industrial Age to the Information Age

Results:

- Developed and implemented a plan to transform the T&E continuum from an industrial age model to an information age model.
- Reviewed and updated all T&E curricula to ensure training is provided to complement education and vice versa, with a focus on 21st century learning methodologies (appropriate background reading, tactical decision games, modeling, simulation, and augmented reality).
- Reviewed and updated all Training and Readiness Manuals to include appropriate learning aids (background reading, videos, tactical decision games, modeling, simulation, and augmented reality).

Objective 3.2: Modernize Talent Management

Results:

- Reviewed and updated PME programs to make them as academically rigorous as possible and no longer consequence free.
- Planned revisions to the Performance Evaluation System applying modern talent management practices where applicable.
- Researched, developed, and began implementing a comprehensive and integrated command and leadership selection process that addresses ethics and personal misconduct to ensure the Marine Corps selects the best and most fully qualified commanders in the DoD.
- Ensured Marines are well-led and cared for physically, emotionally, and spiritually, both in and out of combat; expedited the departure of individuals that have no place in the Marine Corps; and gave junior officers and enlisted leaders every opportunity to lead, educate, train, supervise and enforce high standards.

Objective 3.3: Enforce Discipline and Standards**Results:**

- Reviewed and updated the Prohibited Activities and Conduct Order in order to provide clarity for addressing behaviors that are contrary to the continued health of our collective soul and identity.
- Recommended policy updates to ensure leaders have the tools to lead, educate, train, supervise, and enforce high standards of performance and conduct.
- In coordination with Naval Criminal Investigative Service and Office of the Staff Judge Advocate for the CMC, recommended policy changes to ensure timely completion of Sexual Assault Investigations.
- Recommended updates to T&E requirements related to morality, ethics, constitutional values, core values, customs and courtesies, standards of conduct, occupational health, Code of Conduct, and the Law of Armed Conflict.

Objective 3.4: Take Care of our Marines**Results:**

- In coordination with the DoN Sexual Assault Prevention and Response Office, continued to refine all efforts to reduce sexual assault and better protect victims.

Analysis of Financial Statements and Stewardship Information

The Marine Corps' management is responsible for the integrity of the amounts in the financial statements. Explanations of year-over-year fluctuations in financial statement line items support management's goal of demonstrating objectivity and transparency to the American taxpayer regarding the use of the financial resources they have provided to the Marine Corps. Due to the interrelationships between certain accounts and financial statement line items, business events affecting the financial statements can impact multiple line items. The significant balances and current period fluctuations affecting the Marine Corps' key measures are provided in the table below:

Table of Key Measures				
Amounts in Thousands	Current FY	Prior FY	Increase/(Decrease)	
			\$	%
COSTS				
Total Financing Sources	\$ 27,821,987	\$ 24,588,058	\$ 3,233,929	13.2%
Less: Net Cost	27,968,359	27,609,445	358,914	1.3%
Net Change of Cumulative Results of Operations	\$ (146,372)	\$ (3,021,387)	\$ 2,875,015	95.2%
NET POSITION				
Assets:				
Fund Balance with Treasury	\$ 12,580,059	\$ 11,150,277	\$ 1,429,782	12.8%
General Property, Plant and Equipment	23,009,277	21,116,672	1,892,605	9.0%
Other Assets - Non-Federal	236,159	58,710	177,449	302.3%
Remaining Assets	8,437,814	8,732,450	(294,636)	(3.4)%
Total Assets	\$ 44,263,309	\$ 41,058,109	\$ 3,205,200	7.8%
Liabilities:				
Accounts Payable	\$ 1,094,500	\$ 847,504	\$ 246,996	29.1%
Other Liabilities	1,764,824	1,619,147	145,677	9.0%
Remaining Liabilities	364,791	385,300	(20,509)	(5.3)%
Total Liabilities	\$ 3,224,115	\$ 2,851,951	\$ 372,164	13.1%
Net Position (Assets minus Liabilities)	\$ 41,039,194	\$ 38,206,158	\$ 2,833,036	7.4%

Significant financial statement line items presented in the Table of Key Measures or within the financial statements in the Financial Section that varied substantially from the prior year are explained below.



Analysis of Assets

Fund Balance with Treasury (FBWT) increased \$1,429,782 thousand, or 12.8%, when compared to the prior year. The variance is primarily attributed to increases in total budget authority in FY2020 to support the Marine Corps operations, payroll changes, hurricane recovery, and Coronavirus Disease 2019 (COVID-19) pandemic.

Other Assets (non-federal) increased \$177,449 thousand, or 302.3%. This variance is due to a significant increase in “permanently removed but not yet disposed” Military Equipment (ME) assets recognized as “other assets” beginning in FY2020.

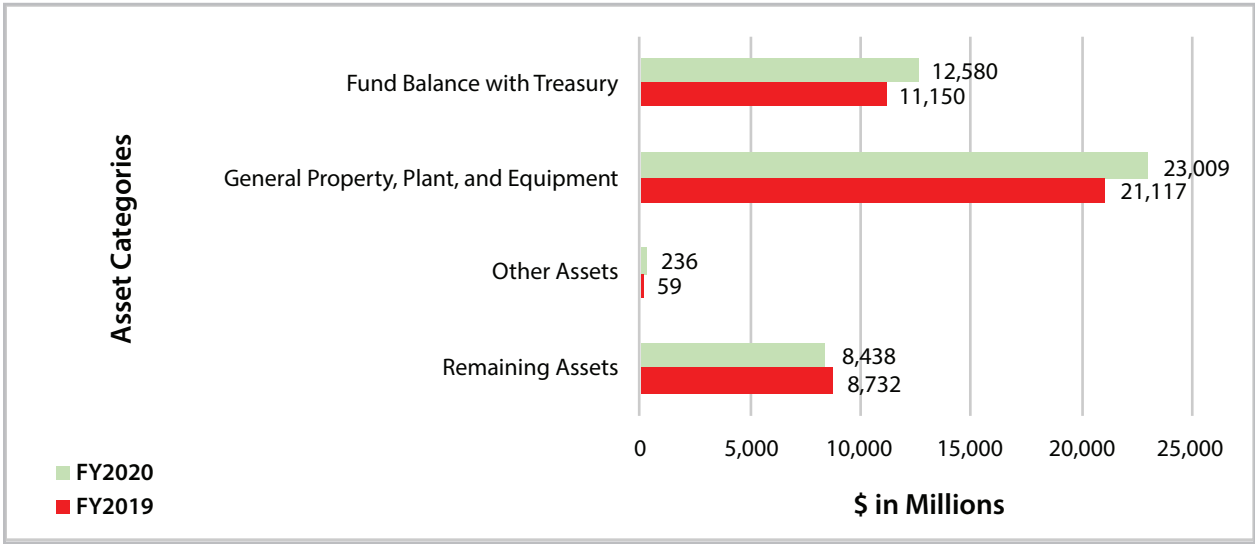


Figure 4: Asset Comparison

Analysis of Liabilities

Accounts Payable, as presented in the Table of Key Measures, includes both intragovernmental and non-federal balances. Accounts Payable (intragovernmental) decreased \$90,571 thousand, or 33.6%, compared to the prior year. This variance is due to a process change in recording Trading Partner (TP) eliminations. In FY2020, the Marine Corps executed detailed reconciliations between the TP seller and the Marine Corps as buyer, which improved the recognition of transaction adjustments. In addition, this variance in the Accounts Payable (intragovernmental) balance is a result of ongoing efforts in FY2020 to eliminate abnormal conditions. Accounts Payable (non-federal) increased \$337,567 thousand, or 58.4% due to the development of a statistically based accounts payable accrual methodology implemented in FY2020 to estimate and accrue for goods and services received at the end of each reporting period.

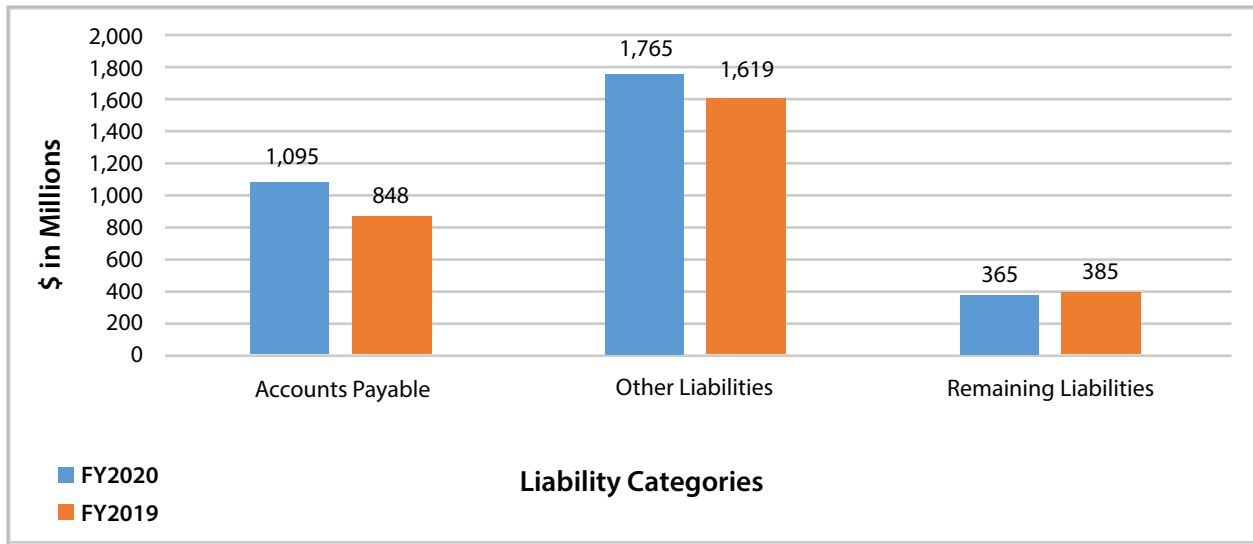


Figure 5: Liability Comparison

Analysis of Net Cost

Earned Revenue increased \$44,604 thousand, or 15.1% compared to FY2019. This variance is due to the USMC recognizing program sales activity from agricultural/grazing leases, the sale of forestry products and recyclable materials, and trademark licensing fees as earned revenues beginning in FY2020 whereas in previous years these amounts were recorded into a suspense account.

Analysis of Net Position

Budgetary Financing Sources: Appropriations transferred in/out decreased \$463,668 thousand, or 148.8%, compared to the prior year. This decrease is due to the Marine Corps receiving less funding via transfers compared to FY2019, as the majority of FY2020 funding was through direct appropriations.

Budgetary Financing Sources: Other Adjustments of \$96,770 thousand primarily consists of rescissions to the Procurement appropriation recognized in 2nd quarter, FY2020.

"Prior Period Adjustments: Changes in Accounting Principles" fluctuations of \$1,753,438 thousand and Other Financing Sources: Other of \$1,563,510 thousand, or 62.8%, are primarily due to changes in how the USMC recognizes adjustments to property beginning balances. In FY2020, the Office of the Under Secretary of Defense (OUSD) issued guidance directing the reporting of all prior period adjustments to be accounted as, "Changes in Accounting Principles" until an unreserved assertion is made under Statement of Federal Financial Accounting Standards (SFFAS) No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35 and SFFAS No. 48, Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, whereas, in previous years such adjustments were recorded as gains and losses.

Other Financing Sources: Transfers-in/out without reimbursement increased \$443,319 thousand, or 165.5%, which is attributable to Real Property host installation transfers-in activities. These activities occurred to meet compliance with the OUSD policy issued March 15, 2019, directing each service to report real property assets based on physical location.

Analysis of Budgetary Resources

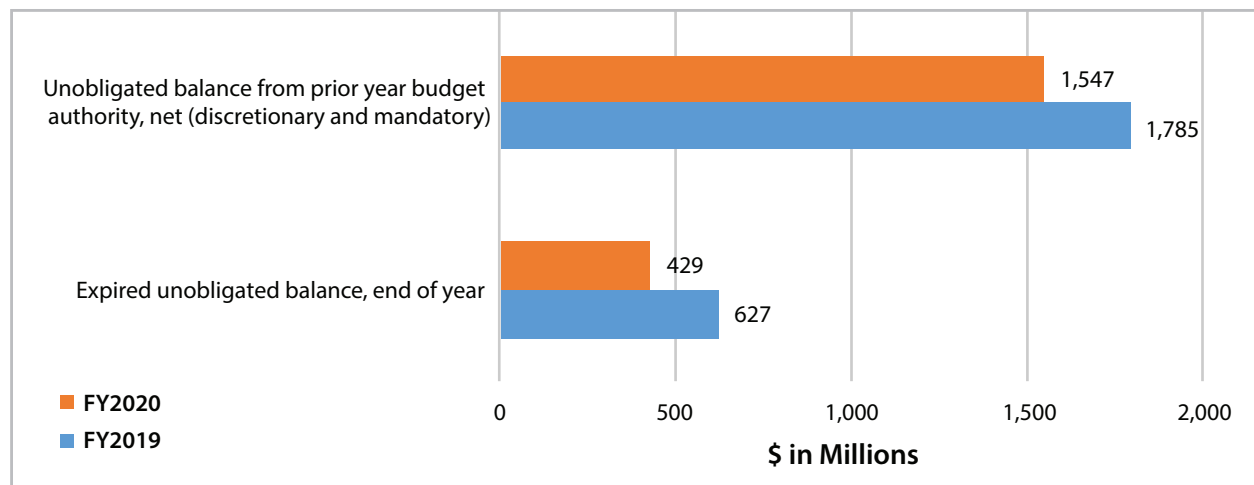


Figure 6. Components of Unobligated Balance

Unobligated Balance from Prior Year Budget Authority, Net (discretionary and mandatory) decreased \$237,790 thousand, or 13.3%, and Expired unobligated balance, end of year decreased \$197,939 thousand, or 31.6 % compared to FY2019. This variance is due to transfer-out of authorized expired appropriations into the foreign currency fluctuation account, tightened controls over cancelled balances, increased validation efforts in support of the audit, and the execution of the OUSD Dormant Account Review Quarterly process in FY2020.

Distributed offsetting receipts increased \$32,376 thousand, or 1221.7%, compared to FY2019 due to the removal of revenue collections previously reported within the suspense accounts to newly designated receipt accounts in FY2020.

Analysis of COVID Impact

During FY2020, the USMC was appropriated funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act in order to prepare for, prevent, and respond to outbreaks related to COVID-19. The USMC's COVID-19 funding objectives were to maintain readiness, protect the force, and prevent loss of essential functions. The CARES Act and the USMC base appropriations funding totaling \$262,477 thousand, were obligated to provide Non-Appropriated Fund Activity support, information technology (IT) service enhancement in support of telework and social distancing efforts, enhanced sanitation efforts, quarantine implementation, recruiting enhancements to maintain quotas, and to mitigate potential impacts at recruit training depots. The USMC's pandemic response activities did not result in any resources remaining available for obligation in FY2021. The COVID-19 related spending increased the USMC's reported gross costs on the SNC and accounts payable balance reported on the balance sheet.

Limitation of Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the USMC, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the books and records of the USMC in accordance with Federal Generally Accepted Accounting Principles and the formats prescribed by Office of Management and Budget (OMB). Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

Fiscal Year 2020 Management Assurances

The Marine Corps is responsible for identifying and managing risks, and maintaining internal controls and financial systems that provide reasonable assurance of achieving the control objectives outlined within Sections 2 and 4 of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). These objectives consist of effective and efficient operations, reliable reporting, and compliance with applicable laws and regulations. Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides specific requirements for conducting assessments of risk and internal controls for compliance with the FMFIA. The Managers' Internal Control Program (MICP) performs internal assessments to determine adherence to these requirements. Based on the results of these assessments, in meeting the objectives of the FMFIA, the Marine Corps provides no assurance on Internal Controls over Financial Reporting and Internal Controls over Financial Systems, and provides modified assurance over Internal Controls over Operations.

For fiscal year 2020, the Marine Corps reports material weaknesses related to Section 2 of FMFIA in the following areas:

- Entity-Level Controls
- Fund Balance with Treasury Controls
- Property, Plant, and Equipment
- Ability to Provide Complete, Timely, and Sufficient Evidence
- Financial Reporting and Analysis
- Business Process Controls
- Operating Materials and Supplies
- Physical Installation security requirements

The Marine Corps also reports material non-compliance with Section 4 of FMFIA in the following areas:

- Information Systems
- Integrated Financial Management Systems

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires USMC management to implement and maintain financial management systems that substantially comply with Federal financial management systems requirements, Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. The Marine Corps is reporting noncompliance with the FFMIA as of 30 September 2020.

Further details regarding the material weaknesses and the status of corrective action plan activities for FMFIA and FFMIA compliance can be found within the *Analysis of Systems, Controls, and Legal Compliance* section of the Agency Financial Report. The Marine Corps remains focused on developing and maturing its internal controls and financial management programs to ensure that we continue to be good stewards of the resources with which we have been entrusted.



D. H. BERGER
Commandant of the Marine Corps

Commanders and managers throughout the Marine Corps are responsible for the integrity of their programs and operations. Part of this responsibility entails compliance with Federal requirements for internal controls that address financial reporting, financial systems, and non-financial operations promulgated by the FMFIA and the FFMIA. These requirements promote the production of more timely, reliable, and accessible financial information, supported by the development and implementation of more effective internal controls. Useful financial information and effective controls save resources and improve efficiency, thereby enhancing public confidence in our stewardship of public resources, which is critical for the protection and sustainment of our Nation and its vital interests.

In order to comply with the applicable laws and regulations, the Marine Corps requires Commanders and managers at all levels to establish and continuously maintain an active MICP to align with the FMFIA and the OMB Circular No. A-123 requirements. The MICP evaluates and reports on the effectiveness of internal controls throughout the organization to ensure effective operations, safeguards against fraud, waste and mismanagement, and aids in the compliance with laws and regulations regarding Internal Controls Over Operations, Internal Controls Over Financial Reporting (ICOFR), and Internal Controls Over Financial Systems (ICOFS). Additionally, Commanders and managers at all levels are required to properly integrate risk management practices and internal control functions to effectively and efficiently identify, assess, manage, and report risks.

OMB Circular No. A-123, Appendix A, *Implementation Plans*, provides specific requirements for conducting management's assessment of internal controls over reporting and requires the agency head to provide an assurance statement on the effectiveness of controls. The FMFIA assurance statement provides an assessment of the effectiveness of the Marine Corps' internal controls to support effective and efficient programmatic operations, reliable financial reporting, compliance with applicable laws and regulations, and whether financial management systems conform to financial systems requirements.

Implementation of a comprehensive Enterprise Risk Management (ERM) framework capability is underway. ERM specifies that agencies must identify, measure, and assess risks to include effective internal controls into existing functions related the Marine Corps agency's mission. ERM capability will enhance the Marine Corps decision making in pursuit of achieving its strategic objectives. It is being developed to conform and comply with the strategic planning and strategic review process established by the Government Performance and Results Modernization Act, the internal control processes required by FMFIA, OMB Circular No. A-123, and the Government Accountability Office's (GAO's) *Standards for Internal Controls in the Federal Government* (i.e., the Green Book). The Marine Corps supports an agency-wide approach to address and prioritize both external and internal risks among all its major assessable units. As a result, a continuous and evolving risk profile is maintained through a variety of sources including the Annual Statement of Assurance, MICP inputs, and other audit findings. When risk assessments are performed annually and reviewed, the most significant risks are prioritized to address the inherent, current, and residual risks. The risk assessments also take into consideration the Marine Corps risk tolerance given the relative importance of the related objective and risk appetite.

The Marine Corps facilitates and monitors the corrective actions in place to ensure material weaknesses are being effectively remediated in line with developed USMC initiatives, strategies, and timelines by providing corrective action plans (CAPs) review and performing validations upon completion.

Program & Resources, Fiscal Division, Internal Review performs OMB Circular No. A-123 assessments to evaluate the design and effectiveness of ICOFR. The following actions were undertaken to improve ICOFR and ICOFS during FY2020:

- Performed a joint Manpower and Reserve Affairs (M&RA) and ICOFR limited scope testing of the Civilian Pay process.
- Coordinated with the Accounting and Financial Systems Branch and M&RA to assist with developing and/or updating business process narratives, which included identification and documentation of key internal controls. Nineteen of forty-six business process narratives have been finalized, which has had positive impacts on the USMC's ability to accomplish its mission and prevent fraud, waste and abuse.
- Developed new test procedures for MICP to evaluate Financial Reporting, Appropriations Received, and Transportation of Things.
- Completed ICOFR testing for the areas of FBWT, Journal Voucher Posting, Financial Statement Compilation and Reporting and Suspense Account Oversight and Monitoring.
- Continued development of fraud risk assessment for financial statement line items.

- Tested and validated the Marine Corps' financially relevant systems and applications' (Standard Accounting Budgeting and Reporting System (SABRS), SABRS Management Analytical Retrieval Tools (SMARTS), Marine Corps Total Force System, and Marine Corps Order Resource System) CAPs to support USMC's effort to remediate Notices of Findings and Recommendations (NFRs) identified by the Independent Public Accountant (IPA). Validation included improved internal controls for the domains of Segregation of Duties, Access Management, Security Management and Configuration Management.
- Performed validation assessments on Complementary User Entity Controls (CUECs) for Defense Civilian Personnel Data System where 12 deficiencies were discovered and Defense Civilian Payroll System where 16 exceptions were discovered. CAPs were then developed to address these deficiencies and all CUECs or milestones within the CAP have been tested and validated.
- MICP ICOFS team assisted, trained, and provided guidance to the Marine Corps stakeholder, M&RA to comply with the Risk Management Framework (RMF) being deployed DoD wide. The stakeholder is in the process of correcting all the deficiencies and/or exceptions found by the ICOFS team during the testing and validation process.

OMB Circular No. A-123, Section V, Correcting Internal Control Deficiencies, identifies that correcting control deficiencies is an integral part of management accountability and must be considered a priority. The Marine Corps is working to resolve material weakness control deficiencies identified during prior financial statement audits, through the effective development of CAPs.

In order to comply with OMB Circular No. A-123, the Marine Corps requires Commanders and managers at all levels to perform a root-cause analysis of any deficiencies to ensure that the CAPs will resolve the underlying problem. Programs & Resources, Fiscal Division, Risk Management facilitates the implementation and validation of CAPs to ensure material weaknesses are remediated and closed out in-line with developed USMC initiatives, strategies and timelines.



The status of the Marine Corps' unresolved material weaknesses are as follows:

Material Weakness	Summary Description	Corrective Actions and Status
1. Entity Level Controls	<p>The material weakness identified that the Marine Corps has not fully implemented processes to document and evaluate its Entity Level Control (ELC) environment and risk assessment processes to meet financial reporting objectives. Specifically, the Marine Corps has not:</p> <ul style="list-style-type: none"> • Identified and documented its financial reporting objectives or performed a comprehensive financial reporting risk assessment at the entity level; • Finalized or validated its business process narratives designed to assist management with the identification and evaluation of internal controls over financial reporting; • Fully implemented a comprehensive RMF of the IT control environment for all Marine Corps systems; • Maintained complete documentation of appropriate points of contacts, locations of system program management offices, parties responsible for administering and operating systems, and locations of the hosting facilities for many third-party systems; • Evidenced all CUECs documented within the relevant System and Organization Controls report are designed and implemented correctly and operating effectively; and • Developed sufficient CAPs or performed proper root cause analyses. 	<p>Implementation of the Managers' Internal Control Remediation and Reporting (MICRR) application has provided a platform for the Marine Corps to consolidate the testing and documentation of ELC test work into one location; a tool that will provide tremendous dividends in future fiscal years. In addition, the Marine Corps has continued to perform a gap analysis of the current ELC environment to the standard set forth in the GAO's Green Book. This gap analysis is serving to inform future audit remediation efforts.</p> <p>Corrective actions are estimated to be completed in FY2023.</p>
2. Ability to Provide Complete, Timely and Sufficient Evidence	<p>The material weakness identified that Marine Corps documentation for both business and IT processes were not readily available. In addition, there was an inability to timely and sufficiently provide data for sampled transactions and transactional level data populations.</p>	<p>The Marine Corps demonstrated a notable improvement in its ability to support sampled transactions in a timely manner. For example, improvement in supporting military payroll samples was significant.</p> <p>The Marine Corps will continue the development of repositories for supporting documentation retrieval. Audit support teams will also be established both at the HQMC and command levels to ensure roles, responsibilities, and deadlines are understood with respect to providing requested audit documentation.</p> <p>Corrective actions are estimated to be completed by 1st quarter FY2022.</p>

Material Weakness	Summary Description	Corrective Actions and Status
<p>3. Financial Reporting and Analysis</p>	<p>The material weakness indicated that the Marine Corps:</p> <ul style="list-style-type: none"> • Did not adequately define its reporting entity in accordance with SFFAS No. 47, <i>Reporting Entity</i>; • Did not produce an Agency Financial Report (AFR) compliant with generally accepted accounting principles and OMB Circular No. A-136, <i>Financial Reporting Requirements</i>; • Has deficiencies in its financial management analysis and oversight functions pertaining to its general ledger's USSGL compliance, financial management analysis, service organization control activities and oversight, and the data to support financial reporting activities; • Does not maintain a comprehensive listing of its accounting estimates that affect the financial statements; and • Has deficiencies related to completeness and accuracy of accounts payable and contingent legal liabilities. 	<p>Annually, the Marine Corps reviews and evaluates its reporting entity composition and updates its Entity Profile document for completeness and compliance with Federal Accounting Standards Advisory Board standards and OMB Circular No. A-136.</p> <p>The Marine Corps has also implemented and performs oversight controls over service organization activities pertaining to financial reporting activities and has implemented and performs quarterly financial analysis over reported balances to address abnormal conditions and/or understand fluctuations in balances.</p> <p>In addition, the Marine Corps has identified the list of reporting areas that represent accounting estimates in the financial statements and no longer has issues related to the completeness and accuracy of contingent legal liabilities.</p> <p>In FY2020, the Marine Corps used a statistical model to develop an accounts payable estimate for non-Federal contracts using subsequent disbursement lag rates. This methodology will continue to be validated to refine the precision of the recorded accrual amount related to non-Federal accounts payable.</p> <p>Remaining corrective actions are estimated to be completed in FY2021.</p>
<p>4. Property, Plant and Equipment</p>	<p>The material weakness identified that the Marine Corps:</p> <ul style="list-style-type: none"> • Did not demonstrate the existence and completeness of its capitalized Property, Plant, and Equipment (PP&E) reported in the financial statements; and • Values its PP&E in a manner that is not in accordance with SFFAS No. 6, <i>Accounting for Property, Plant, and Equipment</i>, or SFFAS No. 50. 	<p>The Marine Corps implemented a quarterly inventory reconciliation schedule for capitalized assets and reviewed prior year wall-to-wall inventory results. The Marine Corps also published revised procedures to standardize processes and internal controls for management and divestment of military equipment. The Marine Corps will continue to improve the overall accountability of PP&E and the accuracy of property data within accountable property systems of record (APSRs) used for financial reporting.</p> <p>Remaining corrective actions are estimated to be completed by 4th quarter FY2021.</p>

Material Weakness	Summary Description	Corrective Actions and Status
5. Operating Materials and Supplies	<p>The material weakness identified that the Marine Corps:</p> <ul style="list-style-type: none"> • Was unable to provide complete and reconciled transactional data for its ammunition and non-ammunition populations; Does not reconcile its system records to its third-party service organizations' APSRs for its ammunition and non-ammunition held in the custody of its external service organizations; • Values its Operating Materiel and Supplies (OM&S) in a manner that is not in accordance with SFFAS No. 3, <i>Accounting for Inventory and Related Property</i>, or SFFAS No. 48; • Has not implemented a systemic solution to collectively track ammunition in development costs as incurred; and • Was not able to complete wall-to-wall inventories at all Marine Corps locations. 	<p>The Marine Corps established an Integrated Product Team with the Army to determine third party roles and responsibilities. New policy and revised procedures were published to standardize processes and internal controls for management and divestment of OM&S inventory in temporary storage projects. An improved warehousing strategy was also established for storage of OM&S inventory to ensure asset safeguarding and protection. Improved access to management data will enable effective inventory oversight, highlight issues in real-time, and facilitate sound management decisions.</p> <p>The Marine Corps will work to implement valuation procedures consistent with requirements in SFFAS No. 3, track and accumulate in development expenditures, and provide a supportable, complete, and reconcilable population for its OM&S ammunition balances reported during the previous year.</p> <p>Starting in late FY2020, the Marine Corps implemented ammunition and non-ammunition roll forward procedures to reconcile transactional activity to on-hand balances. The Marine Corps will continue to identify and remediate variances.</p> <p>Corrective actions are estimated to be completed by 3rd quarter FY2021.</p>
6. Fund Balance with Treasury Controls	<p>The material weakness identified:</p> <ul style="list-style-type: none"> • Deficiencies pertaining to the existence and completeness of collections, disbursements, and related changes to FBWT; and • A lack of implementation of internal controls related to cross-disbursements, shared appropriations, adjustments, the Statement of Differences, and suspense accounts. 	<p>The Marine Corps assessed the materiality of each Disbursing Station Symbol Number affecting the Statement of Differences balances to analyze risk. An analysis was also performed to extract the root cause impacting suspense accounts and courses of actions. The Marine Corps will work to reconcile collections and disbursement transactions against SABRS and establish internal controls to ensure completeness and accuracy of data inputted into Defense Cash Accountability System.</p> <p>Corrective actions are estimated to be completed by 4th quarter FY2021.</p>

Material Weakness	Summary Description	Corrective Actions and Status
7. Business Process Controls	The material weakness identified that the Marine Corps has not demonstrated the proper design, implementation, and operating effectiveness of its internal controls' activities for payroll and non-payroll business processes. Deficiencies exist in the areas of generation of supporting documentation related to payroll, segregation of duties, revenue recognition and recording, receipt and acceptance, recording of expenses, accounting for refunds and returns, budgetary accounting, and timely and accurate recording of transportation transactions, including support for estimates.	The Marine Corps evaluated payroll and non-payroll internal control deficiencies for underlying causes. The Marine Corps has implemented G-Invoicing for the tracking of General Terms & Conditions agreements with USMC trading partners and is working to implement and integrate the order, invoicing, and receipt and acceptance to meet the U.S. Treasury mandate of Oct 2022 for full implementation. This will assist in addressing current accounting and reporting challenges by providing a common platform for brokering all Intergovernmental Transactions (IGT) buy/sell activity; implementing a federal IGT buy/sell data standard; and providing transparent access to a common data repository of brokered transactions.
8. Physical/Installation Security Requirements	The material weakness identified that the Marine Corps did not meet the physical security requirements for a Level II restricted area.	The Marine Corps will continue to monitor controls for flight line security, work through contract award and completion, as well as submit funding requirements for projects and Military Construction for funding and approval. Corrective actions are estimated to be completed by 4 th quarter FY2025.

The USMC reports material non-compliance in the following areas:

Material Non-Compliance	Summary Description	Corrective Actions and Status
1. Information Systems	The material weakness identified that the Marine Corps has several deficiencies in the design and operating effectiveness of internal controls related to the core accounting system and key Tier 1, 2 and 3 systems and third-party systems. Deficiencies were noted in the areas of Security Management, Access Controls and Segregation of Duties, Configuration Management, Continuity Planning, and Interfaces.	<p>The Marine Corps will continue to enhance their approach to assessing risks and corrective actions to address the deficiencies noted. Policy and procedures have been enhanced and will continue to be improved to address identified gaps and align with the requirements described in DoD, Marine Corps and National Institute of Standards and Technology (NIST) guidance. Supplemental cybersecurity guidance, updates, or revisions will be provided through Enterprise Cybersecurity Manuals, Marine Administration messages, and Marine Corps Bulletins on an annual basis.</p> <p>Corrective actions are estimated to be completed by FY2022.</p>
2. Integrated Financial Management Systems	<p>The material weakness identified deficiencies noted in three related areas:</p> <ul style="list-style-type: none"> • SABRS Interface Controls to ensure accurate receipt validation, processing, and reconciliation; • Feeder systems to SABRS reconciliations to validate completeness and accuracy of interface data; and • Integration between APSRs and SABRS to allow PP&E and OM&S detail to be directly recorded in SABRS versus via quarterly manual journal vouchers, as is currently the practice. 	<p>The Marine Corps reviewed the SABRS Interface Partners related to Marine Corps Financial Reporting objectives and updated the interface agreement to include reconciliation procedures. The Marine Corps also identified financially significant interface partners and updated the Memorandum of Agreements with reconciliations details to ensure complete and accurate transmissions. The Marine Corps will develop internal controls to monitor completeness and accuracy of non-payroll interface data along with receipt validation and error processing routines.</p> <p>Remaining corrective actions are estimated to be completed by 4th quarter FY2023.</p>

Financial management systems required to comply with FFMIA include both operational and accounting systems. FFMIA supports the same objectives as the Chief Financial Officers Act of 1990 with a systems emphasis. The Marine Corps is responsible for complying with applicable Federal accounting standards, compliance with the USSGL at the transaction level, and for maintaining accounting and reporting systems that substantially comply with Federal financial management systems requirements.

The Marine Corps' financial systems did not fully comply with the Federal financial management system requirements, Federal accounting standards, and application of the USSGL at the transaction level as of September 30, 2020. These conditions are caused by the complexity of the Marine Corps and the Defense Finance and Accounting Service (DFAS) financial reporting process and current system configurations, which includes the need for multiple data sources to recalculate or monitor financial reporting outputs. The Marine Corps' ongoing execution of developed CAPs to remediate the outstanding reporting issues will extend into FY2021.

The Marine Corps deployed the Marine Corps Managers' Internal Control Remediation and Reporting (MICRR) application for all users in July 2020. The MICRR application is a comprehensive application platform to standardize and modernize risk management and internal controls to comply with applicable standards for conducting the MICP across the USMC

Enterprise. The application is designed to assist the Marine Corps with performing internal control activities and contains built in fraud reduction capabilities at the entity, process, and transaction level. It will support the MICP, Entity-Level Controls, reporting of financial systems and operational statement of Assurance, CAPs, NFRs, Audit, Risk Management, Remediation, and Fraud, with reporting and collecting data.

Compliance with Other Key Legal and Regulatory Requirements

Federal Information Security Modernization Act

The Federal Information Security Modernization Act of 2014 (FISMA) requires each Federal agency to evaluate and test the effectiveness of its information security programs. FISMA gives oversight authority to the Director of the OMB and gives the Secretary of Homeland Security the authority for implementing policies and procedures of information systems as the Marine Corps expands on its compliance assessment efforts. Federal agencies are required to implement a mandatory set of processes and system controls designed to ensure the confidentiality, integrity, and availability of system-related information. The processes and systems controls in each federal agency must follow established Federal Information Processing Standards, NIST standards, and other legislative requirements pertaining to federal information systems, such as the Privacy Act of 1974. The results are utilized to effectively govern the business processes of the USMC surrounding compliance with FISMA and incorporated into the overarching ERM strategy across the enterprise.

Annually, the Marine Corps addresses 16 FISMA metrics in the FISMA report. The Marine Corps provides the systems with security authorization to operate data metrics through our Marine Corps Compliance and Assessment Support Tool. In FY2020, the Marine Corps reported 184 FISMA reportable systems, 178 systems with current Authority to Operate (ATO) with a 97% ATO authorization rate. The Marine Corps has identified 0 systems with Interim ATOs and 169 Plan of Actions and Milestones (POA&M) to be remediated over the next year. The additional metrics are provided from automated updates collected by Marine Corps Cyberspace Operations Group and other networks reported monthly through various databases.

Anti-deficiency Act

The Anti-deficiency Act (ADA) prohibits Federal agencies from: 1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law (31 U.S.C. § 1341(a)(1)(A)); 2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law (31 U.S.C. § 1341(a)(1)(B)); or 3) making obligations or expenditures in excess of an apportionment or reappropriation or in excess of the amount permitted by agency regulations (31 U.S.C. § 1517(a)). As required by the ADA, the Marine Corps notifies all appropriate authorities of any potential ADA violations.

As of September 30, 2020, the USMC has two open formal ADA investigations that remain under investigation. There were also seven preliminary ADA reviews, which are in various stages of the investigation process. Of the seven, USMC was able to close four of the cases, which resulted in no reportable ADA violations. The remaining three cases have been reported to the DoN.

Digital Accountability and Transparency Act

The Digital Accountability and Transparency Act of 2014 (DATA Act) amended the Federal Funding Accountability and Transparency Act of 2006 to require the public reporting of additional financial data to supplement the current contract and financial assistance award data on USASpending.gov. The goal of the law is to improve the ability of the public to track and understand how the government is spending their tax dollars. The Marine Corps utilizes the Office of the Secretary of Defense Advanced Analytics (ADVANA) tool and team to ensure all Federal reporting requirements under OMB M-20-21 "Appendix A to OMB Circular A-123, Management of Reporting and Data Integrity Risk" are met for DATA Act reporting. Current initiatives include implementation next steps to track, monitor, and report DATA Act requirements to include financial data, procurement data, and awardee and sub-award information. Specific system change requests are under development to capture and transmit essential data elements to the Defense Departmental Reporting System, the DoD financial reporting system. Weekly transmissions are submitted to ADVANA of all required data elements, including the ability to track disaster and emergency funding by Disaster Emergency Fund Code and contingency code. The Marine Corps utilizes the Standard Industrial Classification Code to track both of these elements for obligations and expenditures and outlays. The ability to trace procurement expenditures and obligations for supplies and services back to the budget streams which funded them allows government leadership and the American taxpayer to understand which procurement instruments are being used to execute specific funds.

System Strategy, Overview of System Framework, Synopsis of Critical Projects

The USMC ensures that its financially relevant applications and systems are compliant with the NIST RMF by leveraging the results from testing CUECs, FY2019 Certification Statement reported deficiencies, and existing CAPs. The focus of the USMC systems strategy in development is to improve financial management and performance. The USMC ensures DoD guidelines such as NIST, RMF and FISMA are substantiated in the policy and procedural documentation. Multiple systems are utilized to support the Marine Corps' complete set of financial statements; therefore, the Marine Corps is implementing a strategy to identify, assess, and prioritize financial and mixed systems based on risk.

Internal testing promotes a strong internal control environment, an advanced business understanding of functional processes and interfaces, and allows for a shift from a compliance driven strategy to a sustainable security focused control environment. A continuous validation and monitoring process will enable Marine Corps stakeholders to proactively identify and mitigate control gaps and better prepare for external audits. The Marine Corps is continuously working on efforts to streamline the audit cycle through business process internal control testing with the goal to reduce future NFRs.

The SABRS is a financial management system critical to the effective agency-wide financial management and reporting of the Marine Corps. SABRS supports and standardizes accounting, budget execution and reporting requirements for all general funds authorized by the USMC. SABRS is supported by the SMARTS application, which was developed using Cognos financial software. SABRS interfaces with multiple Marine Corps, DoN, and DFAS financial management systems. CAPs were developed for SABRS based on FY2019 IPA issued NFRs discovered in the internal control areas of risk assessments, security management, account management, and interface controls. The Marine Corps has tested and validated 13 CAPs, of which two addressed Account Management and Security Management deficiencies identified within SABRS.

RMF risk assessments are crucial to an effective information security program and the USMC has enhanced policies and procedures to ensure that the risk management program and guidance provided to supporting organizations is compliant with DoD regulations and guidelines. In FY2020, the Marine Corps renewed its efforts and re-directed its resources to establish a comprehensive top-down risk assessment performed on SABRS that is compliant with NIST RMF and supports the enhancement of the internal control framework that would mitigate vulnerabilities and risks specific to the system. The goal is to remediate these NFRs and to move forward with developing compliant system security control documentation, policies and procedures for continuous monitoring and testing, along with policies and procedures for the correct use of POA&Ms. The Marine Corps plans to utilize the information from the risk assessments to streamline their account management and system interface processes, focusing Marine Corps' future efforts on improving and implementing SABRS system interface and account management controls.

The Marine Corps lacks an integrated financial system compliant with FFMIA, OMB Circular A-123, Appendix D, and the Department of Defense Financial Management Regulation Volume 1, Chapter 3, requirements for compliance under the FMFIA. The design of legacy Marine Corps financial management and feeder systems is not compliant with the USSGL at the transaction level and does not allow for the collection and recording of financial information based on a full accrual accounting basis. Systems also lack necessary system security controls, which may affect reliable financial reporting.

The Marine Corps relies on logistics management feeder systems to provide financial data to the accounting system of record. Corrective actions to address entity level issues are currently in development. Audit remediation activities have allowed the Marine Corps to identify and correct potential critical issues surrounding key IT system controls and improve the risk profile.

The Marine Corps System Strategy supports the implementation of the risk management framework requirements to monitor security controls continuously, determine the security impact of changes to the DoD Information Network and operational environment, and conduct remediation actions to comply with FISMA requirements and the mitigation of identified financial system risks.

Policies and controls developed for financial systems are centered on a risk-based strategy. By leveraging the results of testing CAPs related to IPA issued NFRs, the Marine Corps systems strategy improves financial management and overall control performance.

Forward Looking Information

By the summer of 2023, when we anticipate a routine transition to a new Commandant, we will have accomplished the following, at a minimum:

- Designed the Marine Corps of the next 25 years as prescribed in the NDS, NMS, DPG, and as further visualized in our family of naval concepts. This design effort includes making the necessary divestments from the current force and current program to accelerate the funding and modernization of the future force.
- Re-established our identity as a naval expeditionary force and enhanced our relationship with the Fleets as an extension of naval power as the Foreign Military Financing.
- Re-established our primacy within the Department as the most innovative and revolutionary thinkers, the most well-disciplined and accountable force, and the most transparent and responsive force to our collective civilian leadership across the Joint Force and Department.

Strategic guidance casts the Marine Corps in a central role in our Nation's defense, and this planning guidance is designed to ensure our Corps is prepared for this responsibility. The aforementioned initiatives identify Marine Corps priorities for improving the quality of the leadership we provide the Marines and Sailors, enhancing our warfighting capability and naval integration, and achieving the proper allocation of resources across readiness, modernization, and personnel accounts. Ensuring a shared understanding of this guidance is a shared responsibility, and we expect unit commanders and senior leaders to ensure a broad understanding of this guidance across the force. Marines are expected to be prepared to provide their leaders with critical feedback, ideas, and perspective. Bringing about future changes will be an all-hands effort. We cannot afford to continue to admire problems or fail to take the necessary decisive actions; our strategic guidance is clear. The time for action is now.





SECTION 2: FINANCIAL SECTION

U.S. Marines, Norwegian Forsvaret soldiers, and Norwegian civilian contractors off-load MCPP-N equipment off the Britannia Seaways cargo ship at Bogen Port, Norway, Feb. 19, 2020.
(U.S. Marine Corps photo by Cpl. Joseph Atiyeh)



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

November 9, 2020

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF
FINANCIAL OFFICER, DOD
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT AND COMPTROLLER)
COMMANDANT OF THE MARINE CORPS
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE NAVY

SUBJECT: Transmittal of the Independent Auditor's Reports on the U.S. Marine Corps
General Fund Financial Statements and Related Notes for FY 2020 and FY 2019
(Project No. D2020-D000FS-0058.000, Report No. DODIG-2021-023)

We contracted with the independent public accounting firm of Kearney & Company to audit the U.S. Marine Corps General Fund Financial Statements and related notes as of and for the fiscal years ended September 30, 2020, and 2019. The contract required Kearney & Company to provide a report on internal control over financial reporting and compliance with laws and other matters, and to report on whether the U.S. Marine Corps General Fund's financial management systems substantially complied with the requirements of the Federal Financial Management Improvement Act of 1996. The contract required Kearney & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2018, Updated April 2020. Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in a disclaimer of opinion. Kearney & Company could not obtain sufficient, appropriate audit evidence to support the reported amounts within the U.S. Marine Corps General Fund Financial Statements. As a result, Kearney & Company could not conclude whether the financial statements and related notes were presented fairly in accordance with Generally Accepted Accounting Principles (GAAP). Accordingly, Kearney & Company did not express an opinion on the

U.S. Marine Corps General Fund FY 2020 and FY 2019 Financial Statements and related notes.

Kearney & Company's separate report, "Independent Auditor's Report on Internal Control Over Financial Reporting," discusses eight material weaknesses related to the Kearney & Company's internal controls over financial reporting.¹ Specifically, Kearney & Company's report describes the following material weaknesses.

- The Marine Corps did not design its system of internal control to achieve financial reporting objectives that were relevant to the preparation of financial statements that were free of material misstatement. In addition, in response to requests for supporting documentation, the Marine Corps provided incomplete, untimely, and unrelated supporting documentation.
- The Marine Corps did not design or implement accounting policies to ensure recognition of its transactions and balances in the general ledger or reporting systems in accordance with GAAP. In addition, the Marine Corps did not design or implement internal controls over financial reporting to prevent, or detect and correct material misstatements. Furthermore, the Marine Corps did not sufficiently support the accuracy of significant accounting estimates.
- The Marine Corps had internal control deficiencies with its financial management system to include interface controls, feeder system reconciliations, and the integration between the accountable property system of record and the financial management system.
- The Marine Corps did not demonstrate the existence or completeness of its capitalized Property, Plant, and Equipment reported in its financial statements. In addition, Marine Corps did not value its Property, Plant, and Equipment in

¹ A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting that results in a reasonable possibility that management will not prevent, or detect and correct, a material misstatement in the financial statements in a timely manner.

accordance with GAAP. Furthermore, the Marine Corps inaccurately reported its real property additions and deletions.

- The Marine Corps could not support the existence or completeness of, and rights to, Operating Materials and Supplies in accordance with GAAP. The Marine Corps did not provide supportable, complete, or reconciled populations for its Operating Materials and Supplies ammunition and non-ammunition balances. The Marine Corps lacked effective business processes, internal controls, information systems, and reporting mechanisms to accurately value Operating Materials and Supplies inventory.
- The Marine Corps did not implement sufficient internal control activities that identified and recognized Fund Balance With Treasury transactions in its financial statements. In addition, the Marine Corps did not have effective processes or internal controls to ensure transactions affecting Fund Balance With Treasury were identified, properly recorded, and reconciled, and differences promptly resolved.
- The Marine Corps did not demonstrate the design or effective operation of its internal control activities for payroll and non-payroll business processes.
- The Marine Corps had several deficiencies in the design and effective operation of internal controls related to its accounting system and key feeder systems, including internal control deficiencies related to security management, access controls, segregation of duties, configuration management, continuity planning, and system interface areas.

Kearney & Company's report also discusses three instances of noncompliance with applicable laws and regulations and potential violations of the Antideficiency Act. Specifically, Kearney & Company's report describes instance in which the U.S. Marine Corps General Fund's financial management systems did not comply with the Federal Financial Management Improvement Act, the Federal Managers' Financial Integrity Act of 1982, and the Federal Information Security Modernization Act of 2014.

In connection with the contract, we reviewed Kearney & Company's reports and related documentation and discussed them with Kearney & Company's representatives. Our review, as differentiated from an audit of the financial statements in accordance with GAGAS, was not intended to enable us to express, and we do not express, an opinion on the U.S. Marine Corps General Fund FY 2020 and FY 2019 Financial Statements and related notes. Furthermore, we do not express conclusions on the effectiveness of internal control over financial reporting, on whether the U.S. Marine Corps General Fund's financial systems substantially complied with Federal Financial Management Improvement Act of 1996 requirements, or on compliance with laws and other matters. Our review disclosed no instances where Kearney & Company did not comply, in all material respects, with GAGAS. Kearney & Company is responsible for the attached November 9, 2020, reports, and the conclusions expressed within the reports.

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



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

Attachments:
As stated



INDEPENDENT AUDITOR'S REPORT

To the Commandant of the United States Marine Corps and Inspector General of the Department of Defense

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the United States Marine Corps (Marine Corps), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion that the financial statements are free from material misstatements when taken as a whole. As a result, the Marine Corps was unable to assert that the financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America. The Marine Corps asserted to the following departures from accounting principles generally accepted in the United States of America:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*

- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Reporting requirements for the identification and recordation of indirect, integration, and transportation costs to record full costs per SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and SFFAS No. 29, *Heritage Assets and Stewardship Land*
- Recognition and accounting requirements associated with capital and operating leases and environmental liabilities set forth in SFFAS No. 5 and SFFAS No. 6
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Accumulation and capitalization of internal use software in accordance with SFFAS No. 10, *Accounting for Internal Use Software*
- Accounting and reporting requirements associated with restatements per SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, and OMB Circular A-136, *Financial Reporting Requirements*
- Reporting and valuation requirements set forth in SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards No. 6, No. 14, No. 29, and No. 32.*

Additionally, the Marine Corps was unable to produce financial statements and disclosures in accordance with OMB Circular A-136. The Marine Corps' FY 2020 financial statements include amounts related to opening balance adjustments, which were recorded as prior-period adjustments in the current-year, rather than adjustments to the earliest period affected and presented for comparative purposes. The Marine Corps has not sufficiently disclosed instances where its current accounting and business practices represent departures from accounting principles generally accepted in the United States of America.

We were unable to obtain sufficient appropriate audit evidence as to the completeness of the Fund Balance with Treasury (FBWT) and Environmental and Disposal Liabilities on the balance sheet as of September 30, 2020. As of September 30, 2020, the Marine Corps reported \$12.58 billion of FBWT and \$189.6 million of environmental liabilities on its balance sheet. We were unable to obtain sufficient appropriate evidence as to the completeness of contingent legal liabilities pertaining to treaties and international agreements. As of September 30, 2020, the Marine Corps reported contingent legal liabilities as part of Other liabilities balance on the balance sheet.

We were unable to obtain the support necessary to reconcile quantities observed as of a point in time to opening balances and ending balances for the fiscal year (FY) for Inventory and Related Property, net, which is composed of operating materials and supplies (OM&S). The Marine Corps was unable to provide data for certain OM&S asset classes to allow audit procedures to be conducted or the data available from Marine Corps systems did not provide sufficient information by which to test for the existence, completeness, and valuation of the reported

balances. As of September 30, 2020, the Marine Corps reported \$8.38 billion of net OM&S within the Inventory and Related Property, net line item of the balance sheet.

We were unable to obtain sufficient appropriate audit evidence to enable us to perform audit procedures to determine whether Property, Plant, and Equipment (PP&E) balances as of September 30, 2020 were free of material misstatements. Our work identified issues related to existence, completeness, valuation, and accuracy of real property, general equipment, software-in-development, and leases. As of September 30, 2020, the Marine Corps reported \$23 billion in net PP&E on its balance sheet.

We were unable to obtain sufficient appropriate audit evidence to support the existence and accuracy of Unobligated balance from prior-year budget authority, net. As of September 30, 2020, the Marine Corps reported \$1.55 billion of Unobligated balance from prior-year budget authority, net on its statement of budgetary resources. In addition, we were unable to obtain sufficient appropriate evidential matter to support the existence and accuracy of obligations incurred and upward adjustments and the validity of gross outlays. The Marine Corps' obligations incurred and upward adjustments are reported as part of the New obligations and upward adjustments balance on the statement of budgetary resources for the period ended September 30, 2020. The Marine Corps' gross outlays are reported as part of the Outlays, net balance on the statement of budgetary resources for the period ended September 30, 2020.

We were unable to obtain sufficient appropriate audit evidence to support the existence and accuracy of Accounts Payable and Gross Costs. As of September 30, 2020, the Marine Corps reported \$1.09 billion in Accounts Payable on its balance sheet. As of September 30, 2020, the Marine Corps reported \$28.31 billion in Gross Costs on its statement of net cost.

The effects of the conditions described in the preceding paragraphs cannot be fully quantified, nor was it practical, given the available information, to extend audit procedures to sufficiently determine the extent of the misstatements to the financial statements. The effects of the conditions in the preceding paragraphs and overall challenges in obtaining timely and sufficient audit evidence also made it impractical to execute all planned audit procedures. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts within the elements of the financial statements.

Disclaimer of Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Marine Corps' financial statements and disclosures do not include Working Capital Fund (WCF) balances as of September 30, 2020 and 2019, nor activities for the years then ended. We were not engaged to audit the WCF of the Marine Corps; our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Marine Corps' financial statements and disclosures are inclusive of the Marine Corps' balances as of September 30, 2020 and 2019, as well as activities for the years then ended from funds that are shared with the United States Navy (Navy), a separate Component reporting entity of the Department of the Navy (DON). We were engaged to audit the portion of these funds allotted to the Marine Corps. We were not engaged to audit the Navy's portion of the shared funds; our opinion is not modified with respect to this matter.

Other Matters

Implementation of Statement of Federal Financial Accounting Standards for Establishing Opening Balances

The Marine Corps attempted implementation of SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, and SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, for its FY 2020 opening balances. Effective for periods beginning after September 30, 2016, the Federal Accounting Standards Advisory Board (FASAB) released SFFAS No. 50 and SFFAS No. 48, which allow a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances. We planned and performed our audit procedures over PP&E and OM&S opening balances accordingly. As of September 30, 2020, the Marine Corps' implementation of SFFAS No. 50 and SFFAS No. 48 remains in process.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Required Supplementary Information (hereinafter referred to as the "required supplementary information") be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and FASAB, who consider it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of matters described in the Basis for Disclaimer of Opinion section above. We do not express an opinion or provide any assurance on the information.



Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other Information, as named in the Agency Financial Report, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued reports, dated November 9, 2020, on our consideration of the Marine Corps' internal control over financial reporting and on our tests of the Marine Corps' compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2020. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 and should be considered in assessing the results of our audits.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 9, 2020

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Commandant of the United States Marine Corps and Inspector General of the Department of Defense

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the United States Marine Corps (Marine Corps) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Marine Corps' financial statements, and we have issued our report thereon dated November 9, 2020. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The Marine Corps also asserted to departures from generally accepted accounting principles.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements of the Marine Corps, we considered the Marine Corps' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marine Corps' internal control. Accordingly, we do not express an opinion on the effectiveness of the Marine Corps' internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be material weaknesses.

We noted certain additional matters involving internal control over financial reporting that we will report to the Marine Corps' management in a separate letter.

The Marine Corps' Response to Findings

The Marine Corps' response to the findings identified in our engagement is described in a separate memorandum attached to this report in Section 2, *Financial Section*, of the Agency Financial Report. The Marine Corps' response was not subjected to the auditing procedures applied in the engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the Marine Corps' internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is stylized and cursive.

Alexandria, Virginia
November 9, 2020

Schedule of Findings

Material Weaknesses

The material weaknesses presented in this Schedule of Findings have been formulated based on our determination of how individual control deficiencies, in aggregate, affect internal controls over financial reporting. The table below presents the material weaknesses identified during our audit:

Accounting Area	Material Weakness
Entity-Level Controls	I. Entity-Level Controls
Financial Reporting	II. Financial Reporting and Analysis III. Integrated Financial Management Systems
Property, Plant, and Equipment (PP&E)	IV. Property, Plant, and Equipment
Inventory and Related Property	V. Operating Materials and Supplies
Fund Balance with Treasury (FBWT)	VI. Fund Balance with Treasury Controls
Revenue and Accounts Receivable (AR) Expenses and Payables Budgetary Resources	VII. Business Process Controls
Information Technology (IT)	VIII. Information Systems

I. Entity-Level Controls (*Modified Repeat Condition*)

Deficiencies in two related areas define this material weakness:

- A. Entity-Level Control Design and Operation
- B. Ability to Provide Complete, Timely, and Sufficient Evidence.

Background: Entity-level internal controls relate to an entity's control environment, risk assessment processes, information and communication, and monitoring of control effectiveness over time. These controls are enterprise-wide and have a pervasive effect on an entity's internal control system and may include service organizations. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires each Executive agency to establish and implement controls in accordance with standards prescribed by the Comptroller General of the United States, as codified in the Government Accountability Office's *Standards for Internal Control in the Federal Government* (commonly referred to as the Green Book).

Agencies implement these requirements and Enterprise Risk Management (ERM) processes by considering the guidance provided by Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Accordingly, the United States Marine Corps (Marine Corps) uses the Managers' Internal Control Program (MICP) to support its responses to these requirements. In fiscal year (FY) 2020, the Marine Corps implemented a new online tool, Managers' Internal Control Remediation and Reporting (MICRR) Application, to automate the MICP process and support the implementation of entity-level controls. Among other tasks, this tool facilitates the identification and evaluation of issues.

An agency's system of internal control may be dependent upon processes and controls performed by service organizations. A *Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting* (also known as a SOC 1® report) is specifically intended to meet the needs of entities that use service organizations (user entities) in evaluating the effect of the service organization controls on its financial statements. In many cases, the control objectives stated in the description of the service organization's system cannot be achieved by the service organization alone. Rather, the achievement of the control objectives is dependent on the user entity's implementation of control activities that address the complementary user entity controls (CUEC) as identified within the SOC 1® report.

A. Entity-Level Control Design and Operation

Condition: The Marine Corps has not demonstrated that its system of internal control, including the requirements for ERM, is designed to achieve financial reporting objectives that are relevant to the preparation of financial statements that are free of material misstatement. The Marine Corps' assessment of its entity-level controls was not performed at the overall entity level and did not demonstrate a requirement to, nor did it sufficiently, identify and document its financial reporting objectives or perform a comprehensive financial reporting risk assessment at the entity level. Therefore, the Marine Corps has not centrally designed internal control activities for its

business processes or finalized monitoring procedures to ensure internal controls remain effective over time.

The Marine Corps has not finalized or validated its business process narratives designed to assist management with the identification and evaluation of internal controls over financial reporting (internal controls). In addition, the business process narratives did not properly distinguish internal control activities from process steps or informational statements; in many cases, it was unclear whether or how a given process step would prevent or detect misstatements within the Marine Corps' financial statements.

With regard to the IT environment, the Marine Corps is in the process of implementing a Risk Management Framework (RMF) for its information system environment on a system-by-system basis. Although the Marine Corps published related guidance concerning its assessment and authorization process, it has not fully implemented comprehensive risk management for the IT control environment for all Marine Corps systems. Specifically, the Marine Corps has not established processes to monitor whether management has effectively performed system risk assessments in accordance with the enterprise policy.

The Marine Corps' system inventory is not complete or current, as it does not include the Marine Corps network, subordinate base/station networks that constitute the Marine Corps entity network, or a production management network.

The Marine Corps has not supported that all CUECs documented within the relevant SOC 1® reports have been designed, implemented, and are operating effectively or that certain CUECs are not applicable to the Marine Corps' end-to-end process. In certain cases, the Marine Corps did not identify or assign a functional advocate to assess this end-to-end business process; therefore, the Marine Corps has not begun its assessment of the SOC 1® report and related systems. In other cases, the Marine Corps mapped CUECs to generic control descriptions provided by the Office of the Secretary of Defense (OSD) rather than to the Marine Corps' control descriptions or did not perform a timely assessment of the current SOC 1® report.

With respect to prior-year audit findings, the Marine Corps' Corrective Action Plans (CAP) are evolving. In certain cases, CAPs were not always designed to address prior-year causes of findings and the related recommendations. Further, 93 of the Marine Corps' CAPs included remediation dates scheduled to occur during FY 2020; however, 68 of these deficiencies remained un-remediated in FY 2020.

Cause: While the Marine Corps maintains a MICP, it does not adequately address internal controls or consider all FMFIA and Green Book requirements in the design and implementation of entity-level controls, including those controls necessary in the information system environment. Further, the Marine Corps has not assessed its entity-level controls using a top-down approach; rather, the Marine Corps continues to assess the internal controls implemented by individual Commands, which leaves gaps in their assessment since some controls only operate effectively at the entity level. In addition, the Marine Corps has not completely

documented its entity-level controls to demonstrate that the controls achieve all control objectives and are operating in an integrated manner.

The Marine Corps has not fully implemented comprehensive risk management for the IT control environment at the organization level, including consideration of non-Marine Corps systems and documentation of all the sources and stakeholders for its systems that may affect financial reporting and operations. The Marine Corps' IT environment is characterized by a centralized strategy, policy, governance, and oversight arm and a decentralized execution and operations arm. IT operations and compliance responsibilities are delegated to the Command and system owners. However, the Marine Corps does not include requirements for the monitoring and oversight of systems complying with the Enterprise Cybersecurity Manual (ECSM) 018, *Marine Corps Assessment and Authorization Process (MCAAP)*. Furthermore, the Marine Corps has not sufficiently considered whether its internal control activities address CUECs identified within the SOC 1® reports.

The Marine Corps' stakeholders have not sufficiently managed the development of CAPs or the implementation of corrective actions to remediate prior-year control deficiencies in support of the MICP process.

Effect: Absent entity-level controls and without a comprehensive understanding and documentation of the IT environment, the Marine Corps faces an increased risk of not identifying and properly responding to relevant financial reporting risks, including information system risks and threats, in an effective manner (e.g., failing to develop the controls necessary to mitigate those risks). Incomplete or inaccurate internal control documentation impedes the Marine Corps' ability to monitor the design, implementation, and operating effectiveness of its entity-level controls, and the Marine Corps may not integrate ERM to achieve its strategic, operational, reporting, and compliance objectives. Without a process to monitor whether management has effectively performed system risk assessments, the Marine Corps may not be able to comprehensively identify, analyze, and document common information system risks and threats. Insufficient entity-level controls affect the Marine Corps' entire system of internal control because transactional controls depend on entity-level controls' effective design and implementation. Without ongoing monitoring of third-party service organizations, including consideration of whether internal control activities address CUECs, performance and control issues may go unnoticed, affecting the design and operating effectiveness of the Marine Corps' control environment. Finally, without effective or comprehensive CAPs, the Marine Corps may not effectively remediate its deficiencies in internal control, including those related to scope limitations, in a timely manner.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that the Marine Corps perform the following:

1. Finalize the development of entity-wide processes to identify and document financial reporting objectives and corresponding financial reporting risks compliant with FMFIA and OMB Circular A-123 requirements, including consideration of financial systems. This process should serve as the foundation for the Marine Corps' subsequent risk

responses (e.g., avoidance, acceptance, sharing), including the standardized design, implementation, and maintenance of internal controls over financial reporting. The Marine Corps should communicate standardized risk responses to all stakeholders for consistent implementation and should provide training, as needed.

2. Solicit feedback from Commands to determine whether control objectives are consistently achieved across the Marine Corps and use the feedback to inform annual entity-level risk assessments compliant with OMB Circular A-123 requirements.
3. Finalize the development and documentation of its system of internal control, including entity-level controls, to demonstrate that controls are designed, implemented, and operating effectively in an integrated manner and meet the requirements for ERM.
4. Establish a mechanism to provide for adequate development and review of business process narratives to finalize them, in addition to helping ensure stakeholders document business processes completely and identify internal control activities accurately.
5. Provide stakeholders with training to enable them to properly identify internal control activities and differentiate them from process steps and informational statements.
6. Develop a comprehensive guide of all Marine Corps and third-party systems that affect the financial statements, to include:
 - a. All systems for which the Marine Corps has issued an authorization to operate and an authorization to use.
 - b. System points of contact (POC), including those responsible for monitoring third-party systems.
 - c. Locations of system program management offices.
 - d. Parties responsible for administering and operating the system.
 - e. Locations of the hosting facilities and enclaves for the system.
7. Review and update the comprehensive guide on a periodic basis, at least annually.
8. Establish processes to monitor whether system stakeholders have effectively performed system risk assessments in accordance with ECSM 018.
9. Assess the risk at the organization and mission/business process tiers, in addition to the current assessments at the information system tier, in accordance with National Institute of Standards and Technology (NIST) Special Publication (SP) 800-30, *Guide for Conducting Risk Assessments*, including consideration of service organizations/external entities.
10. Implement security controls to address the risks identified by the risk assessments and in consideration of the Marine Corps' risk tolerance.
11. Perform timely assessments of all the Marine Corps' control activities for addressing CUECs to determine their applicability to the Marine Corps' internal controls and retain related support in coordination with the risk assessments and the design of internal controls for its end-to-end processes.
12. Consider ongoing review of the Marine Corps' control activities for addressing CUECs to reasonably assure ongoing relevance.
13. For CUECs determined to be applicable:
 - a. Map them to the Marine Corps' management control(s).
 - b. Document the design and implementation of the control(s).
 - c. Test the control(s) to determine whether it is operating as designed.

14. Develop a review process of the SOC 1® report to confirm that CUECs did not change and management's controls for addressing CUECs are still applicable.
15. Establish routine communications with the Marine Corps' service organization(s) to improve awareness of changes to CUECs and potential exceptions that may be reported in the SOC 1® report. This should enable the Marine Corps to timely mitigate risks to its financial reporting (i.e., deficiencies within its service organization's controls and related processes). The Marine Corps should develop methods to document these communications and the changes to the design and implementation of internal controls in response to service organization updates.
16. Perform a comprehensive assessment of prior-year audit findings individually and in the aggregate. The assessment should consider the root causes of the findings, and CAPs should be updated, as appropriate, to remediate the underlying causes of findings and management-identified issues and with consideration of internal management initiatives.
17. Update policies and procedures related to the management and oversight of the CAPs and remediation process.
18. Provide training and guidance to process owners/stakeholders regarding the requirements for developing effective CAPs.

B. Ability to Provide Complete, Timely, and Sufficient Evidence

Condition: The Marine Corps' responses to requests for documentation supporting selected transactions and system users were either incomplete, untimely, or not clearly associated with the transaction amounts or pertinent data elements. Based on the analysis of audit requests, the Marine Corps provided documentation, other information, or data after the established due date approximately 15% of the time, compared to over 32% of the time in the prior year. Further, the Marine Corps provided sample documentation after the established due date approximately 7% of the time, down from 22% of the time in the prior year.

Additionally, data populations were not provided, not available timely, or incomplete for multiple transaction classes, including:

- **AR, Accounts Payable (AP), and Obligations Incurred** – The Marine Corps is unable to readily produce reports of open AR and AP balances by customer or vendor, respectively. Further, the Marine Corps is unable to readily produce reports for new obligations incurred and upward adjustments for a specified period
- **Real Property Leases** – The Marine Corps has not adequately identified its universe of leased real property assets and related lease information to properly account for capital and operating leases
- **Environmental and Disposal Liabilities** – The Marine Corps was unable to provide a complete population of its Environmental and Disposal Liabilities financial statement line item balance as of September 30, 2020. Environmental liabilities' estimates related to military equipment were not reported in accordance with Generally Accepted Accounting Principles (GAAP). In addition, other non-military general equipment (e.g., garrison property and garrison mobile equipment) and real property were provided; however, the

Marine Corps has not produced complete and reliable data that accurately and completely portrays these asset populations to support the environmental liabilities' estimates

- **System Changes** – The Marine Corps did not provide a system-generated list of changes to the production environment for the internet Navy Facilities Asset Data Store (iNFADS); Standard Accounting, Budgeting, and Reporting System (SABRS) Management Analysis Retrieval Tools System (SMARTS); Marine Corps Orders Resource System (MCORS); Marine Online; Standard Procurement System (SPS); and Standard Labor Data Collection and Distribution Application (SLDCADA).

Cause: The Marine Corps' decentralized environment, business processes, associated internal controls, and dependencies on legacy information systems and service organizations contributed to its inability to timely and sufficiently adequately support controls and recorded transactions. In addition, some systems did not have the capability to readily generate lists of system changes that tie back to change management tools.

Effect: Without readily available documentation and transaction-level populations, Marine Corps management may not be able to perform assessments to monitor the design and operating effectiveness of controls, nor assure itself of the material accuracy of its reported balances and activities in compliance with the relevant accounting and reporting standards.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Develop and implement a repository of documentation (e.g., reconciliations and user access listings) to ease the retrieval and response process.
2. Create, or leverage existing, centralized document retention systems or related business systems to achieve centralized storage for maintaining supporting documentation.
3. Develop and implement internal control policies and procedures for the periodic compilation and review of open AR, AP, and new obligations incurred and upward adjustments reports. The Marine Corps should update the accounting system of record and feeder systems to capture standardized data input for AR, AP, and new obligations incurred and upward adjustments activity to ensure consistency and completeness of data elements recorded.
4. Implement processes, systems, and/or tools to identify its current universe of real property assets and related lease information.
5. Collaborate with service organizations to obtain all supporting documentation to support leases executed on behalf of the Marine Corps.
6. Develop, document, and implement a process to obtain and review the leases/agreements, scoring sheets, or other documentation to verify and support the proper reporting treatment.
7. Establish guidelines and a methodology for an assessment of all Marine Corps asset classes to determine if environmental liability cost estimates should be developed and reported by the Marine Corps.
8. Implement a log management tool to reconcile changes to the production environment audit logs.

9. Document the process for reconciling changes, including procedures for handling changes that did not undergo the authorized change management process.

II. Financial Reporting and Analysis (*Repeat Condition*)

Deficiencies in three related areas define this material weakness:

- A. Completeness of the Marine Corps' Financial Statements and Disclosures
- B. Financial Management and Oversight
- C. Accounting for Estimates.

Background: Financial reporting is the process by which an entity accumulates and discloses information on its financial position and performance, including budgetary information, as maintained in its books and records, through financial statements and related disclosures. OMB Circular A-136, *Financial Reporting Requirements*, provides Federal entities with guidance on the form and content of Federal financial statements and disclosures.

Entities record business events affecting financial reports in a general ledger (GL) or subsidiary ledger in accordance with GAAP, as prescribed by the Federal Accounting Standards Advisory Board (FASAB) and prevailing laws and regulations. These include those established by the Department of the Treasury (Treasury) in the Treasury Financial Manual (TFM), including the United States Standard General Ledger (USSGL). An entity may record estimates to measure amounts and/or accounts where the outcome of future events is pending and uncertain or where the entity cannot accumulate relevant data concerning past events on a timely, cost-effective basis.

As part of the financial reporting process, entities perform financial analysis, reconciliations, and other internal control procedures to evaluate the validity and accuracy of financial information, which aids in meeting stewardship responsibilities by identifying risks, errors, and anomalies for research and correction, where applicable.

The Marine Corps operates in a non-integrated systems environment with financial information from many systems interfacing into SABRS, discussed further in Section III, *Integrated Financial Management Systems*. Marine Corps Commands' financial data are captured within SABRS. Monthly, the Marine Corps' third-party service organization transfers feeder files, including amounts recorded in the GL and the SABRS Defense Cash Accountability System (DCAS) data file to the Defense Departmental Reporting System (DDRS) – Budgetary (B). The transmitted data from SABRS undergoes a series of translations (e.g., pre-processing) and transfers (i.e., from DDRS-B to DDRS – Audited Financial Statements [AFS]) and is updated by supported and unsupported financial statement adjustments to produce the Marine Corps' financial statements.

The responsibility for preparing, reviewing, approving, and/or monitoring financial activities and transactions to ensure that business events are reflected properly in the financial statements resides with the Marine Corps. This also includes oversight of third-party service organizations.

A. Completeness of the Marine Corps' Financial Statements and Disclosures

Condition: The Marine Corps has not designed or implemented accounting policies to ensure its transactions and balances are recognized in the GL or reporting systems in accordance with GAAP, as disclosed in Note 1, *Significant Accounting Policies*. Additionally, the Marine Corps did not produce an Agency Financial Report (AFR) compliant with OMB Circular A-136. For example:

- The Marine Corps did not properly apply prior-period adjustments related to the accounting treatment and/or reporting of:
 - Open obligations for selective retention bonuses (SRB)
 - Exchange revenue earned in prior FYs for its Qualified Recycling, Licensing and Trademarking, Agriculture Outlease, and Lumber and Timber Programs
 - Advances the Marine Corps provided to its trading partners
 - Corrections of errors resulting from Operating Materials and Supplies (OM&S) and property remediation efforts associated with establishing its beginning balance
- The Marine Corps did not report deferred maintenance and repairs cost estimates for garrison property in its financial statement note disclosure.

Cause: The Marine Corps has not consistently performed its process for the review and approval of the AFR and the maintenance of sufficient supporting documentation to support the completeness, accuracy, validity, and review of the information reported therein. Additionally, the Marine Corps:

- Has not adequately evaluated its business processes and related accounting policies to determine whether related accounting entries are recorded in accordance with GAAP and other administrative guidance
- Continues to work to identify the qualitative information required by Statement of Federal Financial Accounting Standards (SFFAS) No. 42 for garrison property deferred maintenance and repairs. The required information has not been tracked and monitored for inclusion in the Required Supplementary Information section of the financial statements.

Effect: Ineffective internal control increases the risks of material misstatement and noncompliance with financial reporting requirements. The absence of a timely formal AFR compliance review process resulted in an inaccurate and incomplete AFR. Overall, the Marine Corps' lack of internal control and review of documentation hinders its ability to comply with FMFIA, OMB Circular A-136, GAAP (specifically SFFAS No. 21 related to prior-period adjustments for correction of errors), and other relevant laws and regulations.

Specifically, the AFR, including financial statements and related disclosures, does not fully meet the minimum presentation and disclosure requirements established in GAAP and OMB Circular A-136. In addition, accounting policies and procedures that do not conform to GAAP and other administrative guidance may prevent the Marine Corps from preparing financial statements and related footnotes that are free of material misstatement.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Assess current accounting policies and procedures and revise, as appropriate, to ensure financial events are accurately recorded and properly presented in the financial statements and related notes.
2. Continue to review, further develop, implement, and document the processes and controls for the accumulation and review of data prior to the development of the AFR, to include standards needed to support disclosures or other analytical information reported in the AFR.
3. Perform a comprehensive assessment of the Marine Corps' application of the GAAP hierarchy and determine whether transactions, balances, or other information require recognition and/or disclosure in the financial statements, including an analysis to determine the need for prior-period adjustments and related restatements to the financial statements.
4. Improve internal controls over financial reporting to verify that amounts are captured and reported in accordance with relevant accounting standards.

B. Financial Management Analysis and Oversight

Condition: The Marine Corps' financial management analysis and oversight deficiencies pertain to the financial management analysis, service organization control activities and oversight, and data provided to support financial reporting activities.

The Marine Corps has not thoroughly assessed its financial reporting risks and designed and implemented internal controls over financial reporting to prevent, detect, and correct material misstatements. The Marine Corps has not designed sufficient financial management analysis over SABRS and DDRS data and balances in support of its internal controls over financial reporting. For example:

- A third-party service organization performs financial reporting and GL maintenance support services for the Marine Corps. Internal controls embedded in these support services are either not designed effectively or are not operating effectively. For example, the service organization did not perform complete or documented reviews of SABRS balancing reports prior to transmitting the feeder file to DDRS-B
- The Marine Corps' reconciliations of amounts in GL and unadjusted trial balances (UTB) included unresolved or unexplained variances
- Abnormal balances are reviewed after trial balances have been certified and locked in DDRS-AFS. Therefore, abnormal balances are not researched and resolved in the period in which they occur
- The Marine Corps has not completely determined the specific variance analysis requirements (e.g., data sources and financial statement elements to be assessed) to provide management value for its mission and objectives. Instead, the Marine Corps performs its variance analysis at the financial statement line item level and explanations were only provided for line items with variances/fluctuations exceeding 10% and \$30

million for Quarter (Q) 1 and the new OSD Component-specific variance thresholds for Q2 of the prior-period reported balance

- The Marine Corps' variance analysis results typically identified the source of the variance; however, the Marine Corps' variance explanations did not identify the underlying business events and root causes of those variances.

The Marine Corps' oversight of third-party service organizations is insufficient. Not all of the data analysis or documents are reviewed or subjected to monitoring procedures by the agency. For example, the Marine Corps did not:

- Perform adequate and/or documented reviews of the journal vouchers (JV) and JV packages prepared by a service organization
- Perform an adequate review of feeder file crosswalk changes prior to the SABRS feeder file being transmitted to DDRS
- Document the review or provide documentation to support the operating effectiveness of DDRS-B reconciliation reviews or balancing report reviews
- Consistently close certain accounts in SABRS and DDRS.

The Marine Corps did not provide consistent and accurate data to support its financial reporting process. For example, the Marine Corps is not able to produce a DDRS-AFS trial balance that includes ending balances for certain accounts. Therefore, manual analysis is required to confirm that debits and credits equal and offset each other. In addition, related to the financial reporting compilation process:

- The DDRS-B pre-close entries are not reflected in the DDRS-AFS beginning balances. Therefore, trial balance input adjustments (i.e., entries that align the current FY's beginning balances with the prior FY's ending balances) are required to resolve variances in perpetual accounts
- The Marine Corps did not provide consistent and accurate data to support the re-performance of the financial statement compilation process in a timely manner.

Cause: The Marine Corps' financial reporting process is complex and is dependent upon multiple data sources to recalculate and monitor financial reporting data. In addition, the Marine Corps has not sufficiently assessed its financial reporting risks, nor adequately implemented and validated the operating effectiveness of its internal controls over financial reporting, including oversight of its service organizations. Further, the Marine Corps has not established policies and procedures requiring business process owners to assess mission, operational, and financial reporting requirements; regularly perform variance/fluctuation analysis; or identify the specific business events resulting in variances in its reported balances. In addition, the Marine Corps has not performed a comprehensive analysis of account crosswalks and the closing entries or corrected disclosing discrepancies from SABRS to DDRS to prevent, detect, and correct material misstatements.

Effect: Without effective internal controls over financial reporting, the Marine Corps may not detect and correct material misstatements and associated root causes in a timely manner. In addition, the financial statements and other external reports and underlying data may be materially misstated. Such misstatements may not be detected in the normal course of business. Finally, deficiencies in the Marine Corps' accounting system, including its configurations, result in noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA).

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Research the root causes and correct the underlying business processes which result in abnormal balances. To the extent possible, the Marine Corps should correct the conditions in the reporting period in which they occurred.
2. Clearly define and document roles and responsibilities for internal controls over financial reporting within a service-level agreement (SLA) or similar document, to include compensating controls performed by the Marine Corps.
3. Develop and implement a consistent process for reviewing the Marine Corps' financial reporting artifacts accumulated by third-party service organizations in support of GL monitoring, financial reporting, and other financial management support services, including the financial statement compilation.
4. Provide training to stakeholders on the financial statement compilation process to facilitate the detection and correction of misstatements in a timely manner.
5. Develop policies and procedures requiring business process owners to identify internal and external factors that impact specific mission, operational, and financial reporting requirements and regularly perform variance/fluctuation analyses.
6. Tailor variance/fluctuation analysis procedures to provide management value for their mission and objectives. The variance analysis procedures should consider variance thresholds amounts, frequency of performance, data sources, and financial statement elements to be assessed.
7. Continue to perform comprehensive assessments of the SABRS and DDRS closing logic on an ongoing basis to ensure adherence with the TFM and to prevent or detect material misstatements to its financial statements. This should include the identification, research, and correction of inconsistent closing entries recorded in SABRS and DDRS.

C. Accounting for Estimates

Condition: The Marine Corps did not sufficiently support the material accuracy of significant accounting estimates that affect the accounts and balances within its financial statements. The Marine Corps' deficiencies in accounting for estimates relate to estimated transportation and storage costs for personal property, second destination transportation costs, and its AP accrual estimate. Specifically:

- The rates used within MCORS to derive systemic obligations for individual permanent change of station (PCS) orders may be outdated and not aligned with the rates charged by the Transportation Service Providers (TSP). Additionally, MCORS calculates individual estimated obligations based on the members' full allowable entitlements, regardless of

whether the member intends to incur all allowable costs. Therefore, the Marine Corps established budget factors that are applied to the systemic obligations derived by MCORS to account for the variations in actual costs that will be incurred. However, the Marine Corps has not provided documentation to support the reliability and validity of these calculations

- The Marine Corps has not designed or implemented internal control activities to ensure that obligations and expenses related to second destination transportation movements are accurately recorded in the period services are rendered. Further, the Marine Corps is unable to support the year-end estimated obligation with recent historical data
- The Marine Corps has not substantiated the material completeness or accuracy of its updated methodology for calculating its AP accrual.

Cause: The Marine Corps does not have the necessary processes and controls to ensure the completeness and accuracy of financial statement line items and disclosures resulting from various accounting estimates. Specifically:

- There is no central oversight of the PCS movements control processes and the Marine Corps' stakeholder groups have not sufficiently coordinated to ensure financial events are accurately recorded and pertain to the Marine Corps
- The Marine Corps does not require proof of receipt and acceptance or other invoicing documentation from its trading partner to facilitate the development of an accurate accrual
- The Marine Corps' methodology for calculating its AP accrual does not account for all non-payroll business processes (i.e., intragovernmental liabilities or other liabilities with the public) or negative disbursements (i.e., correction of unmatched disbursements). Additionally, a complete look-back analysis of the methodology has not yet been performed.

Effect: Without effective internal control activities related to significant accounting estimates, the Marine Corps has an increased risk of material misstatement and noncompliance with laws and regulations, including FFMIA. The Marine Corps' inability to demonstrate the validity of its estimates prevents it from demonstrating the fair presentation of its obligations, expenses, and AP balances.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Evaluate current data inputs and assumptions used to develop estimated obligations and adjustments for personal property shipment and storage costs. The Marine Corps should continue to coordinate with stakeholders to systemically obtain reliable data input(s) and document the processes for assessing the material accuracy of estimation methodologies over time. The process should include the source(s) of data on which the estimates are based, the methods of measurement, and the assumptions used to derive the estimates and related adjustments, as applicable.
2. Design and implement policies and procedures requiring estimated cost information for secondary destination transportation movements and retain documentation. The Marine

Corps should compare this documentation to invoices (i.e., intragovernmental payment and collection vouchers) to determine whether recorded estimates are fairly stated.

3. Continue development of the AP accrual methodology, to include requirements to accumulate all necessary data to perform a look-back analysis, validate inputs, and consider double-counting across various accounting events that give rise to AP.

III. Integrated Financial Management Systems (*Repeat Condition*)

Deficiencies in three related areas define this material weakness:

- A. Standard Accounting, Budgeting, and Reporting System Interface Controls
- B. Feeder Systems to Standard Accounting, Budgeting, and Reporting System Reconciliations
- C. Integration between Accountable Property Systems of Record and the Standard Accounting, Budgeting, and Reporting System.

Background: Business process application-level controls provide reasonable assurance regarding the completeness, accuracy, validity, and confidentiality of transactions and data during application processing. Completeness controls should provide reasonable assurance that all transactions are recorded in the GL system, accepted for processing, processed only once by the system, and properly included in financial reports. Completeness controls include the following key elements:

- Transactions are completely input/interfaced
- Valid transactions are accepted by the system
- Duplicate postings are rejected by the system
- Rejected transactions are identified, corrected, and re-processed
- All transactions accepted by the system are processed completely.

The Marine Corps uses a wide array of feeder (i.e., source) systems to generate and capture financial transactions for recording in SABRS (e.g., core financial management system). SABRS receives and sends data via multiple interfaces from and to various partners. Interface controls consist of those controls over the timely, accurate, and complete processing of information between applications and other feeder and receiving systems on an ongoing basis. If applied correctly, they ensure the complete and accurate migration of clean data during conversion.

In a non-integrated systems environment, reconciliation of account balances is an important internal control and critical to financial integrity. Reconciliation of GL balances to detailed subsidiary ledger and source (i.e., feeder) system balances and activity enables ongoing monitoring of account balances; promotes the recording of business transactions in a complete, accurate, and timely manner; and provides an audit trail. An effectively designed reconciliation process includes comparing GL balances to subsidiary ledger and feeder system balances; researching account variances; analyzing and supporting reconciling items, to include identifying

the root cause with the intent to reduce the overall volume of reconciling items over time; correcting reconciling items timely; and performing reviews and approvals.

The Marine Corps' capital expenditures are recorded in SABRS as operating expenses. The Marine Corps' capital expenditures consist of the procurement of PP&E and certain types of OM&S, which the Marine Corps records upon acquisition into an accountable property system of record (APSR). Quarterly, the Marine Corps compiles asset data from each APSR to record a JV to capture PP&E and OM&S activity (e.g., receipts, disposals, transfers). The JV is recorded outside of SABRS, directly into DDRS-AFS, and is intended to correct capital expenditures improperly recorded in the Marine Corps' operating expense account.

A. Standard Accounting, Budgeting, and Reporting System Interface Controls

Condition: The Marine Corps does not have a record count reconciliation for files processed in SMARTS that pass through SABRS from external sources on a non-routine basis (i.e., sequential files).

Cause: Sequential files are not included in the daily record count reconciliation because they occur at random times (e.g., not daily).

Effect: Weaknesses in interface controls negatively affect the achievement of all control objectives related to applications data (i.e., completeness, accuracy, validity, and confidentiality). This increases the risk of incorrect/inaccurate processing of transactions, which may result in the misstatement of financial balances.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Continue to develop and implement the current system changes to facilitate the reconciliation of transaction counts for sequential files.
2. Develop policies, procedures, and process narratives, as applicable, to outline the sequential file reconciliation process and establish purpose, scope, roles, responsibilities, management commitment, and coordination among organizational entities.

B. Feeder Systems to Standard Accounting, Budgeting, and Reporting System Reconciliations

Condition: The Marine Corps does not perform sufficient periodic reconciliations of non-payroll-related balances and/or activity between SABRS and the feeder systems or another mechanism to validate the completeness and accuracy of the interface data at a given point in time and over the course of the FY. In addition, the monitoring reports are not utilized by individual Commands consistently, and Commands do not uniformly document their review of these monitoring reports, the validation of the recorded transactions, or the performance of reconciliations of interfaced transactions to the corresponding approved purchase requests.

For military payroll, the Marine Corps performs several steps to verify the accuracy of the interfaces between Marine Corps Total Force System (MCTFS) and SABRS; however, centralized oversight and monitoring of these processes are not in place. Additionally, the Marine Corps has not supported a comprehensive detail to gross pay monthly reconciliation, including supervisory review and approval, between MCTFS and SABRS.

For civilian payroll, the Marine Corps does not always document supervisory review and approval of biweekly reconciliations between the timesheet system, SLDCADA, and the payroll system, Defense Civilian Pay System (DCPS). In addition, the Marine Corps does not have a clearly documented, centralized review and approval process over the reconciliation to identify employee pay and benefits participation discrepancies between the personnel data system, Defense Civilian Personnel Data System, and DCPS. The Marine Corps does not calculate the financial statement effect of reconciling items.

Cause: The Marine Corps' policies and procedures do not sufficiently detail reconciliation requirements, including those for documentation, supervisory review and approval, and centralized oversight with respect to certain key reconciliations.

Effect: Without effectively designed, comprehensive reconciliations, the Marine Corps does not have assurance over the completeness and accuracy of recorded transactions and, in some cases, is unable to quantify the effect of discrepancies on the financial statements. Specifically, the Marine Corps cannot validate whether:

- All business events and transactions initiated in feeder systems were sent to SABRS
- All feeder system transactions sent to SABRS were received
- Transactions recorded in SABRS from feeder systems were properly supported by feeder systems and only recorded in SABRS once.

Infrequent monitoring of transactions may result in dormant or invalid transactions remaining in the Marine Corps' accounting records.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Identify the SABRS feeder systems that are key to the Marine Corps' financial reporting objectives.
2. Continue to develop and implement policies and procedures for periodic reconciliations of balances between key feeder systems and the SABRS GL. The Marine Corps should consider opportunities to implement IT solutions to automate such procedures.
3. Continue to update its existing policies for monitoring all Command transactions. The policy update should include the frequency of the control, items to be monitored, individuals responsible, and control documentation requirements. The policy should also include review and/or reconciliation of the following:
 - a. Interfaced transactions to the approved purchase requests, as well as ensuring all valid transactions for the Command interfaced appropriately.
 - b. Transactions in an error status.

- c. Transactions in an open status.
4. Develop and implement standard operating procedures (SOP) to establish the Marine Corps' timely monitoring and oversight of the current processes performed by the various entities involved in the military payroll process. SOPs should include the requirements for supporting reconciliations, as well as descriptions of how changes are communicated and verified and how the overall review process and approval of these controls are completed by Marine Corps management.
5. Continue to develop and implement CAPs to establish policies and procedures for civilian payroll-related reconciliations, including, as appropriate, requirements for the determination and evaluation of the financial statement effect of unresolved discrepancies at the end of a financial reporting period and requirements for timely, detailed reviews and approvals.

C. Integration between Accountable Property Systems of Record and the Standard Accounting, Budgeting, and Reporting System

Condition: The Marine Corps' accounting operations for recording PP&E and OM&S activity, in which SABRS is bypassed with quarterly JVs directly into DDRS, contributed to several conditions. Specifically, the Marine Corps does not:

- Utilize a unique identifier to systematically identify capital expenditures from non-capital expenses within SABRS. Accordingly, there is no way to accurately differentiate capital expenditures and non-capital expenses in the universe of transactions data
- Track and accumulate construction in-process (CIP) expenditures for individual military equipment assets based on accumulated historical costs
- Accurately track, monitor, and record capital renovation and improvement projects in SABRS and the real property APSR
- Provide supportable, complete, and reconciled populations for its quarterly OM&S ammunition and non-ammunition balances, as there are deficiencies in the reporting and reconciliation of transactional-level activity within its Total Item Property Record (TIPR)/APSR. See further details in Section V, *Operating Materials and Supplies*
- Track accumulated software-in-development (SID) expenditures by individual internal use software (IUS) assets in accordance with GAAP-compliant reporting. Additionally, the IUS balance recorded in Q1 of FY 2019 did not change and was carried forward to Q3 FY 2020 in order to align with the Marine Corps' overarching audit remediation plans for FY 2020
- Distinguish capital improvement costs from routine repairs and maintenance expenses. Further, the Marine Corps does not capture, track, and maintain military equipment capital improvements in Global Combat Support System – Marine Corps (GCSS-MC), its APSR.

Cause: The Marine Corps has not established an interface between SABRS and disparate APSRs in which finished goods originate. In addition, the Marine Corps' current process for capturing capital activity for financial reporting purposes relies exclusively on the accuracy and timeliness of data captured in APSRs. The current process's design does not allow for reconciliation

between the Marine Corps' APSRs and the SABRS GL. Additionally, the Marine Corps does not have adequate processes or business rules in place to:

- Identify and accumulate capital expenditures within the appropriate GL accounts within SABRS
- Assign a unique identifier to accumulate individual CIP costs of military equipment assets in SABRS or an alternate system
- Apply its capitalization policy to reasonably ensure proper recording and reporting of CIP projects funded using Operations and Maintenance (O&M) appropriations
- Account for all ammunition and non-ammunition activity that occurs at the transactional level
- Identify SID costs and track the accumulation of SID expenditures by individual IUS due to a lack of process design and implementation
- Track and maintain military equipment capital improvements and separately identify routine maintenance expenses due to lack of mandated procedures and system capabilities
- Distinguish military equipment costs captured as capital improvements separately from routine maintenance expenses due to system limitations.

Effect: The lack of an interface between the Marine Corps' APSRs and SABRS results in an inability to differentiate between capital expenditures and non-capital expenditures within SABRS. In addition, the Marine Corps cannot determine whether capital and non-capital expenditures are fairly presented in the financial statements. Specifically, the gross costs on the statement of net cost may be overstated, and Inventory and Related Property and General PP&E on the balance sheet may be understated.

Without a process to formally accumulate CIP and SID expenditures by individual asset or asset program, the Marine Corps' expenses and PP&E balances may be misstated, which could further result in the transfer of costs between CIP/SID and finished goods being recorded incorrectly upon completion of the finished asset.

Because O&M CIP costs related to capital renovations and improvements funded from Marine Corps O&M dollars were not properly recorded as capital expenditures and/or transferred to a completed asset, the Marine Corps' PP&E balance, depreciation expense, and O&M expenses may be misstated on the balance sheet and statement of net cost, respectively.

Without a process to formally track and maintain military equipment capital improvements and to separately identify routine maintenance expense, the Marine Corps' expenses and PP&E balances may be misstated.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Develop policies and procedures to appropriately identify and record capital expenditures using the USSGL Treasury Guidance and work towards reducing the need for quarterly JVs to capture capital expenses.

2. Establish an effective interface between the multitude of APSRs in use for PP&E and OM&S to accurately capture transaction-level data in the core accounting system and to properly accumulate capital expenditures in SABRS, in accordance with USSGL requirements. Until which time it can establish an effective interface, the Marine Corps should:
 - a. Develop and/or formalize cost classification and accumulation policy and procedures. The policy should detail the requirements for cost capitalization in accordance with applicable accounting standards for PP&E and OM&S.
 - b. Establish a unique identifier (e.g., transaction code or document type) within SABRS to be used for capital expenditures. This should include direct procurement of capital PP&E finished goods, OM&S finished goods acquisitions, PP&E CIP, OM&S in development, capital improvements, and SID.
 - c. Update SABRS posting logic for capital expenditures to comply with USSGL Treasury Guidance and establish SABRS business rules to record capital expenditures directly to appropriate asset accounts.
 - d. Analyze activity to verify that all expenditures represent capital activity and appropriate classifications have been recorded for PP&E vs. OM&S.
 - e. Establish and formalize quarterly reconciliation procedures between PP&E and OM&S APSRs and the activity recorded in SABRS.

IV. Property, Plant, and Equipment (*Repeat Condition*)

Deficiencies in two related areas define this material weakness:

- A. Existence and Completeness of Property, Plant, and Equipment
- B. Valuation of Property, Plant, and Equipment.

Background: The Marine Corps owns and operates a diverse portfolio of PP&E, with significant asset classes, including real property and general equipment. The Marine Corps categorizes its general equipment into two sub-asset classes: 1) military equipment, inclusive of weapon systems, unmanned aviation assets, and related support equipment; and 2) garrison property/garrison mobile equipment (garrison property), which includes non-military equipment.

SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, amends existing PP&E accounting standards to allow a reporting entity, under specific conditions, to apply the deemed cost method in establishing opening balances for PP&E. The alternative valuation methods available under SFFAS No. 50 may be applied in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements are presented fairly in accordance with GAAP. As SFFAS No. 50 is applicable to the valuation of opening balances only, all changes to the Marine Corps' PP&E portfolio as a result of current-year transactions are subject to the valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*.

In FY 2020, the Marine Corps withheld its unreserved assertion for the effective implementation of SFFAS No. 50, allowing the deemed cost method available under SFFAS No. 50 to continue in future periods until the Marine Corps' internal controls are in place to adequately account for PP&E going forward in accordance with SFFAS No. 6.

A. Existence and Completeness of Property, Plant, and Equipment

Condition: The Marine Corps did not demonstrate the existence and completeness of its capitalized PP&E reported in its financial statements. Testing of the existence and completeness of the Marine Corps' capitalized opening balance PP&E identified the following issues:

- The Marine Corps could not locate or did not provide sufficient appropriate evidence to support the existence of approximately 19% of the total assets tested for physical inspection, up from 5% in the prior year. Further, the Marine Corps did not provide key supporting documentation to support that the asset should not have been included in the Marine Corps' asset records as of a specified point in time
- The Marine Corps did not record or did not provide sufficient appropriate evidence to support the completeness of approximately 6% of the total assets tested, up from 3% in the prior year, which were selected while performing testwork at Marine Corps installations and bases (i.e., completeness of the Marine Corps' assets).

The Marine Corps does not accurately track, monitor, and record capital renovation and improvement projects in SABRS and the Marine Corps' real property APSR.

The Marine Corps implemented the host installation policy in FY 2019 and experienced challenges with reconciling transfers-in/transfers-out of assets with other Department of Defense (DoD) entities. As of September 30, 2020, the Marine Corps is still in the process of reconciling its host installation assets.

Cause: The Marine Corps' inventory management controls were not operating effectively. Inaccurate reporting of assets within APSRs, inadequate system capabilities, incomplete data availability for transaction processing and management oversight, and ineffective retention policies and procedures for supporting documentation were contributing factors to existence and completeness issues. For example, assets were disposed of or transferred; however, the Marine Corps could not provide supporting documentation that the assets existed. Further, the Marine Corps does not properly review its CIP and capital improvement costs before reporting these costs as part of the quarterly data call process.

The Marine Corps is still in the process of performing reconciliations with other DoD entities, as well as establishing agreements, which are needed to ascertain requirements between tenant and host that are necessary to effectively implement the new policy.

Effect: Ineffective inventory management controls may result in the loss of accountability for asset custodianship and unsupportable financial reporting over PP&E. Further, management cannot assert that the PP&E balance is fairly stated in accordance with GAAP. Based on the

known exceptions from the results of testing, the Marine Corps misstated its PP&E balance. Additional information over the dollar impact of the PP&E testing results is presented in Section IV.B, *Valuation of Property, Plant, and Equipment* below.

Recommendations: Kearney recommends that the Marine Corps continue its efforts over the operational effectiveness of inventory management controls to improve the overall accountability of PP&E and the accuracy of APSR data used for financial reporting and asset accountability purposes. Specifically, Kearney recommends that the Marine Corps perform the following:

1. Implement the necessary training at all Marine Corps installations to increase the knowledge base and understanding of acceptable supporting documentation required to comply with the SFFAS No. 6 go-forward strategy.
2. Perform an assessment of available supporting documentation and adjust, to the extent appropriate, the APSR for known existence and completeness exceptions.
3. Disseminate the PP&E existence and completeness audit testing results to all PP&E custodians to promote awareness of the impact that effective inventory management controls have on property accountability.
4. Verify that all PP&E assets have accurate and complete physical markings while conducting inventory procedures.
5. Enhance its virtual capabilities at remote locations to facilitate both future internal and external inspections.

Specific to real property, Kearney recommends that the Marine Corps perform the following:

6. Review and analyze the capital improvement transactions and CIP projects funded with O&M appropriations before they are submitted and recorded in the data call process to prevent costs from being recorded as both CIP and as a completed real property asset.
7. Increase the frequency of inventories performed and subject all real property assets to inventory management control procedures in accordance with Department of Defense Instruction (DoDI) 4165.14, *Real Property Inventory and Forecasting*.
8. Produce formalized Real Property Accountable Officer (RPAO) inventory schedules on an annual basis. During quarterly data calls for financial reporting, the status of the annual inventory schedule should be provided to the Marine Corps Installations Command to monitor the overall execution of the real property inventory.
9. Incorporate annual floor-to-book inventory requirements into RPAO inventory control plans. All real property assets on a Marine Corps installation, including those reported by non-Marine Corps Components, should have readily available documentation to support the ownership and user determinations as they pertain to financial reporting and accountability under applicable DoDI guidance.

Further, related to general equipment, Kearney recommends that the Marine Corps perform the following:

10. Perform an assessment of the complete general equipment asset portfolio and identify potential assets that should be the Marine Corps' responsibility for financial reporting

purposes in accordance with DoD Financial Management Regulation (FMR), Volume 4, Chapter 25.

11. Perform an assessment of the complete general equipment portfolio included in the financial statements as of September 30, 2020 to verify that all general equipment assets are appropriately aligned to a Supply Officer and, thus, included in the quarterly inventory process.
12. Incorporate quarterly floor-to-book inventory requirements for capital assets into the inventory control plans for each Supply Officer.
13. Perform quality assurance reviews over quarterly populations and roll-forward analyses in a timely manner to ensure assets are reported in the quarter received or removed in the quarter disposed or transferred out.
14. Ensure appropriate documentation exists to demonstrate rights and ownership of assets furnished by other DoD agencies and that the assets are not being reported by both the Marine Corps and another DoD agency.

B. Valuation of Property, Plant, and Equipment

Condition: The Marine Corps' PP&E valuation as of September 30, 2020 is not in accordance with GAAP, in that it does not comply with SFFAS No. 6. Further, the Marine Corps' valuation of PP&E opening balances using alternative valuation methods (i.e., deemed cost) available in accordance with SFFAS No. 50 remains in process as of September 30, 2020, as the Marine Corps continues to perform a detailed review over the asset population and make adjustments, where appropriate.

The Marine Corps did not accurately record real property additions and deletions in the APSR or was otherwise unable to substantiate the value of current-year additions and deletions in accordance with SFFAS No. 6.

The Marine Corps could not locate or did not provide sufficient appropriate evidence to support the valuation of approximately 18% of the Marine Corps' capitalized opening balance of PP&E.

Cause: The Marine Corps lacks effective business processes, internal controls, information systems, and reporting mechanisms to accurately value PP&E in accordance with SFFAS No. 6. The Marine Corps does not utilize historical documentation (i.e., contracts, invoices, and supervision, inspection and overhead [SIOH] costs) to support the current-year amounts recorded at the asset level or project and/or transaction level.

Further, the Marine Corps is unable to support the accuracy of assets' gross costs, placed-in-service dates, and financial useful life of all assets reported due to lack of or insufficient documentation. The Marine Corps is dependent upon the transferring entity to provide supporting documentation for the assets' placed-in-service date and cost.

Consistent with the cause described in Section III.C, *Integration between Accountable Property Systems of Record and Standard Accounting, Budgeting, and Reporting System*, the Marine Corps does not have a process in place to accurately track the accumulation of CIP expenditures,

including indirect costs, by individual military equipment asset in SABRS or an alternate system/method due to the Marine Corps' APSR limitations and finalization of compensating controls for CIP reporting by the Marine Corps Systems Command.

Effect: The Marine Corps was unable to accurately and appropriately value its PP&E assets for FY 2020 and withheld its unreserved assertion for SFFAS No. 50. The Marine Corps' PP&E as of September 30, 2020 does not reflect historical cost as required by SFFAS No. 6, and the Marine Corps' opening balances for FY 2020 do not reflect historical cost under alternative valuation techniques as allowable under SFFAS No. 50. The PP&E valuation and associated depreciation may be materially misstated as presented within the Marine Corps' financial statements.

The Marine Corps' recorded values were misstated because of errors identified during testwork and lack of sufficient support for recorded transactions and balances. Collectively, these errors and unsupported items resulted in potential overstatements of \$98.59 million, net of depreciation, as of interim reporting periods. Specifically:

- Understatements of real property by \$362.19 million, net of depreciation
- Overstatements of military equipment by \$318.99 million, net of depreciation
- Overstatements of garrison property by \$141.79 million, net of depreciation.

Recommendations: Kearney recommends that the Marine Corps continue implementation efforts of SFFAS No. 50 for PP&E. The Marine Corps should improve the business process and associated internal controls surrounding the application of valuation techniques allowable under SFFAS No. 50 and the supporting documentation behind real property valuation determinations and implementation of SFFAS No. 6. Specifically, Kearney recommends that the Marine Corps perform the following:

1. Verify that all RPAOs are aware of the latest valuation re-baseline and update planned inventory schedules to include real property assets that exceed the capitalization threshold because of the re-baseline and wall-to-wall inventory efforts.
2. Require pertinent data fields be populated within iNFADS to ensure compliance with SFFAS No. 6.
3. Establish and implement policies for retaining real property asset records, which support real property transactions to move towards compliance with SFFAS No. 6.
4. Perform oversight and review of the recalculation of deflated plant replacement value to ensure compliance with SFFAS No. 50 prior to the quarterly reporting.
5. Complete placed-in-service date reviews for all real property assets and lock down the results to create a baseline for establishing opening balances under SFFAS No. 50.
6. Perform an assessment of all prior-period adjustments and activity, individually and in the aggregate, to determine if a restatement to comparative financial statements and related disclosures is required for accurate financial reporting and presentation.
7. Monitor the changes to the SIOH and revisit its understanding of and support for the calculated rate. The Marine Corps should work with the U.S. Navy and third-party service organizations to support the accuracy of the SIOH.

Kearney recommends that the Marine Corps continue implementation efforts of SFFAS No. 50 associated with general equipment, including both military equipment and garrison property. Specifically, Kearney recommends that the Marine Corps perform the following:

8. Implement a process and systems/tools to accumulate the historical cost of CIP expenditures by individual asset, including relevant data elements to aid in monitoring and accumulating military equipment CIP.
9. Establish a process to analyze and identify capital CIP costs recorded as expenses in SABRS, including a process to correct these misclassified costs for proper financial reporting.
10. Establish unique identifiers for CIP transactions by individual asset.
11. Perform an assessment of all prior-period adjustments and activity, individually and in the aggregate, to determine if a restatement to comparative financial statements and related disclosures is required for accurate financial reporting and presentation.
12. Perform an analysis of the parent/child relationship to determine if the relationships are consistently applied and recorded in the APSR.
13. Perform an analysis of the valuation of children assets and how their value impacts the parent asset, to include the assessment of the child asset that is a capital asset on its own.
14. Continue to implement valuation methodologies consistent with the requirements set forth in SFFAS No. 50 and ensure that proper reviews are completed to validate that the valuation data is accurate and properly recorded.
15. Concurrently establish and validate that future garrison property activity is recorded consistent with requirements set forth in SFFAS No. 6.

V. Operating Materials and Supplies (*Repeat Condition*)

Deficiencies in three related areas define this material weakness:

- A. Existence, Completeness, and Rights
- B. Populations and Transactional Data
- C. Valuation of Operating Materials and Supplies.

Background: In FY 2020, the Marine Corps reported approximately \$8.4 billion in Inventory and Related Property, net on its balance sheet. This balance consists of OM&S ammunition and non-ammunition items. The Marine Corps is responsible for developing and implementing consistent accounting and valuation methodologies to ensure OM&S supply classes and accounts are properly reported and accurately valued in the Inventory and Related Property, net line item. However, the Marine Corps' global operations and mission requirements create logistical and financial reporting challenges for OM&S.

SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, amends existing OM&S accounting standards to allow a reporting entity, under specific conditions, to apply alternative valuation methods (i.e., deemed cost) in establishing opening balances for OM&S. During FY 2020, the Marine Corps attempted to use deemed cost, allowable under SFFAS No. 48, to value its OM&S inventory opening balance. As

SFFAS No. 48 is applicable to the valuation of opening balances only, all changes to the Marine Corps' OM&S portfolio due to current-year transactions are subject to the valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*.

The alternative valuation methods available under SFFAS No. 48 may be applied in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements are presented fairly in accordance with GAAP. In FY 2020, Marine Corps management did not make an unreserved assertion for SFFAS No. 48, allowing the alternative valuation methods available under SFFAS No. 48 to continue in future periods until the Marine Corps' internal controls are in place to adequately account for OM&S going forward in accordance with SFFAS No. 3.

A. Existence, Completeness, and Rights

Condition: The Marine Corps and its third-party service organizations and custodians use several APSRs to manage the accountability of OM&S across the various storage activity types. The Marine Corps utilizes the following TIPR/APSR systems to report its OM&S ammunition and non-ammunition balances and records: Ordnance Information System – Marine Corps (OIS-MC), GCSS-MC, and Defense Property Accountability System (DPAS).

The Marine Corps was unable to support the existence and completeness of, and rights to, OM&S reported as of June 30, 2020. Specifically:

- Existence and completeness could not be substantiated for 45 of 1,685 ammunition samples
- Existence and completeness could not be substantiated for 85 of 332 non-ammunition samples
- The Marine Corps was unable to provide timely or sufficient documentation to support the existence and completeness of 155 of 1,685 ammunition samples
- The Marine Corps was unable to provide timely or sufficient documentation to support the existence and completeness of 61 of 332 non-ammunition samples
- The Marine Corps was unable to timely support existence and completeness testing procedures over inventory located aboard a ship for 343 sample items, as well as inventory located Outside the Contiguous United States (OCONUS) for 257 sample items.

Cause: The Marine Corps has not designed, completed, or implemented recurring business processes with an effective system of internal control to properly account for OM&S recorded in the TIPR/APSRS, including those in the custody of third-party service organizations. The Marine Corps, its custodians, and third-party service organizations lack integrated systems, specifically designed to enhance reporting functionality, including transactional-level detail reporting; process transactions in real-time; properly perform interface and interface reconciliations; and contain consistent, suitable data elements to support recurring reconciliations.

Further, the Marine Corps could not substantiate the existence and completeness of its ammunition due to:

- Inconsistent/missing attributes and/or accessibility to observe the complete sample based on storage requirements (e.g., commingled lots within the same banded pallet[s], containerized ammunition that could not be opened)
- Insufficient and/or untimely documentation to support ammunition's existence or completeness as of the date of the site visit testing was conducted over the sample counts
- The Marine Corps' inability to timely support physical and/or virtual testing efforts.

Additionally, the Marine Corps' lack of a ship availability schedule and the appropriate POCs, as well as Coronavirus Disease 2019 (COVID-19) travel restrictions, resulted in its inability to support OM&S testing over samples located aboard a ship and certain Contiguous United States (CONUS)/OCONUS locations.

Effect: The absence of an effective system of internal controls increases the risk that the Marine Corps is not identifying and properly responding to relevant financial reporting risks in an effective manner. For example, lack of effective inventory management controls may result in the loss of accountability for inventory custodianship, inaccurate APSR data, and unsupportable financial reporting over OM&S. Additionally, because of the ongoing remediation to apply deemed costs, the Marine Corps may not have fully considered the effects of potential misstatements at the financial statement level and the need for restatements and related disclosures. Further, management cannot assert to the material accuracy and completeness over the Inventory and Related Property, net line item in accordance with GAAP.

Testing of ammunition samples identified potential quantity overstatements ranging between one and approximately 2,000,000 items. Conversely, testing identified potential quantity understatements ranging between one and approximately 40,000 items. Thus, additional misstatements to the ammunition balance as of September 30, 2020 may exist.

Testing of non-ammunition samples identified potential quantity overstatements ranging between one and approximately 4,000 items. Conversely, testing identified potential quantity understatements ranging between one and approximately 8,000 items. Thus, additional misstatements to the non-ammunition balance as of September 30, 2020 may exist.

Ultimately, the Marine Corps' inability to prove existence and completeness inherently hinders its ability to support its ownership (i.e., rights) to the related assets.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Perform a comprehensive risk analysis over the Marine Corps' OM&S sub-assessable unit lifecycles (e.g., acquisition through procurement, receipt and acceptance, issuance and disposal), including TIPR/APSR impacts, to determine the potential errors that could occur related to the financial reporting of OM&S. The Marine Corps should determine

where the breakdowns occur within the process, develop internal controls to prevent such errors from occurring, and ensure accurate reporting at the asset and balance level.

2. Finalize upgrade efforts to OIS-MC and test the functionality and capability to retrieve ammunition lot data from field-level ammunition APSRs, resulting in transactional-level details for ammunition production receipts and issuance expenditures.
3. Continue OIS-MC upgrade validation testing to ensure OIS-MC is properly interfacing with Marine Corps, custodian, and third-party service organizations' APSRs in a timely manner. Further, the Marine Corps should continue implementing an automated interface between the retail site APSRs and OIS-MC to capture real-time retail site activity.
4. Ensure that Memorandums of Agreement (MOA) and/or policies are in place for items held by other DoD Components to establish the terms for inventory validation. MOAs should include the data required, responsibilities of personnel (e.g., both owner[s] and custodian[s]), validation frequency, and/or other DoD Component-specific needs.
5. Continue remediation efforts designed and/or in process, as outlined in the Marine Corps' CAP, to formalize APSR to TIPR reconciliation procedures of OM&S held by Marine Corps, its custodians, and third-party service organizations.
6. Perform quality assurance reviews over monthly/quarterly populations and roll-forward analyses in a timely manner to ensure inventory is timely reported in the quarter received or removed in the quarter issued, disposed, or transferred out.
7. Perform an assessment of OM&S held by Marine Corps' third-party service organizations and custodians. For third-party service organizations that are deemed to be holding qualitatively or quantitatively significant Marine Corps OM&S (e.g., quantity, value, type, mission impact), the Marine Corps should design and implement monitoring procedures, to include investigating reconciliation variances, over the inventory management performed by the third-party service organizations and contractors. Until which time third-party service organizations can positively assert to an effective system of internal control over inventory, the Marine Corps should not rely on its third-party service organizations' inventory management.
8. Perform an assessment of available supporting documentation and adjust, to the extent appropriate, the TIPR/APSRs for known existence and completeness exceptions.
9. Disseminate the OM&S existence, completeness, and rights audit testing results to all OM&S custodians and/or third-party service organizations to promote awareness of the impact that effective inventory management controls and reconciliation procedures have on OM&S accountability and financial statement reporting.
10. Perform monitoring procedures on at least a quarterly basis to assess the accuracy and completeness of quarterly inventory procedures over OM&S. Specifically, the Marine Corps should maintain a real-time, complete inventory management schedule, including movement of inventory aboard ships, by FY.
11. Verify that all OM&S items have accurate, complete physical markings; are under proper ownership (i.e., rights); and are in compliance with storage requirements while conducting inventory procedures.
12. Continue feasibility of support efforts to incorporate virtual capability, where feasible and allowable, at ammunition locations to facilitate future internal and external inspections.
13. Implement the necessary training at all Marine Corps installations to increase the knowledge and understanding of acceptable supporting documentation for the financial

transactions, particularly for inventory in transit, or issued for training. Training should comprise lessons learned from the testing results, including the minimum documentation required to support roll-back and roll-forward procedures to support existence, completeness, and ownership (i.e., rights). Additionally, documentation retention practices and other management-identified root causes and resolutions should be communicated.

14. Continue to establish quarterly cut-off dates to prepare quarterly JVs for recording in DDRS-AFS until systems are corrected and integrated to properly report OM&S inventory in real-time. Further, the Marine Corps should develop and implement a quarterly accrual process to ensure OM&S inventory activity is appropriately valued and presented in quarterly financial reports.

B. Populations and Transactional Data

Condition: The Marine Corps has not provided supportable, complete, and reconciled populations for its OM&S ammunition and non-ammunition balances. Specifically, the Marine Corps developed reports to produce transactional detail (i.e., production receipts, issuances, transfers, and disposal activity); however, the Marine Corps is continuing to work through deficiencies in the reporting and reconciliation of the transactional activity.

Further, the Marine Corps' reconciliation of inventory maintained in its TIPR to its third-party service organizations' and contractor locations' APSRs remains ongoing and a baseline wall-to-wall inventory was not been completed, nor validated, by the Marine Corps in FY 2020.

Additionally, the Marine Corps procures ammunition that may require assembly by contractors or vendors, which results in progress payments while the ammunition is developed. The costs of such procurements are not completely and properly reported as OM&S in development within the OM&S Inventory and Related Property, net line item.

Cause: The Marine Corps, its custodians, and third-party service organizations lack integrated systems, specifically, properly designed interfaces and interface reconciliations, and consistent, suitable data elements to support transactional data and recurring APSR to TIPR reconciliations. The Marine Corps is unable to account for all ammunition and non-ammunition activity that occurs at the transactional level as a result of:

- Inaccurate data recorded in the APSR and/or incomplete annual inventories
- Legacy system data inaccuracies from the Marine Corps' previous cutover to the non-ammunition APSR, GCSS-MC
- Reporting DPAS transactional-level detail for the first time for Consolidated Storage Program (CSP) items and the ongoing review of DPAS transactional data
- Continued upgrade efforts to OIS-MC to enhance ammunition reporting functionality, including transactional-level detail reporting and the ability to receive third-party service organizations' transactions on a daily basis
- The Marine Corps' inability to consistently define its OM&S supply classes in order to properly report inventory on the financial statements.

For assets held by third-party service organizations, formalized agreements (i.e., MOAs) may not clearly define the responsibilities of the Marine Corps and third-party service organization personnel, frequency of inventories, and subsequent reporting to the Marine Corps.

Further, the procedures for reporting in-process ammunition are under development, and reconciliation and assessment efforts are ongoing, to include GL reclassification between expenses and ammunition in development.

Effect: As a result of the Marine Corps' inability to provide supportable, complete, and reconciled data for OM&S ammunition and non-ammunition, management may not be identifying and properly responding to relevant financial reporting risks in order to support an effective internal control environment. Further, management cannot assert to the material accuracy and completeness of the Inventory and Related Property, net line item in accordance with GAAP.

Without a validated baseline wall-to-wall inventory, the Marine Corps cannot determine whether inventory has been properly mapped to its respective USSGL account, nor can it effectively maintain its APSR to reflect current, transactional activity (i.e., receipts, issuances, transfers, condition code changes, and disposals) for inventory managed by third parties. As a result of ongoing remediation, the Marine Corps identified new inventory at contractor locations that should have been reported and/or updated in the APSRs.

As a result of ongoing remediation efforts, the Marine Corps reported:

- A \$144.3 million known adjustment for ammunition in the July 2020 roll-forward
- A \$122.8 million known adjustment for ammunition in development in the August 2020 roll-forward
- Approximately \$203.4 million in absolute transactional variances as of August 2020.

Due to the unresolved and unsupported transactional-level variances, additional misstatements to the OM&S balance as of September 30, 2020 may exist.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Continue establishing a complete and recurring effective inventory control program. Specifically, the Marine Corps should consider a higher frequency of inventory procedures (e.g., monthly and quarterly inventory procedures) than what is required under governing directives until which time the inventory results achieve a suitable inventory accuracy rate, including complete and accurate reconciliation of inventory activity recorded in the APSR from period to period.
2. Continue efforts to verify the accuracy of the data in the TIPR/APSRs through completion of periodic inventories and over the OM&S activity that continues to occur in real-time.
3. Formalize quarterly transactional reconciliation procedures for OM&S. The Marine Corps should reconcile quarterly transactional activity using quantities by the National

Stock Number (NSN), National Item Identification Number (NIIN), lot number, and serial number, as applicable. The quarterly reconciliation should be certified with a signature to validate the completion.

4. Require each storage location to complete and certify monthly transactional reconciliations until such time as effective Marine Corps-level reconciliations are in sustainment.
5. Ensure an MOA, binding agreement, and/or policies are in place for items held by third-party service organizations to establish the terms for inventory validation.
6. Design and implement monitoring procedures, to include investigating reconciliation variances, over the inventories performed by third parties and contractors.
7. Continue collaborating with the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]) to develop formalized DoD policy and guidance for reporting ammunition in development.
8. Expand and/or update business rules to appropriately track, analyze, review, and report ammunition in development for all applicable program managers and integrate activity into the TIPR and/or SABRS vs. external databases.
9. Perform a periodic data call over all vendors and contractors that the Marine Corps uses to procure ammunition to confirm the current status of ammunition progress (e.g., confirmation that the work is ongoing, number of projects, changes or delays in progress/completion).
10. Design and implement a control activity to search for unrecorded ammunition in development that may have been misclassified as an expense.

C. Valuation of Operating Materials and Supplies

Condition: The Marine Corps' opening balance and current-year valuation of OM&S as of September 30, 2020 are not in accordance with GAAP. The Marine Corps did not value current-year OM&S activity in accordance with SFFAS No. 3, and the Marine Corps' valuation of opening balances of OM&S using alternative valuation methods available in accordance with SFFAS No. 48 remains in process. Further, the Marine Corps did not:

- Record an allowance to capture the estimated repair cost for inventory held for repair
- Assess newly identified supply categories (e.g., fuels, medical equipment) consistent with its current business rules relating to the application of its consumption and purchase methodology.

Cause: The Marine Corps lacks effective and complete business processes, internal controls, information systems, and reporting mechanisms to accurately value OM&S inventory. While the Marine Corps updated Marine Corps Bulletin (MCBUL) 4440, *Reporting of OM&S and Government Furnished Material (GFM)*, it continues to develop and update business rules to further refine its valuation approach and implementation of accounting methodologies. The Marine Corps' implementation of SFFAS No. 48 over opening balances is further hindered by the combination of:

- Lack of current policies to consistently define its supply classes to align with its accounting methods (i.e., consumption vs. purchases methods) and presentation of each supply class on the financial statements
- Information systems that cannot successfully produce transactional-level data to support OM&S inventory quantities and do not have the ability to track and report critical data elements in accordance with SFFAS No. 3
- Incomplete and inconsistent quarterly data call procedures for financial reporting, which are manual in nature due to the lack of system integrations between OM&S inventory APSRs and SABRS
- Inability to timely provide sufficient documentation or read-only system access to support its application of a deemed cost methodology
- Lack of a documented methodology and updated financial reporting process to properly estimate the allowance for repairs contra account in accordance with GAAP.

Effect: The ongoing updates to the Marine Corps' valuation and accounting methodologies, along with other remediation efforts over OM&S sub-assessable unit populations and supply classes, resulted in the Marine Corps revaluing its net OM&S inventory opening balance at Q3 FY 2020 to \$8.5 billion, representing 16% of the Marine Corps' total assets reported on its balance sheet. Based on the Marine Corps' lack of effective and complete business processes, methodologies, internal controls, information systems, and reporting mechanisms in place to accurately value OM&S, Marine Corps management cannot assert to the material accuracy over the Inventory and Related Property, net line item on the balance sheet in accordance with GAAP as of September 30, 2020.

Underlying issues have prevented the Marine Corps' transition to OM&S inventory valuation under SFFAS No. 3. The transition to SFFAS No. 3 is necessary to accurately capture the Marine Corps' OM&S inventory portfolio. The Marine Corps will be unable to make an unreserved assertion until it maintains systems, supportable accounting methodologies, and documentation that is able to provide accurate data and reliable valuation sufficient to pass audit testing procedures.

Recommendations: Kearney recommends that the Marine Corps continue implementation efforts of SFFAS No. 48 for opening balances associated with OM&S. Additionally, Kearney recommends that the Marine Corps perform the following:

1. Fully implement and validate valuation methodologies consistent with requirements set forth in supporting the OM&S opening balances in accordance with SFFAS No. 48. The valuation determination for OM&S inventory items must be clearly traceable, documented, and maintained to support each value.
2. Fully implement and validate valuation methodologies consistent with requirements set forth in SFFAS No. 3. The valuation determination for OM&S items must be clearly traceable, documented, and maintained to support each value.
3. Develop and implement policy, procedures, and a complete methodology for establishing a contra asset allowance account to offset OM&S held for repair for financial reporting

purposes, in accordance with GAAP, including a look-back analysis to determine the estimates' accuracy over time.

4. Revise current policy and procedures that identify all primary and sub-categories of OM&S and PP&E and the appropriate accounting treatment (e.g., capitalize or expense) for each for financial reporting purposes. The Marine Corps should ensure OM&S supply classes are consistently defined in policy as they are reported on the balance sheet as Inventory and Related Property, net.

VI. Fund Balance with Treasury Controls (*Repeat Condition*)

Background: FBWT represents the aggregate amount of funds available at Treasury. FBWT is increased by activities such as receipt of new budget authority (e.g., appropriations), transfers from others, and amounts collected and credited to appropriations. FBWT is reduced by activities such as disbursements made to pay liabilities or purchase assets, goods, and services; cancellation of expired appropriations; transfers to others; and rescissions of appropriations. Federal agencies are required to reconcile FBWT with Treasury.

DoD agencies, military services, and other Federal agencies use a variety of systems to routinely process collections and disbursements on behalf of and against others' obligations and receivables in a process broadly referred to as "cross-disbursing." Disbursing offices, including those at the Marine Corps, report collections and disbursements to Treasury. Statements of Differences (SOD) arise when amounts reported to Treasury differ from actual disbursements and collections processed by disbursing offices. In addition, budget clearing accounts, also known as suspense accounts, temporarily hold unidentifiable collections or disbursements. Agencies should have a process to research and properly record suspense account transactions in their GL timely because they become more difficult to resolve as they continue to age. Accordingly, agencies may request to discontinue transaction research if certain criteria are met and properly approved by specific members of management. In FY 2020, DoD prepared suspense Discontinued Research Packages (DRP) totaling \$35.22 million (net) and \$1.04 billion (absolute) to transfer approximately 20,000 collection and disbursement transactions aged over 60 days out of DoD suspense accounts.

The Marine Corps relies upon a third-party service organization to perform monthly reconciliations between recorded amounts and those reported at Treasury for non-shared appropriations, as well as appropriations shared with the U.S. Navy.

Condition: The Marine Corps has not implemented sufficient internal control activities to ensure that all transactions affecting FBWT are identified and recognized in its financial statements. While the Marine Corps began preparing quarterly management analyses to identify the suspense account or SOD transactions resolved to the Marine Corps vs. other Defense agencies, the management analyses are not available until 60 days after quarter end. This timeline is longer than the 45-day reporting period, which does not allow the Marine Corps to determine what portion of the remaining balances, if any, should be attributed to the Marine Corps for financial reporting purposes.

In addition, the Marine Corps does not have effective processes and internal controls to ensure transactions affecting FBWT are identified, properly recorded, and reconciled, nor that differences are promptly resolved. Specifically:

- The Marine Corps' financial statements include unsupported transactions that do not match to valid obligations or receivables in SABRS. Although amounts are recorded in summary for financial statement presentation, underlying transaction-level amounts are not recorded in the SABRS GL
- The Marine Corps has not designed or implemented internal control activities to help ensure collections and disbursements (including those processed by other agencies) are accurate and pertain to the Marine Corps. Non-Marine Corps disbursing offices process collections or disbursements on the Marine Corps' behalf even though such transactions are not able to be immediately matched to valid obligations or receivables in SABRS
- The Marine Corps' FBWT reconciliations for shared appropriations included variances that could not be attributed to the Marine Corps or the U.S. Navy
- DRPs totaling \$21.26 million (net) and \$991.65 million (absolute) were not properly prepared or approved. As a result, research for transactions residing in suspense accounts was improperly discontinued and transferred out of suspense.

The agencies that disburse on behalf of the Marine Corps remit summary-level information to the Marine Corps' third-party service organization for inclusion in the Marine Corps' financial statements. Subsequently, these agencies provide the third-party service organization with the individual transaction-level detail to support cross-disbursements previously reported in summary. However, the Marine Corps does not obtain timely, descriptive data to enable the third-party service organization to reconcile individual detailed cross-disbursement transactions to those originally registered in summary amounts.

Cause: Although the Marine Corps performed an analysis of its cross-disbursements to identify non-Marine Corps entities that have a higher likelihood of recording the Marine Corps' transactions in suspense accounts or having SODs that pertain to the Marine Corps, it has not designed and implemented a methodology to determine the financial reporting impact of the suspense and SOD balances to the Marine Corps' financial statements, nor did it formalize its approach for processing DRPs in accordance with the DRP requirements. Its efforts are hindered by the timing and sufficiency of the availability of data (i.e., 60 days or more after period end), the use of shared agency location codes and suspense accounts, and the volume of transactions recorded to suspense requiring remediation in 2020. The Marine Corps has also not designed all necessary internal control activities in its policies and procedures, including full consideration of CUECs related to the matters presented in Section I, *Entity-Level Controls*, to address risks to its FBWT. Additionally, the Marine Corps has not sufficiently coordinated with offices that disburse on its behalf to obtain detailed cross-disbursement records in the accounting period in which they were processed. Lastly, the Marine Corps lacks the support at the transaction level to determine the portion of the shared appropriations net disbursements JV posted by the U.S. Navy attributable to its reporting entity.

Effect: The Marine Corps' FBWT may not be accurate, complete, and fairly presented. Specifically:

- The Marine Corps cannot identify and record its SOD and suspense activity into its GL and financial statements pursuant to quarterly financial reporting timelines. Further, the lack of methodology to determine the financial reporting impact of the SOD and suspense balances, as well as the processing of unauthorized DRPs, inhibits the Marine Corps' ability to assert to the completeness and accuracy of reported FBWT on its balance sheet, as well as other financial statement line items as applicable. Amounts within DoD suspense accounts had an absolute value of approximately \$497 million as of March 31, 2020 and \$201 million as of June 30, 2020. The SODs related to disbursing offices that regularly process Marine Corps transactions were approximately \$821 million as of March 31, 2020 and \$784 million as of June 30, 2020
- As of June 30, 2020, approximately \$28 million of disbursements and \$16 million of collections remained unresolved in SABRS
- As of September 30, 2020, the U.S. Navy posted an unsupported Net Disbursement JV for over \$180 million that included activity from Marine Corps-shared appropriations
- The Marine Corps is unable to reconcile individual detailed cross-disbursement transactions to the amounts that were originally included in its financial statements in summary. Therefore, the Marine Corps lacks assurance that summary transactions registered in DCAS, and included in its financial statements, pertain to the Marine Corps and are properly supported
- The Marine Corps' recording of collections and disbursements in summary amounts represents noncompliance with FFMIA and prevents proper reconciliation
- The Marine Corps has an increased risk of Antideficiency Act (ADA) violations because its system processes disbursements without first being matched to a valid obligation, and SABRS does not contain a complete record of collections and disbursements at the document level. This also represents noncompliance with FFMIA.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Fully implement internal control activities to ensure that all material Marine Corps transactions, individually and in the aggregate, are identified and appropriately included within the Marine Corps' accounting records. Specifically, the Marine Corps should, along with its service organization, work to formally develop and implement the following:
 - a. Continue monitoring and tracking the resolution of suspense and SOD activity cleared to the Marine Corps to enable the Marine Corps to perform root cause analysis and create projections of potential outstanding unresolved balances. The Marine Corps should continue implementing business process improvements to prevent items from reaching suspense.
 - b. Continue assessing and identifying agency location codes that primarily report collection and disbursement activity to Treasury on behalf of the Marine Corps.
 - c. Continue improving system and process controls to ensure that disbursements and collections are processed with valid data inputs.

- d. Develop and implement processes and controls to eliminate instances where transactions are being placed in suspense accounts intentionally.
 - e. Develop a procedure to determine what portion of the suspense and SOD balances, if any, should be attributed to the Marine Corps for financial reporting. Pursuant to receiving the necessary information and documentation, the Marine Corps should develop and implement procedures to identify the Marine Corps' actual or estimated suspense account balances for recording and reporting into the GLs and financial statements. Estimates should only be developed using relevant, complete, and reliable information.
 - f. Develop a consistent approach for processing DRPs, including researching and documenting all efforts to resolve aged suspense transactions prior to preparing and processing DRPs, and documenting the proper management approval to discontinue research and accept the charge against its line of accounting.
 - g. Design and/or implement a process to obtain and review any planned DRP suspense account write-offs to determine if it can resolve any of the transactions pending discontinuance. For DRPs not aligned with the Marine Corps, the Marine Corps should obtain confirmation of the DRPs accepted by the other DoD entities to address the completeness risk to the Marine Corps' FBWT.
- 2. Design and implement monitoring controls to determine whether amounts included in the shared appropriations net disbursement JVs posted by the U.S. Navy pertain to the Marine Corps and are properly recorded.
 - 3. Coordinate with the OUSD(C) to develop or update SOPs, reporting timelines, and required data elements to be provided by disbursing offices for cross-disbursements.
 - 4. Analyze collection and disbursement data to identify the root causes of undistributed and unmatched transactions and identify business processes that regularly result in undistributed or unmatched transactions. Similarly, the Marine Corps should identify the disbursing offices, including non-Marine Corps disbursing offices, which regularly process transactions that do not immediately distribute and match to balances in SABRS.
 - 5. Update processes and internal control activities to ensure transactions registered in DCAS contain complete and accurate line of accounting data needed to distribute and match the transactions in SABRS.

VII. Business Process Controls (*Repeat Condition*)

Background: Marine Corps Commands execute daily transactions across the enterprise for a variety of payroll and non-payroll business processes. Business process controls are intended to help ensure transactions are recorded timely, accurately, completely, and in accordance with GAAP when goods, services, and personnel are obtained to achieve mission requirements. Certain transactions involve the development of estimates.

Condition: The Marine Corps has not demonstrated the design and operating effectiveness of its internal control activities for payroll and non-payroll business processes. These deficiencies pertain to the generation of payroll supporting documentation, revenue recognition, receipt and acceptance, recording of expenses, accounting for refunds and returns, budgetary accounting, and timely and accurate recording of transportation transactions, including support for estimates.

With respect to revenue and AR business processes, the Marine Corps has not yet demonstrated its remediation of internal control deficiencies related to the:

- Establishment of support agreements with trading partners before accepting reimbursable work orders or the recognition of spending authority from offsetting collections prior to receiving an authorized funding document
- Recording of earned revenue and collections in the correct accounting period or making correct adjusting entries related to revenue
- Liquidation of AR upon collecting payments.

Similarly, for other non-payroll business processes, the Marine Corps has not yet demonstrated its remediation of internal control deficiencies pertaining to expenses and AP related to:

- Recording the same invoices multiple times
- Untimely recording of expenses for goods or services incurred in a prior period
- Undocumented receipt and acceptance of goods and services
- Insufficient obligation of funds prior to the disbursement of Marine Corps funds.

Other non-payroll expense and AP deficiencies relate to controls for receipt and acceptance and accounting for refunds and returns. Specifically:

- The Marine Corps' internal control activities do not ensure that expenses are recorded timely based on the actual receipt and acceptance of goods and services, rather than after liquidation has occurred. When the liquidation is recorded in SABRS prior to the Marine Corps' recognition of the expense and corresponding AP, the transaction results in abnormal intragovernmental and non-intragovernmental AP balances
- The Marine Corps does not have sufficient internal control activities to demonstrate receipt and acceptance of commercial shipments
- The Marine Corps records unreconciled and unsupported adjustments to agree its intra-departmental expense and AP balances to the amounts reported by its trading partners (i.e., seller-side revenues and AR) in lieu of reconciling its balances with its trading partners and recording appropriate adjustments in accordance with TFM requirements
- The Marine Corps does not maintain documentation to support its manual comparisons of approved point-of-sale Military Standard Requisition and Issue Procedures (MILSTRIP) purchase requests (e.g., ServMart, Fuel) and corresponding receipts. In addition, the Marine Corps does not perform consistent fuel purchase approval processes across various Commands
- The Marine Corps participates in programs for the return of previously purchased materials to the original source-of-supply, resulting in exchanges that offset future use of budgetary resources or refunds that create new budgetary authority. The Marine Corps does not have controls in place to help ensure the proper accounting for these events.

Further, the Marine Corps has not sufficiently remediated prior-year military and civilian payroll control findings to support the operating effectiveness of key controls.

The Marine Corps also has control deficiencies with respect to its budgetary accounting, including those controls related to recording, monitoring, and recovering obligations. Specifically:

- The Marine Corps did not correct instances where it improperly obligated bonuses in advance of Marines completing the applicable Military Occupational Specialty (MOS) training
- The Marine Corps' obligated balances were either unsupported, lacked complete documentation, or the documentation provided was otherwise insufficient to support the recorded amounts
- The Marine Corps is unable to provide a comprehensive listing of contracts awaiting administrative contract close-out and de-obligation
- The Marine Corps erroneously recorded recoveries when budget, contract, and/or accounting data elements were administratively changed and when obligations were manually reversed
- The Marine Corps places MILSTRIP supply orders using systems including GCSS-MC and Defense Medical Logistics Standard Support (DMLSS). DMLSS automatically obligates price adjustments in SABRS without the Marine Corps' approval. GCSS-MC registers price changes without Marine Corps approval, but it does not automatically record an adjustment in SABRS, leading to "negative unliquidated obligations" when liquidating the obligation
- The Marine Corps established a variety of processes to account for transportation-related business events, including personal property shipments and second destination transportation costs. However, these processes do not have adequate transaction-level controls that support timely, accurate, and supported recording of obligations, expenses, and outlays. Related to these processes, the Marine Corps did not provide ample documentation to support the accuracy of its estimates.

Cause: An overall weak control environment, as demonstrated by insufficiently designed and implemented policies and procedures, caused these control deficiencies. Moreover, Marine Corps management delegates discretion at the Command level in defining, maintaining, implementing, and documenting key control activities; therefore, certain Commands may not be implementing control activities consistently.

Other factors contributing to the control deficiencies include an inconsistent understanding of the documentation needed to demonstrate the validity of open orders, an absence of approvals for transactions manually recorded directly into SABRS, system interface issues, business processes that do not require approving officials to compare receipt and acceptance documentation to invoices prior to approval, reclassifications of transactions that trigger inaccurate accounting entries, insufficient Memorandums of Understanding (MOU) and support agreements with other agencies, deficient system controls, the inability to trace certain liquidations to individual orders, and recording of amounts in bulk or summary.

Effect: The material weakness related to business process controls gave rise to an increased risk of and, in some cases, actual misstatements in the Marine Corps' financial statements.

Due to the deficiencies identified above, the Marine Corps was not able to demonstrate the validity and material accuracy of approximately \$356.12 million of open orders as of October 1, 2019.

By inconsistently and inaccurately recording obligations for personal property shipment and storage costs and second destination freight costs to support the validity of open orders, the Marine Corps lacks assurance that its budgetary resources and obligated balances are available to cover future outlays. Through Q3 FY 2020, the Marine Corps recorded \$168.1 million in obligations related to personal property shipment and storage costs and was billed approximately \$12.4 million for certain second destination freight shipment costs.

The portion of the unobligated balance from prior-year budget authority pertaining to bonuses earned in advance of MOS training was approximately \$71.6 million at October 1, 2019 and \$40 million at June 30, 2020.

Abnormal AP balances exist when the Marine Corps records disbursements prior to establishing an AP. The Marine Corps offsets abnormal AP balances related to non-intragovernmental disbursements by recording monthly liquidations greater than expenses (LGTE) JVs in SABRS. The LGTE JV offsets the abnormal AP balances by recording disbursed amounts as expenses. However, the Marine Corps is unable to determine whether the recorded expenses are valid or whether the disbursed amounts represent advances, asset acquisitions, CIP, or O&MS in development. The LGTE JVs for June 30, 2020 and September 30, 2019 totaled approximately \$608 million and \$312 million, respectively.

Certain matters reported in this section also represent noncompliance with the USSGL and OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*. Lastly, certain findings hinder management's ability to exercise control over budgetary resources and increase the risk of the Marine Corps violating the ADA.

Recommendations: Kearney recommends that the Marine Corps perform the following:

1. Evaluate internal control deficiencies and determine the underlying causes of controls that are not operating effectively. For deficiencies in the design of internal control activities, the Marine Corps should evaluate its policies and procedures to determine whether the design of existing controls should be updated or whether new controls should be developed and implemented.
2. Provide training on any updates to policies and procedures and updated or newly designed controls.
3. Record correcting entries for identified misstatements, assess the underlying cause of the misstatement, and implement corrective actions to address underlying causes (e.g., update SABRS accounting posting logic to avoid the recording of recoveries when administrative funding movements and error corrections are processed).

In addition, specific to individual business processes, Kearney recommends that the Marine Corps perform the following:

4. Reassess the identification of agreement managers and their responsibility for administrating authorized support agreements. Further, the Marine Corps should develop a mechanism to help ensure agreement managers are involved with the acceptance of reimbursable work orders within respective areas of responsibility.
5. Review and develop MOUs with all applicable service organizations, such that open orders affected by price adjustments must be re-authorized, adjusted, or cancelled by the Marine Corps prior to delivery or liquidation.
6. Develop system controls to prohibit liquidations in excess of approved obligations within the MILSTRIP supply systems.
7. Continue to develop and implement monitoring controls over open balances, including ongoing reviews of all aged open orders. Further, the Marine Corps should determine the need to de-obligate orders that are no longer valid and will not require future payment.
8. Ensure that, for all non-payroll business processes, expenses are recorded in the proper period (i.e., as they are incurred or captured by an accrual), and receipt and acceptance documentation is completed in a timely manner, including costs associated with the shipment and storage of personal property and second destination transportation costs. The Marine Corps should maintain documentation to validate its expenses.
9. Perform a detailed analysis to identify specific processes giving rise to the abnormal AP balances and the root causes that result in liquidations occurring prior to expenses and related AP. Based on the analysis, the Marine Corps should develop procedures to align the recording of expenses and payables with the receipt and acceptance of goods and services, rather than the recording of liquidations in SABRS.
10. Continue to update policies and procedures for reconciling trading partner data at the transaction level based on the transactions and source documentation provided by trading partners. Once reconciliations are complete, the Marine Corps should coordinate with trading partners to adjust balances, as necessary, to reflect the actual amounts incurred and owed to trading partners based on the provision of goods and/or the receipt of services.
11. Assess the overall design of the current accounting information system and data available to record transactions by individual order.
12. Design and implement policies and procedures requiring support for estimated costs and receipt and acceptance documentation from trading partners.

VIII. Information Systems (*Repeat Condition*)

Background: To implement an effective security program, entities need to maintain a complete, accurate, and up-to-date inventory of their networks, sub-networks, and systems. Without one, the entity cannot effectively manage information security controls across the entity. Furthermore, the inventory is necessary for effective monitoring, testing, and evaluation of

information security controls, and to support IT planning, budgeting, acquisition, and management.

It is important to obtain a holistic understanding of the Marine Corps' IT environment, including system POCs, locations of system program management offices, parties responsible for administering and operating the system, and locations of the hosting facilities. This provides management with an essential understanding of the complex IT environment in which the Marine Corps operates, as well as provides information on the key stakeholders responsible for supporting inquiries concerning responsible parties, other stakeholders, system documentation, and other evidence in a timely, complete, and accurate manner. Such inquiries may be made in support of budget or resource requests, internal assessments, and external audits or assessments, including the financial statement audit.

Condition: The Marine Corps has several deficiencies in the design and operating effectiveness of internal controls related to the core accounting system and key Tier 1, 2, 3, and third-party systems. While no single control deficiency meets the level of a material weakness, in combination, these deficiencies elevate to a material weakness due to the pervasiveness of the weaknesses throughout the information system environment and the Marine Corps' reliance on these systems for financial reporting. Testing disclosed deficiencies in the following areas:

- Security Management
 - Inconsistent implementation of risk assessment policies and procedures for key financial management applications, databases, and/or operating systems
 - Incomplete system security plans/security plans for the network and subnetworks, as well as key financial management systems, databases, and/or operating systems
 - Incomplete, inconsistent, and/or not fully implemented policies and procedures for monitoring third-party service organizations
 - Inconsistent implementation of policies and procedures for ensuring complete and up-to-date plans of action and milestones
 - Undocumented, incomplete, and/or not fully implemented policies and procedures for incident response for key financial management systems
- Access controls and segregation of duties
 - Incomplete and/or not fully implemented policies and procedures for managing and monitoring access to key financial management applications, databases, and/or operating systems, including third-party systems
 - Undocumented policies and procedures for the proper segregation of duties at the entity level, including the consideration of segregation of duties across systems and applications
 - Undocumented, incomplete, and/or not fully implemented policies and procedures for the proper segregation of duties within applications, databases, and/or operating systems
 - Inconsistent implementation of user account recertification to verify the propriety of access
 - Undocumented, incomplete, and/or inconsistent logging and monitoring of activity for all key financial management systems

- Configuration management
 - Incomplete and/or inaccurately documented baseline configuration inventory of hardware, software, and firmware
 - Undocumented, incomplete, inconsistent, and/or unmaintained requirements and documentation of configuration changes, including emergency changes, for certain systems
 - Unsupported and/or incomplete listings of system changes and supporting documentation for system changes
- Continuity planning
 - No off-site storage of backups for key financial management systems
 - Incomplete, outdated, unimplemented, and/or untested continuity planning and disaster recovery policies and procedures for key financial management systems
- Interfaces
 - Inaccurate, incomplete, and/or unimplemented policies and procedures for monitoring and reconciling interfaces for key financial management systems
 - Undocumented, incomplete, and/or unimplemented interface agreements for interfaces of key financial management systems.

Cause: The deficiencies are a result of multiple circumstances, including the Marine Corps' failure to maintain a robust internal control assessment process that covers the entire information system environment, an incomplete understanding of the information system environment, inconsistent policies and procedures, and decentralized stakeholders responsible for various systems without consistent oversight or processes.

Effect: Without robust controls throughout the information system environment, the risk of unauthorized access and information system changes increases, thereby elevating the risk to the systems and the data availability, integrity, and confidentiality.

Recommendations: In addition to the related recommendations provided in Section I, *Entity-Level Controls*, and Section III, *Integrated Financial Management Systems*, Kearney recommends that the Marine Corps perform the following:

1. Continue to monitor all Marine Corps systems' compliance with the NIST RMF, which provides a process that integrates security and risk management activities into the system development lifecycle.
2. Update policies, procedures, and manuals to include organization, mission/business process, and information system roles and responsibilities for RMF activities.
3. Assess information system risk at the organization and mission/business process tiers, in addition to the current assessments at the information system tier, in accordance with NIST SP 800-30, including consideration of service organizations/external entities.
4. Implement security controls to address information system risks using the risk assessments and the Marine Corps' risk tolerance in accordance with NIST.

5. Continue to develop, update, and implement policies, procedures, and manuals to comply with NIST SP 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*.

* * * * *

APPENDIX A: STATUS OF PRIOR-YEAR FINDINGS

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included with the audit report on the United States Marine Corps' (Marine Corps) fiscal year (FY) 2019 financial statements, we noted several issues that were related to internal control over financial reporting. The status of the FY 2019 internal control findings is summarized in *Exhibit 1*.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2019 Status	FY 2020 Status
Entity-Level Controls	Material Weakness	Material Weakness (Modified Repeat)
Ability to Provide Complete, Timely, and Sufficient Evidence	Material Weakness	
Financial Reporting and Analysis	Material Weakness	Material Weakness
Integrated Financial Management Systems	Material Weakness	Material Weakness
Property, Plant, and Equipment (PP&E)	Material Weakness	Material Weakness
Operating Materials and Supplies (OM&S)	Material Weakness	Material Weakness
Fund Balance with Treasury (FBWT)	Material Weakness	Material Weakness
Business Process Controls	Material Weakness	Material Weakness
Information Systems	Material Weakness	Material Weakness

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS,
REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS**

To the Commandant of the United States Marine Corps and Inspector General of the Department of Defense

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the United States Marine Corps (Marine Corps) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Marine Corps' financial statements, and we have issued our report thereon dated November 9, 2020. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The Marine Corps also asserted to departures from generally accepted accounting principles.

Compliance and Other Matters

In connection with our engagement to audit the financial statements of the Marine Corps, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Marine Corps. However, providing an opinion on compliance with those provisions was not an objective of our engagement and, accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in the FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03 and which are described in the accompanying Schedule of Findings.

The results of our tests of compliance with FFMIA disclosed that the Marine Corps' financial management systems did not comply substantially with the Federal financial management systems requirements, applicable Federal accounting standards, or application of the United States Standard General Ledger (USSGL) at the transaction level, as described in the accompanying Schedule of Findings.

Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the financial statements, other instances of noncompliance or other matters may have been identified and reported herein.



Marine Corps' Response to Findings

The Marine Corps' response to the findings identified in our engagement is described in a separate memorandum attached to this report. The Marine Corps' response was not subjected to the auditing procedures applied in our engagement to audit the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 9, 2020

Schedule of Findings

Noncompliance and Other Matters

I. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) (*Repeat Condition*)

Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides guidance for Federal agencies to implement the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). FMFIA and OMB Circular A-123 require agencies to establish a process to document, assess, and assert to the effectiveness of internal control over financial reporting.

The United States Marine Corps (Marine Corps) has not established and implemented controls in accordance with standards prescribed by the Comptroller General of the United States as codified in the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government* (the Green Book), as described by the material weaknesses in the *Report on Internal Control over Financial Reporting*.

As discussed in Section I, "Entity-Level Controls," of the *Report on Internal Control over Financial Reporting*, the audit identified the following instances of noncompliance with FMFIA and OMB Circular A-123:

- The Marine Corps' entity-level control assessment did not require identification of its financial reporting objectives. Accordingly, the Marine Corps did not identify or document these objectives, nor did it perform a comprehensive financial reporting risk assessment. As a result, the Marine Corps has not centrally designed internal control activities for its business processes, consistently communicated internal control directives for common business processes, or finalized monitoring procedures to ensure internal controls remain effective over time
- The Marine Corps' oversight body (i.e., Information Command, Control, Communications, and Computers [IC4]) has not established processes to monitor whether management has effectively performed system risk assessments in accordance with the enterprise policy. For example, the Marine Corps did not test systems' compliance with Enterprise Cybersecurity Manual (ECSM) 018 and, as a result, the following Marine Corps systems' risk assessments over the Global Combat Support System – Marine Corps (GCSS-MC) and Standard Procurement System (SPS) did not comply with the requirements established in ECSM 018
- The Marine Corps did not fully implement a corrective action process to aid in responding to prior-year financial audit findings. As of September 30, 2020, 41 Corrective Action Plans (CAP) did not sufficiently address the causes and/or recommendations outlined in the prior-year findings. Additionally, the Marine Corps could not provide support for the review, approval, and acceptance of responsibility for the execution of the CAP by a Senior Accountable Officer.

II. The Federal Information Security Modernization Act of 2014 (FISMA) (*Repeat Condition*)

The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The National Institute of Standards and Technology (NIST) publishes standards and guidelines for Federal entities to implement for non-national security systems. Deviations from NIST standards and guidelines represent departures from FISMA requirements. During our audit, we noted several deviations from NIST standards and guidelines that contributed to an overall material weakness related to information systems, as described in Section VIII, “Information Systems,” in our *Report on Internal Control over Financial Reporting*. These deviations represent the Marine Corps’ noncompliance with FISMA. As noted in the *Compliance with Other Key Legal and Regulatory Requirements* section of its Agency Financial Report, the Marine Corps disclosed that it is working towards compliance with FISMA, which is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03. By not complying with FISMA, the Marine Corps’ security controls may adversely affect the confidentiality, integrity, and availability of information and information systems. See Section VIII, “Information Systems,” in the accompanying *Report on Internal Control over Financial Reporting* for additional details.

III. The Federal Financial Management Improvement Act of 1996 (FFMIA) (*Repeat Condition*)

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that an entity’s overall financial management systems environment operate, process, and report data in a meaningful manner to support business decisions. FFMIA states that Federal agencies shall comply substantially with the requirements within Section 803(a). These requirements include:

- Federal financial management system requirements
- Applicable Federal accounting standards
- United States Standard General Ledger (USSGL) at the transaction level.

The Marine Corps’ financial management systems do not substantially comply with the requirements within FFMIA, as asserted to by management and as discussed below.

Federal Financial Management Systems Requirements

FFMIA requires reliable financial reporting, including the availability of timely and accurate financial information, and maintaining internal control over financial reporting and financial system security. The matters described in the Basis for Disclaimer of Opinion section in the accompanying *Independent Auditor’s Report*, as well as the material weaknesses reported in the accompanying *Report on Internal Control over Financial Reporting*, represent noncompliance with the requirement for reliable financial reporting.

FFMIA requires financial management system owners to implement and monitor Federal information system security controls to minimize the impact to the confidentiality, integrity, and availability of the systems and data. The primary means for Federal entities to provide these controls is the implementation and monitoring of controls defined in NIST Special Publication (SP) 800-53, Revision (Rev.) 4, *Security and Privacy Controls for Federal Information Systems and Organizations*. During our audit of the Marine Corps, we noted several deviations from recommended controls included in NIST SP 800-53, Rev. 4, as discussed in Section VIII, “Information Systems,” in our *Report on Internal Control over Financial Reporting*. These deviations relate to security management, access controls, segregation of duties, configuration management, contingency planning, and interface controls, and they represent instances of noncompliance with information security requirements.

Federal Accounting Standards

FFMIA requires that agency management systems maintain data to support financial reporting in accordance with accounting principles generally accepted in the United States of America (GAAP). As identified through our audit procedures and as noted by the Marine Corps, the Marine Corps disclosed several instances where it departed from GAAP. The Marine Corps asserted to the following departures from GAAP:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*
- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Reporting requirements for the identification and recordation of indirect, integration, and transportation costs to record full costs per SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and SFFAS No. 29, *Heritage Assets and Stewardship Land*
- Recognition and accounting requirements associated with capital and operating leases and environmental liabilities set forth in SFFAS No. 5 and SFFAS No. 6
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Accumulation and capitalization of internal use software in accordance with SFFAS No. 10, *Accounting for Internal Use Software*
- Accounting and reporting requirements associated with restatements per SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, and OMB Circular A-136, *Financial Reporting Requirements*
- Reporting and valuation requirements set forth in SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards No. 6, No. 14, No. 29, and No. 32*.

In addition, the Marine Corps does not record obligations related to certain bonuses and utilities in accordance with OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*. Lastly, the Marine Corps did not fully comply with the financial reporting requirements prescribed by OMB Circular A-136, as discussed in our *Report on Internal Control over Financial Reporting*, Section II, “Financial Reporting and Analysis,” and as disclosed by the Marine Corps in Note 1.

United States Standard General Ledger (USSGL) at the Transaction Level

FFMIA requires that agency management systems record financial events by applying the USSGL guidance in the Treasury Financial Manual (TFM) at the transaction level. The Marine Corps’ financial management systems do not always record financial events in accordance with the requirements of the USSGL at the transaction level. During our audit, we identified the following instances of noncompliance:

- The Marine Corps’ core accounting system, as currently implemented, is not fully compliant with USSGL. Specifically, the core accounting system does not:
 - Produce accounts payable and receivable listings by vendor and debtor, respectively
 - Align fully its posting logic to the USSGL account transactions within the TFM Supplement, including refund scenarios in which the original purchase occurred in the prior year
 - Consistently close certain accounts in the Standard Accounting, Budgeting, and Reporting System and the Defense Departmental Reporting System
- The Marine Corps’ Property, Plant, and Equipment and Operating Materials and Supplies capital expenditure transactions were not recorded to the proper asset accounts within the core accounting system; instead, they were recorded as operating expenses. The Marine Corps was unable to separately identify capitalized expenses from non-capital expenses to appropriately account for expenditures in accordance with SFFAS No. 6 and SFFAS No. 3. For additional details, see Section III.C, “Integration between Accountable Property Systems of Record and Standard Accounting, Budget, and Reporting System,” in our *Report on Internal Control over Financial Reporting*
- The Marine Corps’ financial statements included summarized amounts that could not be supported at the transaction level for:
 - Collections and disbursements that were processed by non-Marine Corps disbursing offices
 - Unsupported journal vouchers (JV) to align the Marine Corps’ accounting records with balances reported by its trading partners and to correct abnormal accounts payable balances
 - Transactions related to the movement and storage of personal property for Permanent Change of Station (PCS) orders and Second Destination Transportation processes
- The Marine Corps’ financial statements included amounts that did not distribute to specific organizational components or match to specific obligations or receivables in the core accounting system.

IV. The Antideficiency Act (ADA) (*Repeat Condition*)

The Antideficiency Act (ADA) prohibits Federal agencies from: 1) making or authorizing an expenditure from, or creating or authorizing an obligation under, any appropriation or fund in excess of the amount available in the appropriation or fund unless authorized by law; 2) involving the Government in any obligation to pay money before funds have been appropriated for that purpose, unless otherwise allowed by law; or 3) making obligations or expenditures in excess of an apportionment or reappropriation or in excess of the amount permitted by agency regulations. Per 31 United States Code (U.S.C.) 1351, management is required to immediately report violations to the President and Congress, including all relevant facts and a statement of actions taken, as well as transmit a copy of each report to the Comptroller General on the same date.

The Marine Corps did not disclose any violations of the ADA during fiscal year 2020. However, the Marine Corps management has identified five potential violations of the ADA, which are in various stages of the investigation process. These potential violations primarily consist of purpose and funds availability issues.

* * * * *

Response to Independent Auditor's Report



DEPARTMENT OF THE NAVY
HEADQUARTERS UNITED STATES MARINE CORPS
3000 MARINE CORPS PENTAGON
WASHINGTON, DC 20350-3000

IN REPLY REFER TO
7500

R

9 Nov 2020

Mr. David Zavada
Kearney & Company, P.C.
1701 Duke Street, Suite 500
Alexandria, VA 22314

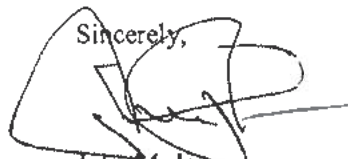
Dear Mr. Zavada:

SUBJECT: MANAGEMENT COMMENTS TO THE INDEPENDENT AUDITOR'S REPORT
ON THE UNITED STATES MARINE CORPS FULL FINANCIAL STATEMENT
AUDIT FOR FISCAL YEAR 2020 (CONTRACT NO. GS-00F-031DA/HQ0423-
16F-0114)

The Marine Corps concurs with Kearney and Company's Independent Auditor's Report on the Marine Corps' Financial Statements for Fiscal Year 2020 (FY20) and acknowledges the material weaknesses and control deficiencies noted therein.

The auditor's findings in their audit report are consistent with our understanding of the areas of financial management that continue to require attention and which have been the focus of intensive audit remediation efforts both in FY20 and in prior fiscal years. As always, the detailed feedback that your audit team provided to the Marine Corps during the course of this year's audit is invaluable in helping to inform and shape our corrective actions going forward.

On behalf of the Marine Corps and our Department of Defense partners, we thank you for your efforts in helping the Marine Corps stay on the path of continuous improvement with our financial accountability and stewardship of our Nation's resources.

Sincerely,

John M. Jansen
Lieutenant General
Fiscal Director
of the Marine Corps

Copy to: Assistant Secretary of the Navy (FM&C)

PRINCIPAL FINANCIAL STATEMENTS

The United States Marine Corps' (hereafter referred to as the USMC or the Marine Corps) financial statements have been prepared to report the financial position, results of operations, net position, and budgetary resources pursuant to the requirements of the *Chief Financial Officers (CFO) Act of 1990 (Public Law (P.L.) 101-576)*, *Government Management Reform Act (GMRA) of 1994 (P.L. 103-356)*, and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. The statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as outlined by the Federal Accounting Standards Advisory Board (FASAB), unless otherwise noted.

The responsibility for the integrity of the financial information included in these statements rests with management. Kearney & Company, P.C. (Kearney) was the independent public accountant engaged to audit the USMC's principal financial statements. The Independent Auditor's Report accompanies the principal financial statements.



As of September 30, 2020 and 2019
(Amounts in thousands)

The accompanying notes are an integral part of these statements.

United States Marine Corps

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2020 and 2019
(Amounts in thousands)

Program Costs

Gross Costs

(Less: Earned Revenue)

Net Cost of Operations

	Unaudited 2020	Unaudited 2019
	\$ 28,308,083	\$ 27,904,565
	<u>(339,724)</u>	<u>(295,120)</u>
	<u>\$ 27,968,359</u>	<u>\$ 27,609,445</u>

The accompanying notes are an integral part of these statements.



United States Marine Corps

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2020 and 2019

(Amounts in thousands)

	Unaudited 2020	Unaudited 2019
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 9,449,488	\$ 8,490,929
Budgetary Financing Sources:		
Appropriations received	29,853,373	27,779,162
Appropriations transferred-in/out	(152,056)	311,612
Other adjustments (+/-)	(513,052)	(416,282)
Appropriations used	<u>(27,962,295)</u>	<u>(26,715,933)</u>
Total Budgetary Financing Sources	<u>1,225,970</u>	<u>958,559</u>
Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 14)	<u>10,675,458</u>	<u>9,449,488</u>
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	28,756,670	31,778,057
Prior Period Adjustments:		
Changes in Accounting Principles (+/-)	<u>1,753,438</u>	<u>—</u>
Beginning balances, as adjusted (Includes Funds from Dedicated Collections of \$1,293 in FY2020 and \$1,270 in FY2019 – See Note 14)	30,510,108	31,778,057
Budgetary Financing Sources:		
Other Adjustments (+/-)	(2,206)	(10,361)
Appropriations used	27,962,295	26,715,933
Transfers-in/out without reimbursement	(262)	—
Other Financing Sources (Non-exchange):		
Transfers-in/out without reimbursement (+/-)	711,229	267,910
Imputed financing from costs absorbed by others	76,357	103,512
Other (+/-)	<u>(925,426)</u>	<u>(2,488,936)</u>
Total Financing Sources (Includes Funds from Dedicated Collections of \$0 in FY2020 and \$0 in FY2019 – See Note 14)	<u>27,821,987</u>	<u>24,588,058</u>
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of \$(76) in FY2020 and \$(23) in FY2019 - See Note 14)	<u>27,968,359</u>	<u>27,609,445</u>
Net Change	<u>(146,372)</u>	<u>(3,021,387)</u>
Cumulative Results of Operations (Includes Funds from Dedicated Collections of \$1,369 in FY2020 and \$1,293 in FY2019 – See Note 14)	<u>30,363,736</u>	<u>28,756,670</u>
Net Position	<u>\$ 41,039,194</u>	<u>\$ 38,206,158</u>

The accompanying notes are an integral part of these statements.

United States Marine Corps

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2020 and 2019
(Amounts in thousands)

	Unaudited 2020	Unaudited 2019
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 1,547,290	\$ 1,785,080
Appropriations (discretionary and mandatory)	29,761,822	28,217,438
Spending Authority from offsetting collections (discretionary and mandatory)	342,727	318,133
Total Budgetary Resources	<u>\$ 31,651,839</u>	<u>\$ 30,320,651</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 30,229,937	\$ 28,749,500
Unobligated balance, end of year:		
Apportioned, unexpired accounts	993,190	944,500
Unapportioned, unexpired accounts	—	—
Unexpired unobligated balance, end of year	993,190	944,500
Expired unobligated balance, end of year	428,712	626,651
Unobligated balance, end of year (total)	<u>1,421,902</u>	<u>1,571,151</u>
Total Budgetary Resources	<u>\$ 31,651,839</u>	<u>\$ 30,320,651</u>
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	\$ 27,737,250	\$ 27,038,486
Distributed offsetting receipts (-)	35,026	2,650
Agency Outlays, net (discretionary and mandatory)	<u>\$ 27,772,276</u>	<u>\$ 27,041,136</u>

The accompanying notes are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

1.A. Basis of Presentation

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the USMC as required by the CFO Act of 1990, as amended by the GMRA of 1994, and OMB Circular No. A-136 as amended.

These financial statements have been prepared from the books and records of the USMC in accordance with U.S. GAAP, promulgated by the FASAB, except as otherwise noted throughout the AFR as applicable. The USMC is unable to implement all elements of U.S. GAAP and OMB Circular No. A-136, as amended, due to limitations of financial and non-financial management processes and systems that support the financial statements. The accompanying financial statements account for all resources for which the USMC is responsible, excluding the USMC working capital fund (WCF) activities and account balances. The USMC WCF is separately consolidated into the U.S. Department of the Navy (DoN) WCF financial statements and footnote disclosures.

1.B. Reporting Entity

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

The USMC is required to produce stand-alone financial statements. However, as a component reporting entity of the DoN, the USMC's financial data is consolidated into the financial statements and footnotes of the DoN. The USMC does not have any sub-components but consolidates allocation transfer activity into its financial statements and footnotes.

The USMC receives support from other U.S. Department of Defense (DoD) entities to efficiently and effectively execute its operations as a military service. For example, buildings and facilities on the USMC installations are constructed by the DoN's Naval Facilities Engineering Command (NAVFAC) because the DoN receives the military construction funding; the USMC uses DoN aircraft, for which the maintenance and repair (M&R) are performed by the DoN's Naval Air Systems Command (NAVAIR); healthcare services are provided to the USMC military personnel through the Military Health System led by the Defense Health Agency; and, similar to other DoD agencies, retirement benefits for active duty and reserve Marines, disability retirement benefits, and survivor benefits are all administered by the Military

Retirement Fund (MRF).

The USMC also relies on third party service providers, primarily the Defense Finance and Accounting Service (DFAS) for accounting services, the Defense Logistics Agency (DLA) for procurement services, and the Defense Information Systems Agency for information technology (IT) goods and services.

The USMC's Non-Appropriated Fund Instrumentalities (NAFIs) are fiscal entities supported in whole or in part by non-appropriated funds (NAFs). NAFs are generated from sales and user fees. The USMC also has public-private partnerships for military housing improvements. The NAFIs and public-private partnerships are determined to be disclosure entities in accordance with Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, and are not consolidated entities. Additional information is provided in Note 18, *Public Private Partnerships* and Note 19, *Disclosure Entities*.

Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

1.C. Appropriations and Funds

To support its core mission, the USMC receives General Fund appropriations for active duty military and reserve personnel; operations and maintenance (O&M); procurement; Medicare Eligible Retiree Health Fund Contribution, and research, development, test, and evaluation (RDT&E). These General Fund appropriations may be non-shared (i.e., the USMC only) appropriations or shared appropriations (i.e., shared with the U.S. Navy). For shared appropriations, the DoN is appropriated the funding and then allocates funding to the USMC for RDT&E, procurement of ammunition, military family housing operations, and other procurement as necessary.

The USMC also reports certain special and deposit funds as discussed in Note 2, *Non-Entity Assets*, Note 14, *Funds from Dedicated Collections*, and Note 16, *Fiduciary Activities*. The USMC conducts certain types of fiduciary activities; fiduciary assets are not assets of the USMC and are not recognized on the balance sheet.

A portion of the USMC's funds, known as allocation transfers, are routed to other federal entities for execution on the USMC's behalf. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) are reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. The USMC allocates funds, as the parent, to the Department of

Transportation's (DOT) Federal Highway Administration. The USMC receives allocation transfers as the child from the DoN for certain operations that are excluded from the USMC's financial statements. This activity is reported back to the DoN for inclusion within the DoN's financial statements.

1.D. Basis of Accounting

The USMC records transactions on the accrual and budgetary bases of accounting. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to receipt or payment of cash. The budgetary accounting principles are designed to recognize the obligation of funds according to legal requirements, which in many cases, is prior to the occurrence of an accrual-based transaction. Budgetary accounting is used for planning and control purposes, relates to both the receipt and use of cash, and is essential for compliance with legal constraints and controls over the use of federal funds.

Application of Critical Accounting Estimates. The financial statements are based on the selection of accounting policies and the application of accounting estimates, some of which require management to make significant assumptions. Estimates are based on current conditions that may change in the future and actual results could differ materially from the estimated amounts. Estimates are made for payroll accruals, accounts payable, environmental liabilities, deemed cost property valuations, allowance for doubtful accounts, contingent liabilities, depreciation expense, public-private partnership contributions, transportation of things-related obligations, and transportation of people-related obligations.

1.E. Revenues and Other Financing Sources

The USMC receives the majority of the funding needed to perform its mission through appropriations. These appropriations may be used within statutory limits for operating and capital expenditures. In addition to appropriations, other financing sources include exchange revenues. Exchange revenues are derived from transactions in which the government provides value to the public or another government entity at a price. The USMC is not in receipt of non-exchange revenue.

The USMC receives revenue from a number of sources, including commercial vendors conducting business at the USMC installations (e.g., remittances of rent or lease payments to the USMC for space on the USMC-owned property); utility payments and recycling service fees; payments from other military services and executive branch agencies, such as the State Department, which are operating out of the USMC's installations; royalties from licensing and trademarking agreements with external parties; and out leases for agricultural activities taking place on the USMC installations. Other federal

and non-federal entities pay the USMC based on the specific terms of the agreements that govern the use of the USMC facilities, often reimbursable agreements.

1.F. Recognition of Expenses

GAAP requires the recognition of expenses in the period incurred. Current financial and non-financial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. In some instances, expenditures for capital and other long-term assets are initially recognized as operating expenses (such is the case for General Property, Plant, & Equipment (GPP&E) and Operating Materiel and Supplies (OM&S)) due to system and/or business process limitations, but are adjusted to be recorded in the proper asset account at period end.

1.G. Accounting for Intragovernmental Activities

Intragovernmental assets and liabilities are those recognized from business transactions with other federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other federal entities. Intragovernmental costs are payments or accruals of cost for goods and services provided by other federal entities.

The USMC has instances where goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with SFFAS No. 55, *Amending Inter-Entity Cost Provisions*, certain costs of the providing entity that are not fully reimbursed by the USMC are recognized as imputed costs in the Statements of Net Cost (SNC), and are offset by imputed financing sources in the Statement of Changes in Net Position (SCNP). Such imputed costs and financing sources relate to (1) employee pension, post-retirement health, and life insurance benefits; and (2) losses in litigation proceedings settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in the USMC's financial statements.

The Treasury Financial Manual (TFM), Volume 1, Part 2 – Chapter 4700, *Federal Entity Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. In addition, in an effort to efficiently identify intragovernmental transactions by customer, the USMC has implemented the DoD's trading partner requirements to capture trading partner data. Generally, 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, DFAS adjusts the USMC's buyer-

side records to agree with the DoD seller-side balances, which are then eliminated at the DoN and/or DoD reporting level.

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

Fund Balance with Treasury (FBWT) is maintained in U.S. Treasury accounts. FBWT is available to pay current liabilities and finance authorized purchases. FBWT is increased by the receipt of budgetary resources (appropriations and collections), decreased by outlays, and is either increased or decreased by funds transfers. In accordance with U.S. Treasury guidelines, FBWT also decreases when appropriations are cancelled due to expiration, rescission, or sequestration. The USMC's FBWT does not include fiduciary assets or funds, but does include general, special, and deposit funds as presented on the balance sheet. The disbursing offices of the USMC and DFAS process the majority of the USMC's cash collections, disbursements, and adjustments worldwide. Other agencies, such as other military services, the U.S. Army Corps of Engineers, and the State Department's financial services centers also process disbursements and collections on behalf of the USMC. On a monthly basis, the USMC's FBWT is reviewed and adjusted, as required, to agree with the U.S. Treasury FBWT accounts.

FBWT includes amounts for collection and disbursement transactions that are recorded in suspense accounts as a result of missing or mismatched lines of accounting or other discrepancies. The USMC shares DoN suspense accounts with the U.S. Navy and the transactions recorded therein are researched and properly reclassified pending disposition by the responsible financial managers. The USMC may have transactions in other DoD agency's suspense accounts that are also researched and properly reclassified pending disposition by the responsible financial managers. See Note 3, *Fund Balance with Treasury*.

1.I. Cash and Other Monetary Assets

Cash and other monetary assets consist of cash held by disbursing officers. Disbursing officers are located at all of the USMC's installations and forward operating areas. Cash is classified as non-entity and is restricted. See Note 4, *Cash and Other Monetary Assets*.

1.J. Accounts Receivable, Net

Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable, net of the allowance for estimated uncollectible amounts. Allowances for uncollectible accounts for federal entities and due from the public are based upon analysis of outstanding aged receivables and an allowance percentage derived from collection experience.

Claims on intragovernmental receivables are resolved between the agencies in accordance with the Intragovernmental Business Rules published in Appendix 10 of TFM, Volume 1, Part 2, Chapter 4700.

See Note 5, *Accounts Receivable, Net*.

1.K. Inventory and Related Property, Net

The USMC does not hold inventory for resale; rather, the USMC has related property known as OM&S. The USMC values OM&S through a combination of standard catalog price and latest acquisition cost using a process that approximates historical cost. The USMC discloses OM&S based upon the type and condition of the asset. OM&S is disclosed as "held for use," "held in reserve for future use," "held for repair," "in development," or "excess, obsolete, or unserviceable." OM&S "held for use" consists of items that are consumed during the normal course of the USMC operations. OM&S "held in reserve for future use" consists of items not normally used in the course of the USMC operations but have more than a remote chance of being needed in the future. OM&S "held for repair" consists of materials that are not in usable condition, but can be economically repaired. OM&S "in development" costs represent the cost incurred or value of tangible personal property in development that will be consumed in normal operations upon completion of development. Excess, Obsolete, and Unserviceable (EOU) OM&S consists of operating materials that 1) exceed the expected amount to be used in normal operations, 2) are no longer needed due to changes in technology, laws, customs, or operations, and 3) are physically damaged and cannot be consumed in operations. The USMC recognizes EOU OM&S at a net realizable value of zero.

The USMC is in the process of establishing supportable beginning balances in conformance with SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*; however, beginning balances have not yet been asserted. See Note 6, *Inventory and Related Property, Net*.

1.L. General Property, Plant, and Equipment, Net

GPP&E assets are those that are used by the USMC in supporting its mission. GPP&E are capitalized in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment* and SFFAS No. 10, *Accounting for Internal Use Software*, when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the USMC's capitalization threshold. The USMC capitalizes improvements to existing GPP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The USMC depreciates all GPP&E, other than land, on a straight-line basis.

Systems required to account for the USMC's GPP&E at historical cost on a go-forward basis in accordance with SFFAS No. 6 and SFFAS No. 10 are not yet fully in place. Therefore, the USMC is not making an unreserved assertion in accordance with SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment: Amending SFFAS 6, 10, and 23, and Rescinding SFFAS 35*, with respect to this balance sheet line item or any of the property components thereof.

Real property, which constitutes a significant amount of the GPP&E line item balance, has a capitalization threshold of \$250 thousand, as does internal use software (IUS). In accordance with SFFAS No. 50 and the Office of the Under Secretary of Defense (Comptroller) policy, the USMC elected to use deflated plant replacement value (D-PRV) to value real property assets, inclusive of capital improvements, to establish beginning balances; however, as noted, beginning real property balances have not been asserted in accordance with the standard. D-PRV is based on cost factors, such as averages of contractual cost data from the prior three years, commercially available cost data, and models using general price information. D-PRV is based on the asset's placed-in-service date (PISD) and factors and tables periodically published by the Bureau of Economic Analysis.

The USMC reports the real property within the jurisdiction of the Marine Corps installations in its financial statements because it is the designated installation host. This includes real property on the Marine Corps installations, including real property used and occupied by the other Military Departments, Navy WCF, USMC WCF, DoD WCF, DLA, Defense Commissary Agency, DoD Education Activity, and Defense Health Agency (who are not the installation host). The USMC who is the installation host does not report assets on its installations that were funded and are exclusively used by an entity not included in the consolidated DoD financial statements. While the USMC is responsible and accountable for accepting, controlling, managing, and utilizing real property assets, the USMC may enter into Memoranda of Agreement, with another military department, Washington Headquarters Service (WHS), or other DoD Components, and license or permit with a non-DoD governmental agencies, transferring the right to control the use of a Marine Corps real property asset to the other Military Department, WHS, and other DoD Components and non-DoD governmental agencies (who are not the installation host). The transfer of the right to control the use of the real property asset does not transfer jurisdiction, and the asset remains an asset under the jurisdiction of the USMC.

The DoN accumulates and reports real property construction in progress (CIP) on the U.S. Navy's consolidated financial statements. The DoN receives Military Construction funds and executes these funds

to further the mission of the DoN consolidated entity. When a building or other structure is complete, the DoN transfers the finished product to the USMC, at which point the USMC will record the asset and report it on the USMC's financial statements. The USMC is responsible for sustainment, utilization, and operational control until the asset is disposed.

General equipment (GE) consists of all personal property intended to be used by the USMC to carry out battlefield missions, and used by installations, bases, and stations to carry out non-battlefield essential functions. By definition, GE: (1) does not ordinarily lose its identity or become a component part of another article and is available for the use of the reporting entity for its intended purpose, (2) has intangible assets included in the cost of the related equipment (e.g., software that is necessary to operate the equipment, without which, the item of GE would be unusable), and (3) are generally functionally complete assets that should be valued based on the cost of the final assembly, including the cost of embedded items. The USMC opted for a GE capitalization threshold of \$100 thousand, which is significantly more conservative than the DoD published threshold of \$250 thousand.

In cases where the USMC funds capital improvements to an asset that is reported by another DoD component, the value of the capital improvement is transferred after being placed in service and reported by the DoD component that is assigned accountability of the asset. The USMC may use assets to complete its mission that are reported by another DoD component. For example, with the exception of unmanned aircraft, all aircraft used by the USMC are reported by the DoN. This reporting policy has been implemented in accordance with FASAB Technical Bulletin 2017-2, *Assigning Assets to Component Reporting Entities*.

In fiscal years 2020 and 2019, the GE CIP balance was estimated based on total execution, net of progress payments made, and end items received and accepted as reported by the Mechanization of Contract Administration Services (MOCAS) system by, or on behalf of, the USMC.

The USMC has elected to apply the provisions of SFFAS No. 50, paragraph 13 to land and land rights. For purposes of financial reporting in accordance with these provisions, the USMC has fully expensed all existing land and land rights and disclosed total acres of land.

The USMC maintains Stewardship Property, Plant, and Equipment (PP&E) that reflects its rich history and aims to preserve assets and property of historical significance. The USMC has the responsibility for the maintenance and accountability of heritage assets and stewardship land.

See Note 7, *General Property, Plant, and Equipment, Net*.

1.M. Advances and Prepayments

The USMC payments made in advance of the receipt of goods and services are recorded as advances and prepayments at the time of prepayment and recognized as expenditures/operating expenses when the related goods and services are received. The USMC makes advanced payments to Marines for payroll and permanent change-of-station. The USMC records these advances on the balance sheet as non-federal other assets. The USMC advances and prepayments that are subject to refund are subsequently transferred to accounts receivable. See Note 8, *Other Assets*.

Public entities with which the USMC does business are required to provide advance payment for goods and services, and for rent and lease payments for usage of space on the USMC's installations and facilities. See "Advances from Others" in Note 12, *Other Liabilities*.

1.N. Contingencies and Other Liabilities

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. The USMC recognizes contingent liabilities when past events 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 USMC does not report all contractual commitments that may require future financial obligations.

The USMC's contingent liabilities may arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship, and vehicle accidents; property or environmental damage; and breach of contracts. See Note 13, *Commitments and Contingencies*.

Other liabilities, funded and those not covered by budgetary resources (unfunded), consist of amounts owed to the Department of Labor (DOL) for valid claims paid under the Federal Employee's Compensation Act (FECA) for the USMC's employees who are injured on the job, beneficiaries of employees whose cause of death relates to injury or occupational disease, or employees who have fallen ill with work-related or occupational disease. The USMC records an unfunded liability for unemployment benefits based on estimates provided by the DOL. The DOL administers the FECA program and seeks reimbursement for claims paid on behalf of the USMC, and the unemployment insurance program, which charges back amounts paid on behalf of the USMC. See Note 9, *Liabilities Not Covered by Budgetary Resources*, and Note 12, *Other Liabilities*,

respectively, for additional disclosures regarding these programs.

1.O. Accrued Leave

The USMC reports accrued unfunded liabilities for military leave and annual leave for civilians. Leave is accrued as it is earned and reduced when it is taken. Annual leave is accrued each pay period based on an employee's time of service. In accordance with the federal leave policy established by the Office of Personnel Management (OPM), full-time employees with fewer than three years of service accrue four hours of annual leave each pay period; full-time employees with at least three years of service but fewer than 15 years of service accrue six hours of annual leave each pay period; and full-time employees with 15 years of service or more accrue eight hours of annual leave each pay period. The liabilities are recorded based on current pay rates. While employees accumulate sick leave each pay period, sick leave for civilians is expensed as taken. See Note 12, *Other Liabilities*.

1.P. Net Position

Net position consists of unexpended appropriations and cumulative results of operations (CRO). Unexpended appropriations are represented by the total of undelivered orders and unobligated balances. CRO represent the net of revenues, expenses, other financing sources, gains, and losses since inception. CRO is also reflective of the cumulative amount of prior-period adjustments made, if applicable, and the cumulative amount of donations and transfers of assets in/out without reimbursement.

1.Q. Treaties for Use of Foreign Bases

The U.S. Government enters into Status of Forces Agreements (SOFA) with foreign countries, such as Japan and the Republic of Korea. As part of these agreements, the DoD and, by extension, the USMC, are provided with economic and financial burden sharing resources (e.g., utilities, labor, construction of buildings and military barracks, etc.) to provide for the common defense and security of the foreign governments with whom the SOFAs are made. In accordance with DoD Policy, the execution of burden sharing funds are reported at the consolidated DoD level and are not reported on the USMC financial statements.

1.R. Military and Civilian Retirement and Other Federal Employment Benefits

Military retirement is accounted for in the audited financial statements of the MRF; as such, the USMC does not record any liabilities or obligations for pensions or healthcare retirement benefits. The MRF is funded through a permanent, indefinite appropriation, which finances the liabilities of DoD under military retirement and survivor benefit programs on an actuarial basis.

The USMC civilian employees participate in either the Civil Service Retirement System (CSRS), a defined benefit plan, or the Federal Employees Retirement System (FERS), a defined benefit and contribution plan. For employees covered under CSRS, the USMC contributes a fixed percentage of pay. Most employees hired after December 31, 1983, are automatically covered by the FERS. The FERS plan has three parts: a defined benefit payment, Social Security benefits, and the Thrift Savings Plan. For employees covered under FERS, the USMC contributes a fixed percentage of pay for the defined benefit portion and the employer's matching share for Social Security and Medicare Insurance. The USMC automatically contributes 1 percent of each employee's pay to the Thrift Savings Plan (TSP) and matches the first 3 percent of employee contributions dollar for dollar. Each additional dollar of the employee's next 2 percent of basic pay is matched at 50 cents on the dollar.

OPM is the administering agency for CSRS and FERS plans and, thus, reports the assets, accumulated plan benefits, and unfunded liabilities of these plans applicable to federal employees. The USMC recognizes an imputed expense in the Consolidated SNC and an imputed financing source on the SCNP for the annualized unfunded portion of pension and post-retirement benefits as computed by OPM.

Health benefits are funded centrally at the DoD level. As such, the portion of the health benefits actuarial liability that is applicable to the USMC is reported only on the DoD agency-wide financial statements and the Medicare Eligible Retiree Health Care Fund (MERHCF) financial statements.

For financial reporting purposes, the DOL develops the actuarial liability for civilian workers' compensation benefits under the requirements of the FECA and provides it to the USMC at the end of each fiscal year (FY). See Note 10, *Military Retirement and Other Federal Employment Benefits*.

Note 2. Non-Entity Assets

As of September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
Intragovernmental Assets		
Fund Balance with Treasury	\$ 61,732	\$ 45,472
Total Intragovernmental	61,732	45,472
Non-Federal Assets		
Cash and Other Monetary	5,063	5,741
Accounts Receivable	43	84
Total Non-Federal Assets	5,106	5,825
Total Non-Entity Assets	66,838	51,297
Total Entity Assets	44,196,471	41,006,812
Total Assets	\$ 44,263,309	\$ 41,058,109

Non-entity assets are not available for use in the USMC's normal operations. The USMC has stewardship accountability and reporting responsibility for these non-entity assets, which are included on the balance sheet.

Non-entity FBWT represents amounts held in USMC deposit fund accounts. They contain funds collected from various sources and held until disbursed, in accordance with their defined purpose. Deposit funds include withholdings from Marines' and civilians' pay (e.g., state and local taxes, allotments, and garnishments held), security deposits, returned electronic fund transfer payments, and retirement contributions toward the TSP provided by Marines, civilians, and the USMC. FBWT increased by \$16,260 thousand or 35.8%, due to a new interface implemented in FY2019 to recognize TSP amounts in the designated deposit fund.

Non-entity cash and other monetary assets represents U.S. Treasury cash and foreign currencies provided to and held by USMC disbursing officers. The cash held by USMC disbursing officers is intended to cover immediate operational cash needs of all U.S. military branches, including the USMC, and other federal agencies, both domestic and overseas. Cash disbursed and collected by disbursing officers is reported to Treasury, which is subsequently charged against the appropriate agencies' FBWT account or deposited into a receipt account. Cash holdings are replenished by Treasury as needed and within the guidelines specified in DoD policy.

The non-entity non-federal accounts receivable represents interest receivable, penalties receivable, and administrative fees receivable attributed to aged delinquent debts with the public. Once collected, non-entity receivables are deposited into the U.S. Treasury as miscellaneous receipts. Additionally, the non-entity non-federal accounts receivable also includes any disbursing officer cash losses that must be repaid to Treasury.

Note 3. Fund Balance with Treasury

FBWT represents funds held with the Department of the Treasury upon which the USMC can draw to pay for its ongoing operations. The USMC's FBWT primarily includes direct appropriations to the USMC and appropriations shared with the DoN. FBWT also includes deposit funds, special revenue funds, funding transfers, clearing accounts, and funding sub-allocated to the DOT.

The USMC's FBWT is reconciled on a monthly basis to the balance on record with the U.S. Treasury. Adjustments, if any, are made to account for balances in suspense accounts, deposit funds, and parent/child funding; temporary timing differences between amounts disbursed by Treasury but not yet recorded by the USMC; and misclassified transactions.

Status of Fund Balance with Treasury

As of September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
Unobligated Balance:		
Available	\$ 993,190	\$ 944,500
Unavailable	428,713	626,651
Total Unobligated Balance	1,421,903	1,571,151
Obligated Balance not yet Disbursed	11,139,611	9,545,214
Non-Budgetary FBWT:		
Clearing accounts	(1)	35,094
Deposit funds	61,732	45,472
Total Non-Budgetary FBWT	61,731	80,566
Non-FBWT Budgetary Accounts:		
Unfilled Customer Orders without Advance	(27,443)	(33,857)
Receivables and Other	(15,743)	(12,797)
Total Non-FBWT Budgetary Accounts	(43,186)	(46,654)
Total FBWT	\$ 12,580,059	\$ 11,150,277

Budgetary resources within FBWT are classified as unobligated available, unobligated unavailable, and obligated but not yet disbursed. Unobligated available balance represents budgetary resources that are available for new obligations. There are no restrictions on unobligated available balances.

Unobligated unavailable balances represent budgetary resources under expired budget authority that are not available to fund new obligations. It also includes unobligated balances that have not been apportioned. The unobligated unavailable balance decreased by \$197,938 thousand or 31.6%. This decrease is due to expired fund transfers-out from the Military Personnel and Operation and Maintenance appropriations to the foreign currency fluctuation account in accordance with Title 10, United States Code, section 2779(d), and systematic adjustments made to recognize cancelling fund amounts.

Obligated balance not yet disbursed represents funds that have been obligated; the balance includes goods and services not yet received, and goods and services received, but for which payment has not yet been made.

Non-budgetary FBWT includes accounts without budgetary authority, such as deposit funds (see Note 2, *Non-Entity Assets*) and clearing accounts. Clearing accounts include amounts paid and collected by disbursing officers held in suspense by the Treasury, undistributed intragovernmental payments, and amounts in suspense due to lost or cancelled Treasury checks. Non-budgetary FBWT clearing accounts balance decreased by \$35,095 thousand or 100%. The variance is attributable

to the removal of revenue collections from agricultural and grazing leases, sales of forestry products and recyclable materials, and trademark licensing fees, previously reported within the suspense accounts to newly designated receipt accounts in FY2020. Non-budgetary FBWT deposit funds increased by \$16,260 thousand or 35.8%. This variance results from an interface implemented in FY2019 to properly allocate and recognize amounts related to the TSP in the deposit fund.

The Non-FBWT budgetary accounts includes budget authority made available to the USMC for the fulfillment of reimbursable customer orders, but where FBWT is not impacted until a cash collection is received from the customer.

The USMC returned \$431,455 thousand (\$405,090 thousand non-shared, \$26,365 thousand shared) of funds to Treasury due to unused funds in expired appropriations and no amounts related to no-year appropriation surplus in FY2020. The USMC returned \$425,886 thousand (\$402,386 thousand non-shared, \$23,500 thousand shared) of funds to Treasury due to unused funds in expired appropriations and \$755 thousand related to no-year appropriation surplus in FY2019.

Note 4. Cash and Other Monetary Assets

As of September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
Cash	\$ 5,060	\$ 5,738
Foreign Currency	3	3
Total Cash and Other Monetary Assets	<u>\$ 5,063</u>	<u>\$ 5,741</u>

Cash and foreign currency are non-entity assets held by the USMC. As non-entity assets, cash and foreign currency are inherently restricted, held by the USMC disbursing officers but not available to fund the USMC's normal operations. Refer to Note 2, *Non-Entity Assets* for additional information. Foreign currency is held in support of disbursing officer operations overseas.

Note 5. Accounts Receivable, Net

As of September 30 (Amounts in thousands)	Unaudited 2020		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 18,742	\$ –	\$ 18,742
Non-Federal Receivables (From the Public)	15,764	(3,299)	12,465
Total Accounts Receivable	<u>\$ 34,506</u>	<u>\$ (3,299)</u>	<u>\$ 31,207</u>

As of September 30 (Amounts in thousands)	Unaudited 2019		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	\$ 13,681	\$ –	\$ 13,681
Non-Federal Receivables (From the Public)	13,932	(2,780)	11,152
Total Accounts Receivable	<u>\$ 27,613</u>	<u>\$ (2,780)</u>	<u>\$ 24,833</u>

Accounts receivable represents the USMC's claim for payment from other entities. The USMC's intragovernmental receivables include amounts due to the USMC from other DoD agencies through reimbursable orders for various goods and services, such as utilities, supplies, fuel, and transportation. The receivables from the public are for claims of debts owed by separated Marines, and for utility services provided by USMC on a reimbursable basis in relation to family housing owned and operated by private companies aboard USMC installations.

Each fiscal quarter, the USMC uses three years of aged historical accounts receivable data to compute the allowance percentage for the following categories of aged receivables: 91-180 days, 181-365 days, 1-2 years, 2-6 years, 6-10 years, and more than 10 years. The allowance percentages are then applied to their corresponding balances by age category at year-end to calculate the allowance for uncollectible accounts.

Accounts Receivable, Net includes amounts related to criminal restitution owed to the USMC. As of September 30, 2020 and 2019, Accounts Receivable, Net included \$240 thousand and \$304 thousand, respectively, of gross receivables related to criminal restitution orders monitored by DFAS, of which no amounts are determined to be collectible.

Note 6. Inventory and Related Property, Net

As of September 30 (Amounts in thousands)	Unaudited 2020			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	\$ 7,183,233	\$ –	\$ 7,183,233	SP/LAC
Held in Reserve for Future Use	432,356	–	432,356	SP/LAC
Held for Repair	422,996	–	422,996	SP/LAC
In Development	338,086	–	338,086	SP/LAC
Excess, Obsolete, and Unserviceable	14,928	(14,928)	–	NRV
Total	\$ 8,391,599	\$ (14,928)	\$ 8,376,671	

As of September 30 (Amounts in thousands)	Unaudited 2019			
	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
Held for Use	\$ 7,230,860	\$ –	\$ 7,230,860	SP/LAC
Held in Reserve for Future Use	487,045	–	487,045	SP/LAC
Held for Repair	464,047	–	464,047	SP/LAC
In Development	519,924	–	519,924	SP/LAC
Excess, Obsolete, and Unserviceable	55,722	(55,722)	–	NRV
Total	\$ 8,757,598	\$ (55,722)	\$ 8,701,876	

Legend for Valuation Methods:

SP: Standard Catalog Price

LAC: Latest Acquisition Cost

NRV: Net Realizable Value

General Composition of Operating Materiel and Supplies

The USMC reports Ammunition and Non-Ammunition materiel as OM&S. Ammunition is any device charged with explosives, propellants, and pyrotechnics for use in connection with military operations and structure demolition. Non-ammunition items include spare and repair parts, fuel, construction materials, clothing and textiles, and medical and dental supplies. A significant amount of ammunition is held outside of the custody of the USMC by the U.S. Army and the DoN; however, the USMC maintains the rights to the ammunition and reports the balances on its financial statements. There are no restrictions on the use of OM&S.

Criteria for Identifying the Category to which Operating Materiel and Supplies are Assigned

The USMC determines reporting categories for OM&S using condition codes assigned to individual inventory items. There are numerous condition codes used by the USMC to categorize the status of OM&S as either serviceable, unserviceable, or suspended. The Deputy Commandant, Installations and Logistics for Non-Ammunition and the Program Manager for Ammunition make OM&S determinations consistently based on a process that considers factors such as item condition, intended use, and estimated time of consumption. OM&S identified as EOU is written down to its net realizable value prior to transfer to DLA's Disposition Services.

Significant Change from Prior Year

OM&S-In Development decreased \$181,838 thousand, or 35.0%, due to the Program Manager for Ammunition recognizing significant valuation adjustments for Ammunition in development, upon reconciling recorded balances to evidentiary support, such as procurement receipts.

Note 7. General Property, Plant, and Equipment, Net

As of September 30 (Amounts in thousands)			Unaudited 2020			
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	
Major Asset Classes						
Buildings, Structures, and Facilities	S/L	35, 40 or 45	\$ 24,847,561	\$ (9,701,769)	\$ 15,145,792	
Internal Use Software	S/L	2-5 or 10	1,670	–	1,670	
General Equipment	S/L	Various	22,407,191	(15,060,587)	7,346,604	
Construction-in-Progress	N/A	N/A	515,211	–	515,211	
Total General PP&E			\$ 47,771,633	\$ (24,762,356)	\$ 23,009,277	

As of September 30 (Amounts in thousands)			Unaudited 2019			
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	
Major Asset Classes						
Buildings, Structures, and Facilities	S/L	35, 40 or 45	\$ 21,559,528	\$ (8,441,335)	\$ 13,118,193	
Internal Use Software	S/L	2-5 or 10	1,670	–	1,670	
General Equipment	S/L	Various	21,448,052	(13,736,047)	7,712,005	
Construction-in-Progress	N/A	N/A	284,804	–	284,804	
Total General PP&E			\$ 43,294,054	\$ (22,177,382)	\$ 21,116,672	

Legend for Depreciation Methods:

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

Significant Change from Prior Year

The \$230,407 thousand or 80.9%, increase in "Construction-in-Progress" is primarily attributable to an increase of 36 additional Military Equipment (ME) assets in development as of year-end.

Land and Land Rights

In accordance with SFFAS No. 50, the USMC continues to expense land and land rights and discloses the total acres held at the beginning of the reporting period, the number of acres purchased or disposed of during the reporting period, and the number of acres held at the end of the reporting period. Any changes to land acreage and related property records from re-measurement using improved measurement technologies are disclosed under the 'Change in Acreage' column of the following table.

Unaudited
Land Acreage (in thousands)

As of 10/1/2018	Additions	Change in Acreage	Deletions	As of 9/30/2019	Additions	Change in Acreage	Deletions	As of 9/30/2020
1,207	33	-	(1)	1,239	7	-	-	1,246

Real Property

Real property comprises majority of the USMC's net GPP&E balance. The USMC with the appropriate approvals may use O&M funding for buildings, structures, and capital improvements less than \$2,000 thousand. In accordance with Title 10 of the United States Code (U.S.C.), the construction of buildings, structures, and facilities is performed by the DoN's NAVFAC. NAVFAC has full command and control over construction operations, but the USMC has limited input when the facilities being constructed are for the USMC. The USMC recognizes a real property asset when a facility is constructed by NAVFAC and provided to the USMC to inhabit and utilize. Therefore, real property CIP is not recognized by the USMC as incurred, unless the USMC funds the real property CIP through its O&M appropriations. Title of the real property remains with NAVFAC throughout the life of the asset, but the USMC is responsible for those costs needed to repair and maintain the real property. Capital improvement plans are submitted to NAVFAC for approval, and NAVFAC ultimately decides when a project will occur, based on Department-level requirements. For some locations, the Army Corps of Engineers may construct capital improvements and/or buildings and structures. Such capital improvements are funded with DoN's Military Construction appropriation funds.

The USMC conducted an extensive analysis to identify the PISD for all capital real property assets. In some cases, the key supporting documentation did not exist to support the PISD, therefore the PISD was estimated using alternate sources such as cornerstones, plaques, as-built drawings, earliest known asset site plots, maintenance records, or documented similar assets.

The USMC reports to the DoD its real property related to the Reduce the Footprint results. The DoD in turn reports real property consolidated at the Department level on Performance.gov.

Internal Use Software

IUS can be purchased from commercial vendors off-the-shelf, modified off-the-shelf, internally developed, or contractor developed. IUS includes software that is: (1) used to operate programs (e.g., financial and administrative software, including that used for project management), and (2) used to produce goods and provide services (e.g., maintenance work order management). IUS does not include computer software that is integrated into and necessary to operate GPP&E.

The USMC's IUS balance consists entirely of software in-development costs. The USMC has efforts ongoing to address difficulties in determining the full universe of its IUS and software in-development costs.

General Equipment

GE is composed of all property not classified as real property, IUS, or land. It excludes aircraft, with the exception of unmanned aircraft. The DoN's NAVAIR has responsibility for the construction, repair, maintenance, and disposal of all aircraft. Consequently, the DoN records manned aircrafts used by the USMC in its financial records. GE consists of Garrison Property (GP) and ME. GP includes items, such as office equipment and material handling equipment. ME includes items such as weapon systems, components of weapon systems, and support equipment that is owned by the USMC for use in the performance of military missions and training.

Useful life determinations for GE vary by asset types based upon internal analysis. Service lives can range from 2 to 33 years depending upon the asset. Construction costs of capital GE are capitalized as CIP. Upon completion of the project, the costs are transferred to the GE account.



Restrictions on the Use or Convertibility of GPP&E, Net

For the USMC sites within and outside of the continental United States, there are no known restrictions on the use or convertibility of GPP&E.

Impaired GPP&E

Remediation activities to identify the full population of impaired assets and design impairment tests that will facilitate GAAP accounting moving forward are ongoing. Currently, impairment losses are not recorded, and the full nature of impairment may not be documented.

Stewardship PP&E

Stewardship PP&E consists of Heritage Assets and Stewardship Land.

Heritage Assets

Heritage assets consist of buildings, structures, and museum collections. The USMC's heritage assets as of September 30, 2020 consist of the following:

Unaudited Heritage Assets

Categories	Measure Quantity	As of 10/1/2018	Additions	Deletions	As of 9/30/2019	Additions	Deletions	As of 9/30/2020
Buildings and Structures	Each	78	–	–	78	–	(17)	61
Archaeological Sites	Each	34	–	–	34	4	–	38
Museum Collection Items (Objects, Not Including Fine Art)	Each	63,622	1,599	(120)	65,101	1,464	(126)	66,439
Museum Collection Items (Objects, Fine Art)	Each	10,146	227	(4)	10,369	287	(3)	10,653

The USMC uses buildings and stewardship land, discussed below, in its daily activities and includes the buildings on the balance sheet as multi-use heritage assets (capitalized and depreciated). The USMC has not fully established processes to account for and report its heritage assets in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*. The USMC does not have the data available to disclose the physical quantity of multi-use heritage assets. These assets are used in current operations and reported within the GPP&E balance. Initiatives are ongoing to identify and account for the full population of multi-use heritage assets separate from the financial statement balances in order to make the appropriate disclosure.

Buildings and Structures

Buildings and structures include assets listed on or eligible for listing on the National Register of Historic Places.

Archaeological Sites

Archaeological sites include cemeteries, memorials, and other structures and statues that meet the definition of heritage assets.

Museum Collection Items

Museum collection items are artifacts 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.

Acquisition and Withdrawal Process

Heritage assets are primarily acquired through donations from individuals and organizations. Museum collection items are acquired through donation, purchases (seldom occurrences), and transfer. Asset withdrawals from the heritage asset population arise from the USMC deaccession process. This occurs when museum curators in charge of a given collection develop a written report detailing why the asset is subject to deaccession. The deaccession report is presented to the USMC collections committees for a vote, after which it is signed off by the Director and the object is withdrawn. The USMC then documents the transfer or disposal, and the accessioned or deaccessioned objects are updated in the heritage asset database. The USMC does not appraise or assign value to incoming donations but makes a general assessment of value for the purposes of gift acceptance at the appropriate level.

Stewardship Land

The USMC's stewardship land consists mainly of mission-essential land acquired by transfer, donation, or devise. The USMC's stewardship land acres as of September 30, 2020 is presented as follows:

Unaudited Stewardship Land Acres (in thousands)

Facility Code	Facility Title	As of 9/30/2018	Additions	Deletions	As of 9/30/2019	Additions	Deletions	As of 9/30/2020
9120	Withdrawn Public Land	1,273	1	–	1,274	5	(5)	1,274
Total - Stewardship Land								<u>1,274</u>

Some of this land is used as a buffer around the perimeter of the Marine Corps' installations and may be used as grazing land and forestry maintenance areas. The USMC strives to be a responsible steward of the land and maintains it in a way that protects human health and the environment and allows for training and support of force readiness. Once an installation determines that there is no longer a need for stewardship land, the installation submits a request to have the land removed from its accountability records. If the USMC approves of the request, the request is then sent to the DoN for execution of the removal of the stewardship land from the USMC accountability records.

Deferred Maintenance and Repair

The USMC tracks and reports deferred maintenance and repair (DM&R) of its GPP&E in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29, and 32*. The methodology used to report the condition of heritage assets is based upon a combination of visual assessment of the objects, historic value to the USMC collection, and consideration of general display and storage standards for historic collections in accordance with USMC, DoN, and DoD Policy. The DM&R information for GPP&E and heritage assets is reported in the Required Supplementary Information section.

Leases

The USMC currently does not account for leases in accordance with SFFAS No. 5 and SFFAS No. 6. The universe of real property leases was identified, and the USMC is in the process of reviewing lease information to properly account for capital and operating leases, and the required disclosure amounts.

Note 8. Other Assets

As of September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
Intragovernmental Other Assets		
Advances and Prepayments	\$ 24,873	\$ –
Total Intragovernmental Other Assets	24,873	–
Non-Federal Other Assets		
Advances and Prepayments	8,518	16,409
Other Assets (With the Public)	227,641	42,301
Total Non-Federal Other Assets	236,159	58,710
Total Other Assets	<u>\$ 261,032</u>	<u>\$ 58,710</u>

While the USMC typically does not provide advances to its trading partners, as of September 30, 2020, the USMC has an advance payment balance with an external to the DoD seller TP identified during intragovernmental elimination reconciliations. The \$24,873 thousand, or 100%, increase in "Intragovernmental Other Assets" is due to this advance payment.

"Non-Federal Other Assets - Advances and Prepayments" represents payments the USMC made to service personnel in advance for payroll and travel. "Non-Federal Other Assets - Other Assets (With the Public)" consists of real property and ME permanently removed from service but not yet disposed in accordance with FASAB Technical Release 14,

Implementation Guidance on the Accounting for the Disposal of General Property, Plant & Equipment. Beginning in FY2020, the USMC began recognizing ME assets 'permanently removed but not yet disposed', which resulted in the \$185,340 thousand, or 438.1%, increase in "Non-Federal Other Assets - Other Assets (With the Public)."

Note 9. Liabilities Not Covered by Budgetary Resources

As of September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
Intragovernmental Liabilities		
Other	\$ 56,684	\$ 42,225
Total Intragovernmental Liabilities	56,684	42,225
Non-Federal Liabilities		
Accounts Payable	1,187	2,134
Military Retirement and Other Federal Employment Benefits	173,504	192,825
Environmental and Disposal Liabilities	189,565	190,930
Other Liabilities	933,183	771,963
Total Non-Federal Liabilities	1,297,439	1,157,852
Total Liabilities Not Covered by Budgetary Resources	1,354,123	1,200,077
Total Liabilities Covered by Budgetary Resources	1,869,992	1,651,874
Total Liabilities Not Requiring Budgetary Resources	—	—
Total Liabilities	\$ 3,224,115	\$ 2,851,951

Liabilities not covered by budgetary resources are liabilities that are not currently funded by existing budgetary authority as of the balance sheet date. Budgetary authority to satisfy these liabilities is expected to be provided in future-year appropriations.

"Intragovernmental Liabilities – Other" includes liabilities to the DOL for FECA claims paid on behalf of the USMC (see Note 12, *Other Liabilities*, for a detailed description of the USMC's FECA liabilities). This line item also consists of unfunded liabilities related to unemployment compensation. Unemployment benefits to unemployed DoD and civilian personnel and ex-service members are paid by the DOL from the FECA within the Unemployment Trust Fund. The DOL prepares a chargeback estimate and allocation of accrued benefits for existing claims, which is recognized by the USMC as an unfunded liability. After the benefits are paid, the DOL will prepare a chargeback billing for these benefit costs to be reimbursed by the DoD. At the time the liabilities become billed and due, the liabilities move from unfunded to funded, and are then reimbursed to the DOL.

"Non-Federal Liabilities – Accounts Payable" is related to valid claims associated with cancelled appropriations. Refer to Note 13, *Commitments and Contingencies*.

"Non-Federal Liabilities – Military Retirement and Other Federal Employment Benefits" consist of employee actuarial liabilities associated with the FECA. Refer to Note 10, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

"Non-Federal Liabilities – Environmental and Disposal Liabilities" represent estimates related to future events that will be budgeted for when the assets generating environmental and disposal liabilities are removed from service and cleaned up in future years. Refer to Note 11, *Environmental and Disposal Liabilities*, for additional details and disclosures.

"Non-Federal Liabilities – Other Liabilities" represent civilian and military unfunded leave and contingent liabilities. Unfunded military and civilian leave liabilities represent accrued, earned leave that will be funded in future-year appropriations.

"Total Liabilities Covered by Budgetary Resources" represent all funded liabilities. See Note 12, *Other Liabilities*.

Note 10. Military Retirement and Other Federal Employment Benefits

As of September 30 (Amounts in thousands)	Unaudited 2020		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	\$ 173,505	\$ –	\$ 173,505
Other	1,721	(1,721)	–
Total Other Federal Employment Benefits	<u>\$ 175,226</u>	<u>\$ (1,721)</u>	<u>\$ 173,505</u>

As of September 30 (Amounts in thousands)	Unaudited 2019		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	\$ 192,825	\$ –	\$ 192,825
Other	1,545	(1,545)	–
Total Other Federal Employment Benefits	<u>\$ 194,370</u>	<u>\$ (1,545)</u>	<u>\$ 192,825</u>

Federal Employees' Compensation Act

The FECA liability consists of two components. The first component is based on actual claims paid by DOL but not yet reimbursed by the USMC; this portion of the liability is included in Note 12, *Other Liabilities*. The second component is the actuarial liability that represents the estimated liability for future workers' compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The liability is allocated between the USMC and Navy WCF-Marine Corps based on the number of civilian employees funded in each entity. USMC's workers' compensation estimates for the future cost of approved compensation cases, which are generated from an application of actuarial procedures developed by DOL, and are considered an unfunded liability, were approximately \$173,505 thousand and \$192,825 thousand at September 30, 2020 and 2019, respectively.

Other Benefits, Other

This amount consists primarily of voluntary separation incentive pay (VSIP) for former civilian employees. Due to a system mapping issue, the amounts are reported in other benefits as opposed to a VSIP line item in the footnote schedule above. VSIP Authority, also known as "buyout" authority, is authorized by OPM and enables agencies that are downsizing or restructuring to offer employees lump-sum payments of up to \$25 thousand, as an incentive to voluntarily separate.

Note 11. Environmental and Disposal Liabilities

As of September 30 (Amounts in thousands)	Unaudited	
	2020	2019
Environmental Liabilities—Non-Federal		
Environmental Closure Requirements	\$ 98,531	\$ 123,957
Asbestos	68,205	66,379
Non-Military Equipment	22,829	594
Total Environmental and Disposal Liabilities	<u>\$ 189,565</u>	<u>\$ 190,930</u>

The USMC Non-Military Equipment Other Environmental Liability (OEL) balance of \$22,829 thousand as of September 30, 2020 is an increase of \$22,235 thousand, or 3743.3% year-over-year. This increase is primarily attributable to the addition of OEL estimates for 21,182 non-capitalized properties, from the elimination of property capitalization threshold as an OEL criterion beginning in FY2020.

Applicable Laws and Regulations for Cleanup Requirements

Laws and regulations that impact the USMC's environmental cleanup requirements include the Resource Conservation and Recovery Act of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984; the Clean Air Act of 1970; the Clean Water Act of 1977; and the Safe Drinking Water Act.

Description of the Types of Environmental Liabilities and Disposal Liabilities

OEL can stem from solid waste management unit cleanup; landfill closure; removal, replacement, retro fill, and/or disposal of polychlorinated biphenyl transformers; and underground storage tank remedial investigation and closure. The USMC collects estimated environmental liability costs, via the NAVFAC OEL Program, for units at active USMC installations that are not a part of either the Defense Environmental Restoration Program (DERP) or Base Realignment and Closure (BRAC) Program. OEL estimates are developed from field data collected by knowledgeable persons at USMC installations. The U.S. Navy centrally manages and executes the DERP and BRAC portions of the environmental liability at the DoN level, as the DoN is funded to remediate the environmental issues and execute each respective program. Therefore, DERP and BRAC environmental liabilities are reported on the DoN's financial statements.

The USMC's weapons systems utilize compounds, chemicals, and other hazardous materials for which environmental liabilities and the associated cleanup costs should be estimated and reported. However, the reported OEL does not include environmental liabilities associated with weapons systems and/or radiological operational units as they have not yet been estimated. The USMC has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The USMC is unable to provide a reasonable estimate at this time because the extent of restoration required is not known.

Method for Assigning Estimated Total Cleanup Costs to Current Operating Periods

The USMC expensed cleanup costs for non-asbestos properties placed in service prior to October 1, 1997. For asbestos abatement, the USMC expensed the cleanup costs for properties placed in service prior to October 1, 2012. For the properties that were placed in service subsequently, the USMC expenses associated environmental costs using two methods: (1) physical capacity for operating landfills or (2) life expectancy (in years) for non-landfill assets. The USMC expenses the full environmental cost for Stewardship PP&E at the time the asset is placed in service.

Method for Estimating Other Environmental Liabilities – Non-DERP/Non-BRAC

OEL estimates are based on the following:

- Execution/payment amounts;
- Historical references (e.g., prior projects, investigations, monitoring);
- Current projects of comparable scope (similar sites);
- Estimates from vendors/contractors;
- Estimates from Military Construction Data Project assessments;
- Requirements outlined in the Program Objectives Memorandum Guidebook; and
- OEL estimator's professional experience.

Reporting of asbestos OEL has been rolled out incrementally on a region-by-region basis over the past four years. After asbestos survey and field data are available at the time of demolition, independently validated engineering cost model estimates are used to estimate the facility environmental liability.

The USMC's tangible PP&E contain non-friable asbestos. At this time, the USMC-developed estimates for non-friable asbestos abatement costs total \$68,205 thousand. The USMC only reports non-friable asbestos, as friable asbestos is immediately remediated when discovered.

Unrecognized Cleanup Costs

The unrecognized portion of cleanup costs is the unamortized portion of closure assets, asbestos, and un-utilized landfill capacity. As of September 30, 2020 and 2019, there were \$89,710 thousand and \$78,850 thousand of unrecognized OEL, respectively.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

Environmental liabilities can change over time because of changes in laws, regulations, technological advances, inflation, and changes to disposal plans. Costs for existing OEL estimates related to real property increased from applying the 2.0% inflation factor as of September 30, 2020, per the Unified Facilities Criteria DoD Facilities Pricing Guide. Regulatory changes did not affect OEL in FY2020.

Note 12. Other Liabilities

As of September 30
(Amounts in thousands)

	Unaudited 2020		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Disbursing Officer Cash	\$ 5,063	\$ –	\$ 5,063
FECA Reimbursement to the Department of Labor	16,253	17,979	34,232
Custodial Liabilities	43	–	43
Employer Contribution and Payroll Taxes Payable	16,602	–	16,602
Other Liabilities	22,452	–	22,452
Total Intragovernmental Other Liabilities	60,413	17,979	78,392
Non-Federal			
Accrued Funded Payroll and Benefits	597,867	–	597,867
Advances from Others	4,500	–	4,500
Deposit Funds and Suspense Accounts	61,731	–	61,731
Accrued Unfunded Annual Leave	919,745	–	919,745
Contract Holdbacks	38,457	14,637	53,094
Employer Contribution and Payroll Taxes Payable	36,057	–	36,057
Contingent Liabilities	13,038	400	13,438
Total Non-Federal Other Liabilities	1,671,395	15,037	1,686,432
Total Other Liabilities	\$ 1,731,808	\$ 33,016	\$ 1,764,824

As of September 30
(Amounts in thousands)

	Unaudited 2019		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Disbursing Officer Cash	\$ 5,756	\$ –	\$ 5,756
FECA Reimbursement to the Department of Labor	16,209	20,591	36,800
Custodial Liabilities	70	–	70
Employer Contribution and Payroll Taxes Payable	12,093	–	12,093
Other Liabilities	5,429	–	5,429
Total Intragovernmental Other Liabilities	39,557	20,591	60,148
Non-Federal			
Accrued Funded Payroll and Benefits	597,132	–	597,132
Advances from Others	3,552	–	3,552
Deposit Funds and Suspense Accounts	80,566	–	80,566
Accrued Unfunded Annual Leave	767,298	–	767,298
Contract Holdbacks	47,755	15,400	63,155
Employer Contribution and Payroll Taxes Payable	42,631	–	42,631
Contingent Liabilities	74	4,591	4,665
Total Non-Federal Other Liabilities	1,539,008	19,991	1,558,999
Total Other Liabilities	\$ 1,578,565	\$ 40,582	\$ 1,619,147

Disbursing Officers Cash

The reported amount represents the liability to the Treasury for various forms of non-entity cash held by the USMC disbursing officers such as: cash on hand, cash on deposit at designated depositories, negotiable instruments, and foreign currencies. The balance also includes the liability to the Treasury for disbursing officer cash losses, which are also recognized as non-entity accounts receivable (see Note 2, *Non-Entity Assets* and Note 4, *Cash and Other Monetary Assets*).

FECA Reimbursement to the Department of Labor

The FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the DOL and consists of two parts: actual claims paid by the DOL, which are subsequently reimbursed by the USMC, and actuarial FECA liability estimate for future claims. There is generally a two to three-year lag between payment by the DOL and reimbursement from the USMC.

The amount in this footnote represents the USMC's reimbursements owed to the DOL for the actual claims processed under the FECA. The second part of the FECA program consists of the actuarial liability calculated by the DOL. See Note 10, *Military Retirement and Other Federal Employment Benefits*, for more information regarding the actuarial liability.

Intragovernmental Other Liabilities

The amount reported consists of retirement benefits earned by military personnel for which the USMC has not remitted amounts to the MRF. The balance increased by \$17,023 thousand or 313.6% due to increased deposits from a 3.1% pay raise in FY2020.

Advances from Others

The balance represents funds received from non-federal entities in advance of the delivery of goods or services by the USMC to those entities.

Deposit Funds and Suspense Accounts

The amount reported represents the corresponding liability for receipts held temporarily in non-fiduciary deposit funds and the amounts in suspense accounts.

Contract Holdbacks

The amount reported represents a portion of the payments held back from vendors until the completion of contracts.

Contingent Liabilities

The amount reported represents contingent liabilities related to pending litigations and contractual arrangements. See Note 13, *Commitments and Contingencies*, for more information on accrued probable contingencies.

Note 13. Commitments and Contingencies

Legal Contingencies

The USMC is a party in various administrative proceedings and legal actions related to claims for equal opportunity torts, and contractual bid protests, which may ultimately result in settlements or decisions adverse to the federal government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown. The DoN's Office of General Counsel (OGC) reviews litigation and claims threatened or asserted involving the USMC to which lawyers devote substantial attention in the form of legal consultation or representation.

The USMC accrues contingent liabilities for legal actions where the DoN OGC considers an adverse decision probable and the amount of loss measurable. The loss is reported in the contingent liabilities line within Note 12, *Other Liabilities*. For legal cases where an adverse decision is deemed reasonably possible, yet the amount of loss cannot be reasonably estimated, the USMC has disclosed the estimated range of loss in the tables below. The USMC also has certain litigations most of which relates to employment and civil cases, where an adverse decision is reasonably possible, but an estimate for the range of loss cannot be made.

In the event of an adverse judgment against the government, some of the liabilities may be payable from the U.S. Treasury's Judgment Fund. Also, adverse judgments may be payable from USMC resources, either directly or by reimbursement to the Judgment Fund.

Environmental Contingencies

The USMC environmental and disposal liabilities estimates are based on reasonable judgments and assumptions available at the time of calculation. The actual results may vary materially from the estimates if agreements with regulatory agencies require remediation to a different degree than originally anticipated. Further site investigation may also disclose contamination different to what was known when these estimates were made.

The USMC accrues contingent liabilities for asbestos abatement if it's probable and can be reasonably estimated. The probable amount is accrued in the asbestos line within Note 11, *Environmental and Disposal Liabilities*. The USMC has disclosed the estimated range in the tables below.

Other Contingencies

Other contingencies represent contingent liabilities the USMC recognized related to existing contractual arrangements that may require future financial obligations.

Contingent Losses

As of September 30, 2020 (Amounts in thousands)		Unaudited 2020		
		Accrued Liabilities	Estimate Ranges	
Legal Contingencies:			Lower End	Upper End
Probable		\$ 400	\$ 400	\$ 400
Reasonably Possible		\$ –	\$ 5,206	\$ 15,195
Environmental Contingencies:				
Probable		\$ 68,205	\$ 35	\$ 242,080
Other Contingencies:				
Probable		\$ 13,038	\$ 13,038	\$ 13,038

As of September 30, 2019 (Amounts in thousands)		Unaudited 2019		
		Accrued Liabilities	Estimate Ranges	
Legal Contingencies:			Lower End	Upper End
Probable		\$ 4,591	\$ 4,591	\$ 104,877
Reasonably Possible		\$ –	\$ 23	\$ 15,955
Environmental Contingencies:				
Probable		\$ 66,379	\$ 54	\$ 219,290
Other Contingencies:				
Probable		\$ 74	\$ 74	\$ 74

Obligations Related to Canceled Appropriations

As of September 30, 2020 and 2019, the USMC recognized approximately \$1,187 thousand and \$2,134 thousand, respectively, of estimated liability and future-funded expenses for obligations related to canceled appropriations. The USMC still has a contractual commitment to pay for goods and services received, at such time when the vendor invoices are received. This liability is reported within the Accounts Payable balance.

Note 14. Funds from Dedicated Collections

Balance Sheet — Funds from Dedicated Collections

As of September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
	Wildlife Conservation, etc., Military Reservations	
ASSETS		
Fund balance with Treasury	\$ 1,421	\$ 1,352
Total Assets	\$ 1,421	\$ 1,352
LIABILITIES and NET POSITION		
Accounts Payable and Other Liabilities	\$ 52	\$ 59
Total Liabilities	52	59
Cumulative Results of Operations	1,369	1,293
Total Liabilities and Net Position	\$ 1,421	\$ 1,352

Statement of Net Cost — Funds from Dedicated Collections

For the years ended September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
	Wildlife Conservation, etc., Military Reservations	
Gross Program Costs	\$ 51	\$ 64
Less: Earned Revenue	(127)	(87)
Net Cost of Operations	\$ (76)	\$ (23)

Statement of Changes in Net Position — Funds from Dedicated Collections

For the years ended September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
	Wildlife Conservation, etc., Military Reservations	
Net Position, Beginning of the Period	\$ 1,293	\$ 1,270
Less: Net Cost of Operations	(76)	(23)
Change in Net Position	76	23
Net Position, End of Period	\$ 1,369	\$ 1,293

Funds from dedicated collections are financed by specifically identified revenues and other financing sources and are provided to the government by non-federal sources. The funds from dedicated collections are required by statute to be used for designated activities, benefits, or purposes that must be accounted for separately from the government's general revenues. The USMC's dedicated collections are generated from the "Wildlife Conservation, etc., Military Reservations, Navy" special fund.

Wildlife Conservation, etc., Military Reservations, Navy 16 U.S.C. § 670

This fund provides for the development and conservation of fish and wildlife and recreational facilities on military installations. Revenues come from user fees that are charged to individuals in exchange for fishing and hunting permits. The permits allow for hunting and fishing to take place on certain USMC installations. These programs are carried out through cooperative plans agreed upon by the local representatives of the Secretary of Defense, the Secretary of the Interior, and the appropriate agency of the state in which the installation is located.

Note 15. General Disclosures Related to the Statement of Budgetary Resources

Undelivered Orders at the End of the Period

As of September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
Intragovernmental:		
Unpaid	\$ 47,286	\$ 80,200
Total Intragovernmental	47,286	80,200
Non-Federal:		
Unpaid	9,325,487	7,907,569
Prepaid/Advanced	8,117	16,409
Total Non-Federal	9,333,604	7,923,978
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 9,380,890	\$ 8,004,178

Intragovernmental unpaid undelivered orders (UDO) at the end of the period decreased by \$32,914 thousand, or 41.0%. The decrease is a result of targeted efforts occurring through the year to identify and recognize delivered goods and services. Historically the USMC has not properly accounted for orders received and accepted due to process and control deficiencies. This resulted in an overstated UDO balance.

Legal Arrangements Affecting the Use of Unobligated Balances

Unobligated balances represent the cumulative amount of budget authority that is not obligated and that remains available for obligation under law, unless otherwise restricted. The use of unobligated balances is restricted based on annual legislation requirements and other enabling authorities. Funds are appropriated on an annual, multi-year, and no-year basis. Appropriated funds shall expire on the last day of availability and are no longer available for new obligations. Unobligated balances in unexpired fund symbols are available in the next fiscal year for new obligations unless specific restrictions have been placed on those funds by law. Amounts in expired fund symbols are unavailable for new obligations but may be used to adjust previously established obligations.

Permanent Indefinite Appropriations

The USMC has MERHCFs for active and reserve military personnel, which are permanent indefinite appropriations. The mission of the MERHCF, administered by the Secretary of the Treasury, is to accumulate funds in order to finance, on an actuarially sound basis, liabilities of DoD under uniformed services health care programs for specific Medicare-eligible beneficiaries as designated by 10 U.S.C. §§ 1111 - 1117. The funds in MERHCF are used, in compliance with the law, to provide benefits for the Medicare-eligible member of a participating Military Service or other Uniformed Service entitled to retired or retainer pay and such member's Medicare-eligible dependents or survivors.

Explanation of Differences between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government

(dollars in millions)	Unaudited			
	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (9/30/2019)	\$ 30,321	\$ 28,750	\$ 3	\$ 27,038
Shared Appropriations with DoN included in the SBR but excluded from USMC direct appropriations presented in the President's Budget	1,172	986	3	887
Unobligated Balance Brought Forward from expired and non-expiring years included in the SBR but not included in the President's Budget	1,045	—	—	—
Other	(1)	1	—	(3)
Budget of the U.S. Government	\$ 28,105	\$ 27,763	\$ —	\$ 26,154

The U.S. Government Budget amounts used in the reconciliation above represents the FY2019 balances. The U.S. Government Budget amounts for FY2020 will be available at a later date at <https://www.whitehouse.gov/omb/budget/>.

Note 16. Fiduciary Activities

Schedule of Fiduciary Activity

For the years ended September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
Fiduciary Net Assets, Beginning of Year	\$ 2,951	\$ 2,564
Contributions	3,081	4,810
Investment Earnings	215	274
Distributions To and On Behalf of Beneficiaries	(4,022)	(4,697)
Increase/(Decrease) in Fiduciary Net Assets	(726)	387
Fiduciary Net Assets, End of Period	\$ 2,225	\$ 2,951

Schedule of Fiduciary Net Assets

As of September 30 (Amounts in thousands)	Unaudited 2020	Unaudited 2019
Fiduciary Assets		
Fund Balance with Treasury	\$ 2,225	\$ 2,951
Fiduciary Liabilities		
Less: Liabilities	—	—
Total Fiduciary Net Assets	<u>\$ 2,225</u>	<u>\$ 2,951</u>

SFFAS No. 31, *Accounting for Fiduciary Activities*, defines “fiduciary activities” as, “those Federal Governmental activities that relate to the collection or receipt, and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which non-federal individuals or entities (“non-federal parties”) have an ownership that the Federal Government must uphold.” The USMC has management responsibility of one fiduciary activity, the Savings Deposit Program (SDP), and has confirmed and reconciled the fiduciary activity for this program.

The SDP was authorized by 10 U.S.C. § 1035, which authorized the USMC to collect payroll withholdings on behalf of Marines serving in a designated combat zone, or in direct support of a combat zone, and deposit those funds into a savings deposit account with the Treasury. The program allows every eligible Marine to deposit up to \$10 thousand of pay into the SDP where it earns 10% interest per annum, compounded quarterly. Any member serving in an area that has been designated a combat zone, or is in direct support of a combat zone, is eligible to participate in the SDP after the member has served in that assignment for at least 30 consecutive days or at least one day for each of three consecutive months.

Note 17. Reconciliation of Net Cost to Net Outlays

As of September 30 (Amounts in thousands)	Unaudited 2020		
	Intragovernmental	With the public	Total
Net Cost of Operations	\$ 7,295,436	\$ 20,672,923	\$ 27,968,359
Components of Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment depreciation	—	(1,715,400)	(1,715,400)
Other	—	(2,012,162)	(2,012,162)
Increase/(decrease) in assets:			
Account Receivable	3,003	1,313	4,316
Other Assets	24,873	(8,569)	16,304
(Increase)/decrease in liabilities:			
Accounts Payable	92,627	(329,402)	(236,775)
Salaries and Benefits	(4,504)	5,664	1,160
Environmental and Disposal Liabilities	—	1,365	1,365
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	(13,740)	(105,856)	(119,596)
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(76,342)	—	(76,342)
Other Imputed Financing	(15)	—	(15)
Total Components of Net Cost That Are Not Part of Net Outlays	<u>25,902</u>	<u>(4,163,047)</u>	<u>(4,137,145)</u>
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of capital assets	—	2,134,687	2,134,687
Acquisition of inventory	—	1,806,375	1,806,375
Total Components of Net Outlays That Are Not Part of Net Cost	<u>—</u>	<u>3,941,062</u>	<u>3,941,062</u>
Other Temporary Timing Differences	<u>—</u>	<u>—</u>	<u>—</u>
Net Outlays	<u>\$ 7,321,338</u>	<u>\$ 20,450,938</u>	<u>\$ 27,772,276</u>

As of September 30
(Amounts in thousands)

	Unaudited 2019		
	Intragovernmental	With the public	Total
Net Cost of Operations	\$ 8,057,240	\$ 19,552,205	\$ 27,609,445
Components of Net Cost That are Not Part of Net Outlays:			
Property, Plant, and Equipment depreciation	–	(1,298,780)	(1,298,780)
Other	–	(2,295)	(2,295)
Increase/(decrease) in assets:			
Account Receivable	(34,694)	(1,715)	(36,409)
Other Assets	–	202	202
(Increase)/decrease in liabilities:			
Accounts Payable	(61,317)	93,926	32,609
Salaries and Benefits	164,009	(10,716)	153,293
Environmental and Disposal Liabilities	–	43,072	43,072
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	6,005	(16,676)	(10,671)
Other financing sources:			
Federal employee retirement benefit costs paid by OPM and Imputed to the agency	(102,642)	–	(102,642)
Other Imputed Financing	(870)	–	(870)
Total Components of Net Cost That Are Not Part of Net Outlays	<u>(29,509)</u>	<u>(1,192,982)</u>	<u>(1,222,491)</u>
Components of Net Outlays That Are Not Part of Net Cost:			
Acquisition of capital assets	–	706,691	706,691
Acquisition of inventory	–	(52,509)	(52,509)
Total Components of Net Outlays That Are Not Part of Net Cost	<u>–</u>	<u>654,182</u>	<u>654,182</u>
Other Temporary Timing Differences	<u>–</u>	<u>–</u>	<u>–</u>
Net Outlays	<u>\$ 8,027,731</u>	<u>\$ 19,013,405</u>	<u>\$ 27,041,136</u>

The reconciliation of net cost to net outlays explains the relationship between the USMC's net outlays on a budgetary basis and the net cost of operations on an accrual basis. In this reconciliation, the net cost of operations is adjusted by components of net cost that are not part of net outlays, components of net outlays that are not part of net cost, and other temporary timing differences.

Components of net cost not related to net outlays include depreciation expense, which is an allocation of expenses over multiple reporting periods. Other significant adjustments relate to the other, other assets, accounts payable, other liabilities line items. Significant variances in relation to these adjustments are explained below.

- "PP&E depreciation – With the Public" increased by \$416,620 thousand or 32.1%. This increase is attributable to the correction of errors and remediation of deficiencies found in the property, plant, and equipment accounts.
- "Other – With the Public" increased by \$2,009,867 thousand or 87,575.9%. In the prior year, the OM&S issuance amount was not recorded in the appropriate account, and in FY2020 remediation of this condition allowed for the OM&S issuance amounts to be reported properly contributing to the fluctuation reflected between the years.
- "Other Assets – Intragovernmental" increased by \$24,873 thousand or 100%. The variance is attributed to an advance payment to an external to the DoD seller trading partner recognized in FY2020.
- "Accounts Payable – With the Public" increased by \$423,328 thousand or 450.7%. This increase is attributable to a statistical accounts payable accrual methodology implemented in FY2020.
- "Other Liabilities – With the Public" increased by \$89,180 thousand or 534.8%. The variance is attributed to the increase in unfunded annual leave and funded payroll and benefits. As a result of Coronavirus Disease 2019 (COVID-19) travel restrictions, there was a decrease in the leave taken by the Marines, which resulted in the increase of the balances associated with accrued leave and benefits.

Components of net outlays not related net cost primarily includes GPP&E and OM&S acquired throughout the year. Significant variances in relation to these adjustments are explained below.

- “Acquisition of capital assets – With the Public” increased by \$1,427,996 thousand or 202.1%. This increase is attributable to adjustments made to record assets previously not recorded in the financial records.
- “Acquisition of inventory – With the Public” increased by \$1,858,884 thousand or 3540.1%. The variance is attributed to various remediation efforts undertaken in FY2020 to establish the OM&S baseline.

Note 18. Public-Private Partnerships

Congress established the Military Housing Privatization Initiative (MHPI) in 1996 as an alternative method to help the military improve the quality of life for its military members. By using the expertise and tools afforded to private companies, the condition of the Marine Corps military housing improved more expediently and effectively than the traditional Military Construction process would allow. 10 U.S.C. §§ 2871-2886 codified the Service Secretaries’ MHPI authority, as modified by Pub. L. 116-62, Title XXX – Military Housing Privatization Reform.

The Office of the Secretary of the Navy delegated MHPI authority to the NAVFAC, which authorized NAVFAC to enter into agreements with eligible entities from the private sector on behalf of the Marine Corps. NAVFAC selected partners through a competitive process with the intent to demolish, construct, renovate, maintain, and operate family housing for the Marine Corps.

The Marine Corps possesses the following authorities to assist in the execution of Public-Private Partnerships (P3): direct loans and loan guarantees (10 U.S.C. § 2873), rental guarantees (10 U.S.C. § 2876), differential lease payments (10 U.S.C. § 2877), contributions (10 U.S.C. §§ 2875 and 2883), and the conveyance or leasing of land, housing, and other facilities (10 U.S.C. §§ 2875 and 2878). Based on these authorities, and after careful analysis and consideration, the Marine Corps elected to enter MHPI P3s by providing appropriated funds to the DoD MHPI program, conveying Marine Corps real property assets to the selected public partners and long-term leases of the underlying land, and the use of direct loans from DoD MHPI.

Detailed reports to the appropriate congressional committees on the MHPI projects are required by 10 U.S.C. § 2884 for each project, conveyance, or lease proposed; as a part of the annual budget submission; and as an annual report concerning the status of oversight and accountability. Additionally, the House Report 116-63, page 11, accompanying H.R. 2745, the Department of Defense Appropriations Bill, 2020, directs the Service Secretaries to submit a report to the congressional defense committees detailing: (1) how the Services monitor privatized facilities at a national level and (2) any planned upgrades to this system to improve transparency.

The expected life of each MHPI arrangement corresponds to the duration of the ground lease (generally 50 years). Negotiations between NAVFAC on behalf of the Marine Corps and the private partners established the duration of the ground lease based on the minimum duration required to ensure project success.

Responsibilities

The non-government Managing Member (also referred to as the Partner) is responsible for the management of the MHPI entity with the goal of providing adequate housing to Marine Corps military members that choose to reside in these facilities for rents set equal to the area housing allowance. In the National Defense Authorization Act for FY2020, Pub. L. 116-62, Title XXX – Military Housing Privatization Reform, Congress provided notional standards and definitions for adequate housing (the Services’ condition assessments shall utilize private sector housing industry construction codes and sizing standards as a basis for assessing inventory adequacy), and initiated the process to establish tenant rights and responsibilities for all DoD MHPI housing. In general, the MHPI entities are to provide services, which include the management, maintenance, and operations of the facilities over the life of the operating agreement (OA). The Partner has sole and exclusive management and control over the MHPI entity. The Marine Corps will not take part in the day-to-day management of the MHPI.

Funding

Contributions from the DoD MHPI program and the Partner typically occur at the beginning of any new project, as required by the OA. During Phase I, the initial development phase, the Marine Corps entered into long-term ground leases (generally 50 years) and conveyed the associated real property assets (buildings, structures, and facilities) to the MHPI P3, organized as a Limited Liability Company (LLC). The Marine Corps provided a nominal amount of funding to DoD Family Housing Improvement Fund (FHIF). Once the Marine Corps funds were in the FHIF, the DoD MHPI program made direct cash contributions and loans to the LLCs at Marine Corps’ request.

Cash contributions to MHPI P3 Partners from the DoD FHIF requires Congressional notification (10 U.S.C. § 2883(f)). There are no contractual requirements for additional federal contributions to the LLCs. The Marine Corps has not made any in-kind contributions/services or donations to the MHPI entities.

The Marine Corps is not required to contribute resources to the MHPI P3 beyond the initial contribution to the FHIF and has not made any such additional capital contributions, loans, or loan guarantees to the MHPI P3s. Funds to support the operations of the MHPI P3s comes from the initial capital contributed by the Marine Corps and the Partners and rental revenue received from the tenants. The Partner secures any debt incurred by the MHPI entity. The Marine Corps does not guarantee any debts incurred by the MHPI entity.

In response to certain prior downward adjustments to the housing allowance that were determined to be excessive, Congress enacted Pub L. 115-91 § 603. This law requires the Marine Corps to supplement the housing allowances of the military members residing in the facilities by making direct payments to the MHPI entities (lessors) of 1% of the Basic Allowance for Housing (BAH) amount for the period 01 January – 31 December 2018. The amount of BAH was calculated under section 403(b)(3)(A)(i) of the military pay statute in Title 37, U.S.C. for the area in which the covered housing existed. From 01 September 2018 to 31 December 2019, Pub. L.115-232 § 606 directed that payments to the MHPI entities of 5% of BAH be made monthly.

From 01 January 2020 forward, Pub. L. 116-92 §§ 3036 and 3037 directs that payments to the MHPI entities of 2.5% of BAH will occur monthly for all MHPI entities. Additionally, “underfunded” projects may receive up to an additional 2.5% of BAH monthly at the determination of the Chief Housing Officer of the Department of Defense and Secretary of the Navy until Congress modifies or rescinds this direction.

The following table represents the aggregated Federal contribution amounts paid to the MHPI Program and LLCs through September 30, 2020:

Unaudited
(Amounts in thousands)

Marine Corps Contributions	
Funding contributions to DoD MHPI program*	\$ 146,801
Real property contributions to the LLCs (value of Real Property Assets conveyed, per OMB scoring documents and financial statements)*	\$ 746,867
Marine Corps direct payments as required by P.L.115-91 § 603, P.L. 115-232 § 606, P. L.116-92 §§ 3036 and 3037	\$ 34,926
DoD Contributions*	
Direct cash contributions	\$ 1,157,720
Direct loans	\$ 29,400

*The financial amounts represented above are presented in the DoD's consolidated financial statements and their respective note disclosures and are not presented within the Marine Corps' financial statements.

Note: The Marine Corps funding transfers were amounts necessary to establish the program or correct shortfalls in commitments to have housing allowances reflect local market conditions and are not expected to be recovered by the Marine Corps. The real property contributions similarly were fully depreciated or are expected to be fully depreciated over the life of the arrangements and are not expected to have a material book value upon their return at the end of the land lease. Accordingly, no amounts are reflected in the FY2020 Marine Corps, General Fund Balance Sheet for the assets transferred to the MHPI P3s.

Out of the \$34,926 thousand Marine Corps direct payment contributions listed in the table above, \$27,933 thousand has been contributed during FY2020.

The DoD MHPI program is projected to receive direct loan repayments in the amount of \$1.1M annually with the final repayment being conducted in December 2040. The Marine Corps does not receive loan payments from the LLCs.

Neither the Marine Corps nor the DoD are expected to make any additional cash contributions, loans, or conveyance of real property to the LLCs after October 1, 2019 through the end of the P3 arrangements. The Marine Corps will continue to make monthly direct payments for BAH for an estimated total of \$806.9 million over the remaining life of the OAs.

Non-federal funding for the MHPI arrangements generally includes direct cash contributions from the private partner, land contributions upon which new housing was constructed, and either bonds or loans obtained by the LLC.

The following table represents the aggregated contributions by the private partner to the LLC through September 30, 2020:

Unaudited
(Amounts in thousands)

Private-Partner Contributions	
Direct cash contribution	\$ 36,200
Bonds/Loans contributed	\$ 2,240,000
Real property and land contributions	\$ –

There is no requirement for the private partners to make any additional contributions after October 1, 2019 through the end of the arrangements (approximately through 2050). The MHPI entities have not borrowed or invested capital based on the Marine Corps' promise to pay, either implied or explicit.

Risk of Loss and Expectation of Gain

The DoD's risk of loss is the initial cash contribution to the program; the Marine Corps' risk is failure to deliver quality housing services to Marine Corps Military personnel. The private partner's risk of loss includes the recovery of the initial cash contributions, inability to repay bonds and/or loans, and the loss of a long-term revenue source. Each MHPI OA prescribes a revenue flow "waterfall" during the life of the arrangement and upon liquidation of the arrangement. These waterfalls generally allow the Managing Partner an opportunity to earn incentives and returns for economic performance after providing a set aside of capital for the maintenance of the facilities. Should monies exist in excess of the required reserves securing or repaying the debt, the required reserves for maintenance of the facilities, and the contractual incentive payments to the Managing Partner, the excess would be returned to the FHIF at entity dissolution.

The MHPI OAs do not explicitly identify risk of loss contingencies.

The MHPI entity cash flow is dependent on congressional authorization and appropriation of BAH, which becomes a third-party payment for rent to the MHPI entity. The Marine Corps can influence but cannot control the authorization and appropriation process. Additionally, because of ongoing congressional review of the MHPI program, there may be changes to the relationship between the Marine Corps and the entity based on congressional action. In the event action is taken, the Marine Corps will disclose any related financial changes or impacts. This is potentially a remote occurrence that is not measurable at this time. Conversely, there is no expectation that the market-based rent to be received by the MHPI P3s would be sufficient to cover operating expenses, debt service, remuneration of the Managing Partner, and have any excess return to provide the DoD or the Marine Corps as a part of ongoing operations.

Risk of Termination or Non-Compliance

The conditions governing the early termination, hand-back, and renewal options vary from MHPI arrangement to MHPI arrangement. If a going-concern, termination, or default occurs, the Marine Corps will conduct procedures to mitigate risk and to identify an entity to take over the partnership. Each MHPI OA provides for orderly processes for dissolution or termination of the arrangement to include the sale of assets not on Marine Corps land and the transfer of real property assets to the Marine Corps. The OAs also provide processes through which the Marine Corps can enter into successor arrangements in cases where the current private partner is no longer a member of the MHPI arrangement, thereby avoiding early termination of the project.

In some instances, the Marine Corps provides utility services to the housing area operated by the LLC. The LLC is contractually required to provide reimbursements for utility services provided by the Marine Corps.

Note 19. Disclosure Entities

The USMC's NAFIs are established by DoD policy and are intended to enhance the quality of life of uniformed services members, retired members, and dependents of such members, and to support military readiness, recruitment, and retention. NAFI financial activity is not included in the USMC financial statements. The USMC maintains the title for fixed assets consisting of buildings and building improvements purchased using NAF for the exclusive use of NAFI operations. As of September 30, 2020 and 2019, the USMC held title to such fixed assets included in the USMC's financial statements totaling \$337,608 thousand and \$289,885 thousand, respectively.

NAFIs are generally governed by the DoD Instruction 1015.15, Establishment, Management, and Control of Non-appropriated Fund Instrumentalities and Financial Management of Supporting Resources and are identified according to Program Groups as noted below.

Marine Corps Community Services

Marine Corps Community Services (MCCS) is the name for the consolidated operations of the USMC's Morale, Welfare, and Recreation (MWR) and Exchange Services programs operated for the benefit of authorized patrons of the Marine Corps and DoD. MCCS NAFIs in the field provide active duty military and other authorized patrons around the world with goods and services necessary for their health, comfort and convenience. Services provided include well-rounded, wholesome, athletic recreation to ensure their mental, physical and social well-being, and dining and entertainment services.

The Headquarters element of MCCS is comprised of the Business and Support Services Division and the Marine and Family Programs Division, both overseen by the Deputy Commandant for Manpower and Reserve Affairs. NAFIs are subject to directives issued by the DoD and the CMC. The NAFIs are mostly self-supporting. The NAFIs receive program guidance from the two Divisions at Headquarters in order to provide standardized types of services. In accordance with DoD policy, the USMC has established an advisory group for NAFIs. The advisory group, the MCCS Board of Directors, chaired by the Deputy Commandant, Programs and Resources, ensures that the MCCS NAFIs are responsive to authorized patrons and to the purposes for which the NAFIs were created.

MCCS NAFIs are subject to financial audits conducted by an independent public accounting firm and have a history of clean audits. MCCS NAFIs report on the retail fiscal year, which ends on the Saturday nearest January 31. Funds appropriated to DoD and available for MWR programs are authorized by 10 U.S.C. 2491 to be converted to NAF via the Uniform Funding Management practice and thereafter treated as NAFs and expended in accordance with laws applicable to NAF. As of September 30, 2020 and 2019, MCCS NAFIs received \$358 million and \$211 million, respectively, in appropriated fund (APF) support under law and policy. The increase of APF support is primarily attributable to COVID-19 support and MCCS NAFI program growth.

MCCS NAFIs have a low risk exposure based on the Standard & Poor's annual credit rating which views MCCS NAFIs' financial policy to be very conservative based on low debt burden and relatively consistent credit metrics. MCCS NAFIs' credit rating, as of September 2020 is AA-/Stable/NR.

The MCCS NAFIs consist of Program Group I - Military MWR Programs and Program Group II - Armed Services Exchange NAFIs.

Other NAFIs

Other miscellaneous NAFIs authorized by DoD and USMC policy operate outside the MCCS organization. These miscellaneous NAFIs are not included in the MCCS financial reporting but are subject to audit by the Marine Corps Non-Appropriated Fund Audit Service. As of September 30, 2020 and 2019, Other NAFIs received \$2,404 thousand and \$224 thousand, respectively, in APF support. The increase of APF support is primarily attributable to the additional funds provided as a result of the COVID-19 pandemic to purchase supplies and maintain facilities. Other NAFIs include Program Group III - Civilian MWR Programs and Program Group IV - Lodging Program (Billeting), and Program Group V - Supplemental Mission Funds.

Note 20. COVID-19 Activity

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) was enacted in FY2020 to provide emergency assistance and healthcare response to those impacted by COVID-19. The DoD CARES Act spend plan outlined funding for immediate, critical COVID-19 response requirements for distinct DoD mission priorities, which specific to the USMC pertains to Safeguard our National Security Capabilities.

As the global COVID-19 pandemic continues to affect the nation and the world, in FY2020 the USMC was proactive in taking steps to protect the military, civilians, and families through the following key objectives: Maintain Readiness, Protect the Force, and Prevent Loss of Essential Functions. USMC budgetary funding to address COVID-19 was \$262,477 thousand, comprised of \$196,077 thousand from DoD CARES Act funding, and \$66,400 thousand from USMC base appropriations. Budgetary resources represented annual funding that will expire on the last day of availability. The summary of funding sources and use by key USMC operations is detailed in the table below.

As of September 30 (Amounts in thousands)	Unaudited 2020		
Activity	Budgetary Resources	Obligations Incurred	Remaining Resources Available
Military Personnel	\$ 42,119	\$ 42,119	\$ –
Reserve Personnel	303	303	–
Operation & Maintenance	220,055	220,055	–
Total	\$ 262,477	\$ 262,477	\$ –

The diverse range of activities executed by the USMC in response to COVID-19 exceeded the CARES Act funding by approximately \$66,400 thousand, which were supplemented from USMC base appropriations. Subsequently, no residual budgetary resources for COVID-19 remained available beyond FY2020. COVID-19 funding was used across all USMC operations, to maintain facilities and operations through the following activities:

- NAF support
- Restriction of movement measures and quarantine implementation
- Enhanced sanitation efforts
- IT service enhancement in support of remote work and physical distancing efforts
- Supply of personal protective equipment
- Measures to mitigate impacts at recruit training depots
- Recruiting enhancements to maintain quotas

COVID-19 related expenses increased gross program costs reported within the SNC by \$187,533 thousand consisting of contract services, supplies, and travel. Of this amount, \$179,518 thousand was expended in FY2020. Refer to Note 19, *Disclosure Entities*, for funding support provided to the NAF activities.

Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report.

Real Property Deferred Maintenance and Repairs

The USMC maintains real property assets such as buildings, aviation runways, roads, communication stations, and weapons ranges to support its mission. M&R for real property assets that were not performed when they should have been or were scheduled and delayed for a future period are considered DM&R. The following table shows the USMC's real property DM&R as of September 30, 2020:

Real Property Deferred Maintenance as of September 30, 2020 (Amounts in thousands)		
Property Type	Beginning DM&R Balance	Ending DM&R Balance
1. Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	\$10,311,218	\$12,482,160
2. Category 2: Buildings, Structures, and Utilities (Heritage assets)	1,097,775	1,329,084
3. Category 3: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	–	–
Total	\$11,408,993	\$13,811,244

Significant Change from Prior Year:

The increase of the real property DM&R balance in FY2020 compared to FY2019 is due to increases in cost for construction, materials, and area cost factors.

Description of Property Type categories:

- Category 1 – Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission, excluding multi-use Heritage Assets
- Category 2 – Buildings, Structures, and Utilities that are Heritage Assets, including multi-use Heritage Assets
- Category 3 – Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal, excluding multi-use Heritage Assets

The primary factor considered in determining acceptable condition of real property asset is whether an asset is in a condition to be effectively used for its designated functional purpose. Assets that do not meet this criterion are considered to have DM&R. M&R needs of real property assets are identified primarily through the condition assessment process, which is conducted on a recurring basis depending on the asset type. All buildings, paving, bridges, and dams are inspected using the Sustainment Management Systems methodology developed by the U.S. Army Corps of Engineers Civil Engineering Research Laboratory, which provides a facilities condition index (FCI) for these assets. Other assets are assessed via local facility inspections to examine the adequacy of the facilities to meet its intended purpose. Assets inspected using both methods take the FCI to determine the asset's quality rating as follows: Q1 (Good – FCI: 100%-90%); Q2 (Fair – FCI: 90%-80%); Q3 (Poor – FCI: 80%-60%); and Q4 (Failing – FCI: less than 60%).

The USMC follows the Office of the Secretary of Defense Installation Strategic Plan goal of having facilities at a Q2 level on average. This represents an average level of 20% of plant replacement value (PRV) as an acceptable level of deferred maintenance. The DM&R values in the table above represent approximately 14.65% and 23.08% of PRV for categories 1 and 2, respectively. The percentage for category 3 is zero because the USMC does not hold deferred maintenance backlogs on facilities to be demolished.

Prioritization of maintenance needs are assigned based on the asset impact to mission-critical functions, health and safety, and quality of life. DM&R assessments are performed over all real property type categories without any exclusions.

General Equipment Deferred Maintenance and Repairs

The USMC's GE consists primarily of equipment used to execute battlefield missions, referred to as ME, and property to support operations of installations and its tenant activities, referred to as GP. The Marine Corps does not have ME or GP that are considered to be heritage assets. The GE DM&R includes fully depreciated assets but does not include non-capitalized assets. DM&R is a result of funding shortfalls, shift in funding priorities, personnel limitations, and/or parts availability constraints.

The following table provides the USMC's GE DM&R as of September 30, 2020:

General Equipment Deferred Maintenance as of September 30, 2020 (Amounts in thousands)		
GE DM&R Category	Beginning DM&R Balance	Ending DM&R Balance
Communications - Electronics	\$ 2,638	\$ 15,719
Engineer	11,500	76,100
General Supply	7	8,682
Motor Transport	10,154	287,356
Ordnance	50,763	341,634
Garrison Mobile Equipment	–	104
Total	\$ 75,062	\$ 729,595

Significant Change from Prior Year:

The increase of the GE DM&R balance in FY2020 compared to FY2019 is the result of first time reporting by responsible Commands on their deferred maintenance and a more detailed condition assessment process.

Military Equipment DM&R

The primary factor considered in determining the acceptable condition of a ME asset is the amount of repair required to maintain or bring an asset back to an issue-ready conditional status to be effectively used for its designated functional purpose. Each ME has a corresponding technical manual that specifies how maintenance procedures are to be performed if an asset is non-mission capable or degraded. When the routine M&R procedures will not be performed in the current period, an asset is assigned the DM&R status.

The USMC deferred maintenance programs for ME consist of Administrative Deadline Program (ADL), Administrative Storage Program (ASP), and unfunded M&R for assets located at a Remote Storage Activities (RSA). The ME assets assigned to Fleet Marine Forces are enrolled into either ADL or ASP depending on the level of degradation. RSA includes assets transferred to depot-level maintenance for which corrective maintenance could not be performed due to various reasons such as lack of resources and mission prioritization.

Maintenance managers at all levels rank and prioritize maintenance based on mission, condition of the equipment, and available resources (e.g., parts, mechanic/technician, time, facilities, etc.). ME DM&R is tracked in the Global Combat Support System – Marine Corps (GCSS-MC).

Garrison Property DM&R

GP assets consist of Garrison Mobile Equipment (GME) and all other garrison property. GP assets requiring maintenance and exceeding the maximum maintenance cycle time of 120 days are reported in DM&R status. For GP assets, all safety requirements must meet or exceed the set conditions prescribed by the Title 49 Code of Federal Regulations. Limited Technical Inspection Sheets are used to determine the classification and economic reparability of a vehicle by evaluating the status of all components of the asset. GME DM&R is tracked in the Fleet Focus system and all other Garrison Property is tracked in the GCSS-MC.

At FY2020 year-end, the GP assets specific DM&R procedures continue to be in development along with the identification of the full universe of assets in DM&R status. The required GP DM&R disclosure amounts are expected to be reported in FY2021.

United States Marine Corps

Combining Statement of Budgetary Resources

For the year ended September 30, 2020

(Unaudited)

(Amounts in thousands)

	Research, Development, Test & Evaluation	Procurement	Military Personnel	Operations, Readiness & Support	2020 Combined
Budgetary Resources:					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 127,724	\$ 784,250	\$ 278,176	\$ 357,140	\$ 1,547,290
Appropriations (discretionary and mandatory)	601,219	3,392,498	15,752,105	10,016,000	29,761,822
Spending Authority from offsetting collections (discretionary and mandatory)	9,455	2,283	40,575	290,414	342,727
Total Budgetary Resources	<u>\$ 738,398</u>	<u>\$ 4,179,031</u>	<u>\$ 16,070,856</u>	<u>\$ 10,663,554</u>	<u>\$ 31,651,839</u>
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	\$ 626,979	\$ 3,447,194	\$ 15,759,745	\$ 10,396,019	\$ 30,229,937
Unobligated balance, end of year:					
Apportioned, unexpired accounts	104,068	691,870	130,263	66,989	993,190
Unexpired unobligated balance, end of year	104,068	691,870	130,263	66,989	993,190
Expired unobligated balance, end of year	7,351	39,967	180,848	200,546	428,712
Unobligated balance, end of year (total)	111,419	731,837	311,111	267,535	1,421,902
Total Budgetary Resources	<u>\$ 738,398</u>	<u>\$ 4,179,031</u>	<u>\$ 16,070,856</u>	<u>\$ 10,663,554</u>	<u>\$ 31,651,839</u>
Outlays, Net:					
Outlays, net (total) (discretionary and mandatory)	\$ 615,080	\$ 2,700,795	\$ 15,628,819	\$ 8,792,556	\$ 27,737,250
Distributed offsetting receipts (-)	—	—	—	35,026	35,026
Agency Outlays, net (discretionary and mandatory)	<u>\$ 615,080</u>	<u>\$ 2,700,795</u>	<u>\$ 15,628,819</u>	<u>\$ 8,827,582</u>	<u>\$ 27,772,276</u>



SECTION 3: OTHER INFORMATION

U.S. Marines assigned to Comanche Company, 3rd Light Armored Reconnaissance Battalion, 1st Marine Division, prepare and execute training during Steel Knight 20 at Marine Corps Air Ground Combat Center, Twentynine Palms, California on 2 Dec. 2019. SK20 is an annual training exercise executed by approximately 13,000 Marines and Sailors designed to improve and assess the 1st Marine Division's ability to fight and win a complex, dispersed fight against a peer or near-peer threat. (U.S. Marine Corps photo by Sgt. Zachary Catron)

Statement from the USMC Inspector General



DEPARTMENT OF THE NAVY
DEPUTY NAVAL INSPECTOR GENERAL FOR MARINE CORPS MATTERS/
INSPECTOR GENERAL OF THE MARINE CORPS
701 S COURTHOUSE ROAD
ARLINGTON, VA 22204

IN REPLY REFER TO:
5200
IGMC
21 Oct 20

From: Deputy Naval Inspector General for Marine Corps
Matters/Inspector General of the Marine Corps
To: Deputy Commandant for Programs and Resources (Attn: RFA)
Subj: MANAGEMENT AND PERFORMANCE CHALLENGES STATEMENT
Ref: (a) Reports Consolidation Act of 2000

1. As required by reference (a), section II.4.3, The Deputy Naval Inspector General for Marine Corps Matters provides this summary of what it considers the most serious management and performance challenges facing the Marine Corps.

a. Transformation of the Marine Corps to optimize the U.S. Marine Corps' ability to out pace peer competition. Doing so requires modernization of infrastructure, systems, and programs, and a major force design initiative.

b. The modernization of programs, policies, and associated support to recruit, train, develop, and retain the human capital required for the future force.

c. The continued health, safety, welfare, and wellbeing of our Marines, Sailors, Civilians, and their families.

2. The Marine Corps is making adequate progress towards meeting the above challenges.

3. For questions concerning this statement, please contact Major Lucas Hernandez at (703) 604-4625 or CWO4 Aaron Ratz at (703) 604-4544, IGMC Readiness Division.


R. F. CASTELLVI

Summary of Financial Statement Audit and Management Assurances

The information in Tables 1 and 2 represent the results of previous independent audits and internal assessments conducted as part of the United States Marine Corps' (USMC) Managers' Internal Control Program. Table 1 reflects the material weaknesses identified in the Reports of Independent Certified Public Accountants issued by Kearney & Company, P.C. in November 2020. The material weaknesses included in the Federal Managers' Financial Integrity Act of 1982 (FMFIA) Table 2 represents the material weaknesses reported in the Marine Corps fiscal year (FY) 2020 Statement of Assurance. Although the material weaknesses overall are not resolved, progress has been made to resolve specific findings associated with the material weaknesses.

Table 1. Summary of Financial Statement Audit

Audit Opinion	Disclaimer				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Entity Level Controls	1	–	–	–	1
Ability to Provide Complete, Timely, and Sufficient Evidence	1	–	–	1	–
Financial Reporting and Analysis	1	–	–	–	1
Integrated Financial Management Systems	1	–	–	–	1
Property, Plant and Equipment	1	–	–	–	1
Operating Materiel & Supplies	1	–	–	–	1
Fund Balance with Treasury Controls	1	–	–	–	1
Business Process Controls	1	–	–	–	1
Information Systems	1	–	–	–	1
<i>Total Material Weaknesses</i>	9	–	–	1	8

Table 2. Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	No Assurance					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Property, Plant and Equipment	1	–	–	–	–	1
Operating Materiel and Supplies	1	–	–	–	–	1
Financial Reporting and Analysis	1	–	–	–	–	1
Ability to Provide Complete, Timely, and Sufficient Evidence	1	–	–	–	–	1
Entity Level Controls	1	–	–	–	–	1
Fund Balance with Treasury Controls	1	–	–	–	–	1
Business Process Controls	1	–	–	–	–	1
<i>Total Material Weaknesses</i>	7 ¹	–	–	–	–	7

¹ USMC previously reported an additional material weakness, Department of the Navy Working Capital Fund at the Marine Depot Maintenance Command that was excluded from this Statement of Assurance because it relates to the Working Capital Fund and is out of the scope of this document.

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Modified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Physical/Installation security requirements	1	–	–	–	–	1
<i>Total Material Weaknesses</i>	1	–	–	–	–	1

Compliance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal systems do not conform to financial management system requirements					
Non-Compliance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Integrated Financial Management Systems	1	–	–	–	–	1
Information Systems	1	–	–	–	–	1
<i>Total non-compliances</i>	2	–	–	–	–	2

Compliance with Section 803(a) of the Federal Financial Management Improvement Act		
	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. U.S. Standard General Ledger at Transaction Level	Lack of compliance noted	Lack of compliance noted



Payment Integrity

In accordance with the Improper Payments Information Act of 2002, as amended (31 United States Code (U.S.C.) 3321 note), and Appendix B of the Office of Management and Budget (OMB) Bulletin No. 19-03, Audit Requirements for Federal Financial Statements, dated August 27, 2019, the Department of Defense (DoD) reports payment integrity information (i.e., improper payments) at the agency-wide level in the consolidated DoD Agency Financial Report (AFR). For detailed reporting on DoD payment integrity, refer to the Other Information section of the consolidated DoD AFR at: <http://comptroller.defense.gov/ODCFO/afr2020.aspx>.

Fraud Reduction Report

To combat fraud within federal agencies, the Fraud Reduction and Data Analytics Act (FRDAA) of 2015 was enacted. The FRDAA requires agencies to conduct an evaluation of fraud risks; use a risk-based approach to design and implement financial and administrative control activities to mitigate identified fraud risks; collect and analyze data from reporting mechanisms on detected fraud to monitor fraud trends and continuously improve fraud detection through the use of data analytics; and use the results of monitoring, evaluation, audits, and investigations to improve fraud prevention, detection, and response.

The Marine Corps has made consistent progress toward implementing key principles within the Government Accountability Office's (GAOs) Special Publication, A Framework for Managing Fraud Risks in Federal Programs that include: commitment to combating fraud; conducting fraud risk assessments to determine a fraud risk profile; implementing control activities to mitigate assessed fraud risks; and evaluation of outcomes to improve fraud risk management. In the annual Managers' Internal Control Program guidance, the Marine Corps demonstrated their commitment to combating fraud by including implementation instructions for testing and reporting fraud risks, as well as incorporating a fraud risk assessment into the annual requirements for the program.

The Marine Corps utilizes the Department of the Navy's (DoN) Fraud Risk Assessment and the USMC Risk Assessment processes to comply with FRDAA legislation and GAO's Framework for Managing Fraud Risks in Federal Programs with the objective to better assess, respond to, and manage fraud risk. The Marine Corps uses a risk-based approach to design and implement financial and administrative control activities to mitigate fraud risks. The analysis and monitoring of these two tools are used to prevent and detect fraud.

The USMC Risk Assessment process aids management in identifying their core objectives, the significant risks associated with meeting those objectives, and the controls in place to mitigate those risks, and prioritize remediation efforts. The risks and associated internal controls identified through the risk assessment process are summarized in a Risk Register as part of the Marine Corps' annual Certification Statement. The Risk Assessment tool includes the Green Book's assessment of Fraud Risk Principles and requires identification of fraud specific risks. The Risk Assessment tool incorporates the types of fraud, fraud risk factors, and response to fraud risks for both financial and nonfinancial processes, programs, and operations in the Command submissions. FY2020 was the first year the USMC Risk Assessment specifically required inherent fraud risks be reported relative to the USMC's core objectives. Any inherent risks identified in the assessments have internal controls in place to mitigate the likelihood and/or impact of the risk.

In FY2020, the USMC completed and submitted the first comprehensive Fraud Risk Assessment to the DoN. Through this process, the Marine Corps assessed the likelihood of fraud, impact of fraud, control suitability, and residual risk to address the remaining fraud risk exposure. Stakeholders also identified and assessed potential fraud risks and aligned them with controls and mitigation strategies. The Headquarters, U.S. Marine Corps Fraud Risk Assessment scope areas included: Large Contracts, Purchase Cards, Payroll, IT & Security, Travel & Fleet Cards, Beneficiary Payments and Asset Safeguards. The results were analyzed and input into a DoN fraud risk profile and used to inform management decisions over resource allocation and capital planning, strategic planning, performance management and planning, and other internal control testing and reviews. The greatest number of reported risks fell within the scope areas of: Purchase Cards, Travel & Fleet Cards, and Large Contracts. The USMC has implemented internal controls to reduce the residual risks in these scope areas and will continue to test and monitor the effectiveness of those controls.

The USMC compiled and maintains a fraud risk profile for all business processes reviewed as part of the OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Controls*, assessments. The fraud risk profile reflects the review of fraud risk indicators identified from the annual Entity Level Control (ELC) assessment, Internal Controls Over Financial Reporting (ICOFR) programs, and Financial Management Evaluation and Assessment (FMEA) performed at the transactional level. The fraud risk indicators are included in the ELC, ICOFR, and FMEA programs to create an organizational culture conducive to fraud risk management, and to effectively identify fraud risks.

The annual ELC survey encompasses the four areas of the GAO Fraud Risk Management Framework: Commit, Assess, Design and Implement, and Evaluate and Adapt by identifying and documenting existing entity level control activities for each of these areas. Review of fraud risk indicators are also identified through ICOFR efforts with additional questions added to the FMEA checklist focused on performance at the transactional level. The USMC is currently working to expand testing plans to include additional fraud-risk questions to enhance our posture to detect and prevent fraud.

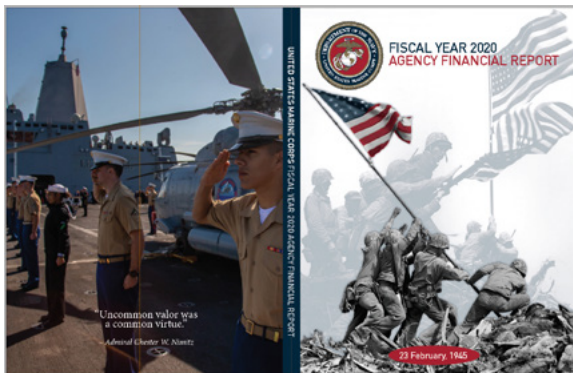
Acronyms

Acronym	Definition
ACMC	Assistant Commandant of the Marine Corps
ADA	Anti-deficiency Act
ADL	Administrative Deadline Programs
ADVANA	Advanced Analytics tool
AFR	Agency Financial Report
APF	Appropriated Fund
APSR	Accountable Property System of Record
ASP	Administrative Storage Programs
ATO	Authority to Operate
BAH	Basic Allowance for Housing
BRAC	Base Realignment and Closure
CAP	Corrective Action Plan
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CFO	Chief Financial Officers
CIP	Construction in Progress
CMC	Commandant of the Marine Corps
COVID-19	Coronavirus Disease 2019
CRO	Cumulative Results of Operations
CSRS	Civil Service Retirement System
CUEC	Complementary User Entity Control
DATA Act	Digital Accountability and Transparency Act of 2014
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DM&R	Deferred Maintenance and Repairs
DoD	Department of Defense
DOL	Department of Labor
DoN	Department of the Navy
DOT	Department of Transportation
DPG	Defense Planning Guidance
D-PRV	Deflated Plant Replacement Value
ELC	Entity Level Controls
EOU	Excess, Obsolete, and Unserviceable
ERM	Enterprise Risk Management
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCI	Facilities Condition Index
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FHIF	Family Housing Improvement Fund
FISMA	Federal Information Security Modernization Act
FMEA	Financial Management Evaluation and Assessment
FMFIA	Federal Manager's Financial Integrity Act
FRDAA	Fraud Reduction and Data Analytics Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GCSS-MC	Global Combat Support System – Marine Corps
GE	General Equipment
GME	Garrison Mobile Equipment
GMRA	Government Management Reform Act
GP	Garrison Property
GPP&E	General Property, Plant, and Equipment
HQMC	Headquarters, U.S. Marine Corps
ICOFR	Internal Control Over Financial Reporting
ICOFs	Internal Control Over Financial Systems
ICW	Interactive Courseware
IGT	Intergovernmental Transactions

Acronym	Definition
IPA	Independent Public Accountant
IT	Information Technology
IUS	Internal Use Software
LLC	Limited Liability Company
M&R	Maintenance and Repair
M&RA	Manpower and Reserve Affairs
MAGTF	Marine Air Ground Task Forces
MARCENT	U.S. Marine Corps Forces, Central Command
MARFORAF	U.S. Marine Corps Forces, Africa
MARFORCOM	U.S. Marine Corps Forces, Command
MARFORCYBER	U.S. Marine Corps Forces, Cyberspace Command
MARFOREUR	U.S. Marine Corps Forces, Europe
MARFORK	U.S. Marine Corps Forces, Korea
MARFORNORTH	U.S. Marine Corps Forces, Northern Command
MARFORPAC	U.S. Marine Corps Forces, Pacific
MARFORRES	U.S. Marine Corps Forces, Reserves
MARFORSOUTH	U.S. Marine Corps Forces, Southern Command
MARFORSTRAT	U.S. Marine Corps Forces, Strategic Command
MARSOC	U.S. Marine Corps Forces, Special Operations Command
MCCS	Marine Corps Community Services
ME	Military Equipment
MERHCF	Medicare Eligible Retiree Health Care Fund
MHPI	Military Housing Privatization Initiative
MICP	Managers' Internal Control Program
MICRR	Marine Corps Managers' Internal Control Remediation and Reporting
MOCAS	Mechanization of Contract Administration Services
MRF	Military Retirement Fund
MWR	Morale, Welfare, and Recreation
NAF	Non-Appropriated Funds
NAFI	Non-Appropriated Funds Instrumentalities
NAVAIR	Naval Air Systems Command
NAVFAC	Naval Facilities Engineering Command
NDS	National Defense Strategy
NFR	Notice of Findings and Recommendations
NIST	National Institute of Standards and Technology
NMS	National Military Strategy
NRV	Net Realizable Value
O&M	Operations and Maintenance
OA	Operating Agreement
OEL	Other Environmental Liabilities
OGC	Office of General Council
OM&S	Operating Materiel and Supplies
OMB	Office of Management and Budget
OPM	Office of Personnel and Management
OUSD	Office of the Under Secretary of Defense
P3	Public-Private Partnerships
PB	President's Budget
PISD	Placed-in-Service Date
P.L.	Public Law
PME	Professional Military Education
POA&M	Plan of Actions and Milestones
POM	Program Objective Memorandum
PP&E	Property, Plant, and Equipment
PRV	Plant Replacement Value
RDT&E	Research, Development, Test, and Evaluation
RMF	Risk Management Framework
RSA	Remote Storage Activities
S/L	Straight Line
SABRS	Standard Accounting Budgeting and Reporting System

Acronym	Definition
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDP	Savings Deposit Program
SECNAV	Secretary of the Navy
SFFAS	Statement of Federal Financial Accounting Standards
SMARTS	SABRS Management Analytical Retrieval Tools
SNC	Statement of Net Cost
SOFA	Status of Forces Agreements
T&E	Training and Education
TFM	Treasury Financial Manual
TSP	Thrift Savings Plan
TP	Trading Partner
UDO	Intragovernmental Unpaid Undelivered Orders
U.S.C.	United States Code
UNC	United Nations Command
USAFRICOM	U.S. Africa Command
USCENTCOM	U.S. Central Command
USEUCOM	U.S. European Command
USFK	U.S. Forces Korea
USMC	United States Marine Corps
USNORTHCOM	U.S. Northern Command
USSGL	United States Standard General Ledger
USSOCOM	U.S. Special Operations Command
USSOUTHCOM	U.S. Southern Command
USSTRATCOM	U.S. Strategic Command
VSIP	Voluntary Separation Incentive Pay
WCF	Working Capital Fund
WHS	Washington Headquarters Service

2



1

COVER CAPTIONS

1. After five days of ferocious fighting, U.S. Marines raise the American flag atop Iwo Jima's highest point on February 23, 1945. (Joe Rosenthal)
2. U.S. Marines and Sailors salute as they man the rails of the USS Somerset (LPD-25) during San Francisco Fleet Week's Parade of Ships on Oct. 11, 2020. (U.S. Marine Corps photo by Lance Cpl. Tia Carr)



A U.S. Marine participates in small unit training while preparing for exercise Native Fury 20 in the United Arab Emirates, Feb. 22, 2020. (U.S. Marine Corps photo by Cpl. Jennessa Davey)



For More Information
Fiscal Director of the Marine Corps

Headquarters, U.S. Marine Corps
Programs and Resources Department

<http://www.hqmc.marines.mil/pandr/>

“Uncommon valor was a common virtue.”

– Admiral Chester W. Nimitz