UNITED STATES MARINE CORPS

FISCAL YEAR 2019 AGENCY FINANCIAL REPORT

U.S. Marines with the Silent Drill Platoon, Marine Barracks Washington D.C., execute their "long line" sequence at the Golden Gate Bridge, San Francisco, California, March 19, 2019. The platoon posed for photos to recreate images that were taken by previous platoons at the bridge. (U.S. Marine Corps photo)

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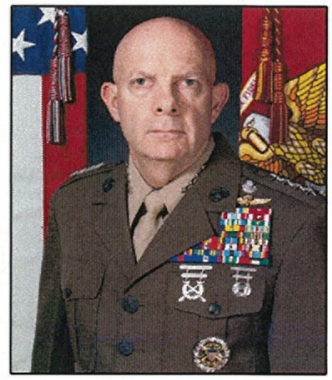
MESSAGE FROM THE COMMANDANT OF THE MARINE CORPS

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

October 2019



The United States Marine Corps' Fiscal Year 2019 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 provide 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 third year of a full financial statement audit, our results showed improvements in several business areas, including the management of our military equipment, real property and internal controls. The audit also highlighted areas that still need improvement such as financial management, support for our military pay transactions, management of our operating materials and supplies, and information technology controls. We will continue to work to improve areas of inefficiency.

Thank you for your support as we begin to transform the Marine Corps and continue our efforts to obtain and maintain an Unmodified Audit Opinion for the American taxpayer.

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

Navajo Code Talkers

During World War I, the Choctaw language was used to transmit and decode secret messages. It was critical to ensure a successful surprise attack against the Germans.

Germany and Japan sent students to the United States after World War I to study Native American languages and cultures, such as Cherokee, Choctaw, and Comanche but largely ignored the Navajo language.

In February of 1942, Philip Johnston, a missionary's son who lived among the Navajos, approached Major James E. Jones, Force Communications Officer at Camp Elliott in San Diego, as he felt the complexity of the Navajo language would be safe from enemy understanding.

United States Marine Corps Platoon 382, made up of the first 29 Navajo Code Talkers, 1942

Left to right: PFC Preston Toledo of Albuquerque, New Mexico and his cousin PFC Frank Toledo of Penistaja, New Mexico, at Ballarat, Australia with the 11th Marines in July 1943.

From the Photograph Collection (COLL/3948) at the Marine Corps Archives and Special Collections

Pfc. Peter Nahaidinae (left), Pfc. Joseph P. Gatewood, and Corporal Lloyd Oliver, Navajo Code Talkers, attached with the 1st Marine Division in the Southwest Pacific, study a night problem at the Amphibious Scout School conducted by the Intelligence Section. The Navajo Code Talkers were considered particularly valuable in their work as members of a signal company.

Chester Nez, photographed in Arizona during the war. "I hope my words will keep the memory of the code talkers alive." (Courtesy of Chester Nez/Berkley Caliber)

A demonstration was required before the Marine Corps would commit to using the Navajo language for code. Major Jones gave Johnston and four Navajos who arrived at Camp Elliott six messages normally communicated in military operations and instructed them to return 45 minutes later at division headquarters with a completed code. At 9:00 a.m. the group appeared before Jones, General Clayton B. Vogel, and others to conduct their demonstration. Within seconds, the six messages were transmitted in Navajo, received, decoded, and correctly relayed to Major Jones.

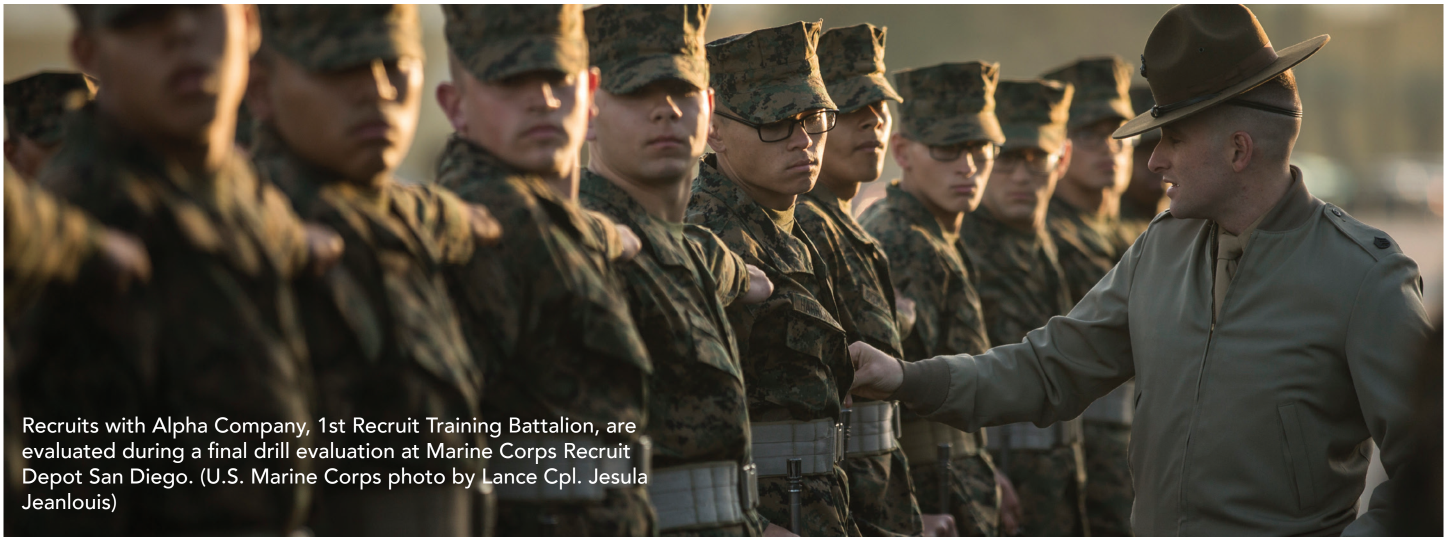
"It goes in, in Navajo? And it comes out in English?" questioned one officer. In later tests, three code experts attached to the United States Navy attempted and failed to crack the code; the system was deemed foolproof.

By mid-March, the Marine Corps authorized the recruitment of 29 Navajos for communications work and formed the 382nd Platoon. Immediately, the boarding schools at Fort Defiance, Shiprock, and Fort Wingate received visits from Marine personnel, and the original group of code talkers was formed. In addition, the Marine Corps approved Johnston, in his forties, to enlist as a training specialist non-commissioned officer.

The Navajo Code is the only unbroken code in modern military history.

U.S. Marine Corps photo

SECTION 1: MANAGEMENT'S DISCUSSION AND ANALYSIS


Recruits with Alpha Company, 1st Recruit Training Battalion, are evaluated during a final drill evaluation at Marine Corps Recruit Depot San Diego. (U.S. Marine Corps photo by Lance Cpl. Jesula Jeanlouis)

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. Our 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 Marine Corps are codified in (1) 10 United States Code (U.S.C.) § 5063, *United States Marine Corps: composition; functions*, (2) Public Law (P.L.) 80-253, 61 Stat 495, *National Security Act of 1947*, and (3) Department of Defense 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, provide protection of naval property at naval stations and bases, provide security at designated U.S. embassies and consulates, and perform other such duties as the President or the Secretary of Defense may direct.

Organizational Structure

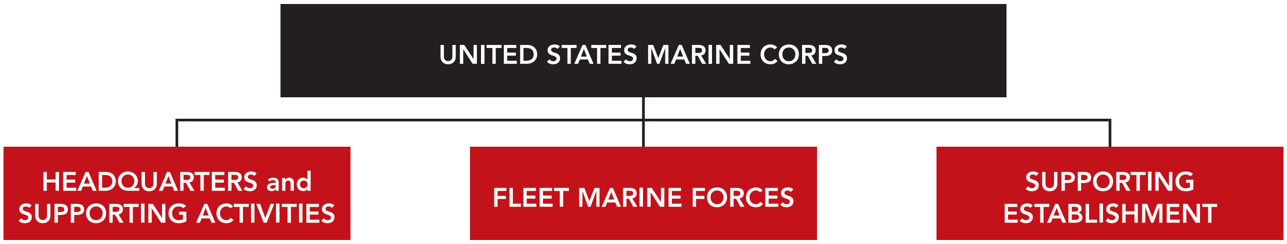


Figure 1. USMC Organizational Structure

The Marine Corps, 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). It 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

HQMC consists of the CMC and those 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 is located throughout the Washington, D.C. metro area, including the Pentagon, Marine Barracks Washington, D.C., Marine Corps Base (MCB) Quantico, Virginia and the Washington Navy Yard. The Deputy Commandants (DCs) and selected supporting activities that report directly to the CMC are further described below.

Deputy Commandant, Manpower and Reserve Affairs

The mission of the DC Manpower and Reserve Affairs (M&RA) is to employ an integrated manpower system across the service enterprise that attracts, develops, retains, and supports the Marines, their families, and the civilian workforce as they pursue their professional aspirations and personal career goals, in order to provide our commanders the human "steel" necessary to fight and win our Nation's battles. The office of the DC for M&RA is located in Quantico, Virginia.

Deputy Commandant, Plans, Policy, and Operations

The DC for Plans, Policy, and Operations (PP&O) performs a dual mission. First, the DC PP&O serves as the principal agent for the development, coordination, advocacy, and supervision of a wide range of strategies (e.g., global posture, prepositioning, protection, and operational employment of Marine Corps Forces), plans, and policies pertaining to the organization. Second, the DC PP&O serves as the liaison between the Marine Corps and the Joint Chiefs of Staff, combatant commanders, and various allied and other foreign defense agencies.

Deputy Commandant, Aviation

The mission of the DC for Aviation is to develop, integrate, and supervise plans, policies, and the budget for all aviation assets and aviation expeditionary enablers (e.g., aviation command and control, aviation ground support, and unmanned aircraft systems) in support of Marine Air Ground Task Forces (MAGTFs). The DC for Aviation serves as the principal advisor on all aviation matters and as spokesperson for Marine Corps aviation programs, requirements, and strategy throughout the DoN and the Department of Defense (DoD). With the exception of unmanned aircraft, all aircraft used by the Marine Corps is reported by the DoN.

Deputy Commandant, Installations and Logistics

The DC for Installations and Logistics (I&L) drives logistics plans, policies, and initiatives to increase the capability, endurance, and reach of the MAGTF. DC I&L provides ready and resilient bases that are exceptional training and force projection platforms, while also ensuring exemplary quality of life for Marines, Sailors, and their families. DC I&L leads innovation and modernization efforts that focus on logistics and infrastructure development in the 21st Century. DC I&L serves as the Head of Contracting Authority.

Deputy Commandant, Combat Development and Integration

The DC for Combat Development and Integration (CD&I) is tasked with developing future operational concepts and determining how to best organize, train, and equip the Marine Corps of the future. Actions are coordinated with the Marine Corps Combat Development Command (MCCDC) to fully integrate Marine Corps warfighting concepts and capabilities.

Deputy Commandant, Programs and Resources

The mission of the DC for Programs and Resources (P&R) is to act as the principal staff agency responsible for maintaining adherence to financial requirements, policies, and programs. DC P&R serves as the principal advisor to the CMC on all financial matters and is the CMC's principal spokesperson on USMC program and budget matters throughout the DoN and the DoD.

Deputy Commandant, Information

The mission of the Deputy Commandant for Information (DC I) is to align and integrate the Marine Corps' information-related capabilities by developing and supervising plans, policies, and guidance for all information environment operations (IE Ops). DC I identifies requirements for doctrine, manpower, training, education, and material concerning IE Ops while advocating for relevant functions of the MAGTF with service, naval, joint, interagency, intelligence community, and coalition partners.

Marine Corps Systems Command

The Marine Corps Systems Command (MCSC) serves as the DoN's agent for Marine Corps ground weapon and information technology (IT) programs in order to equip and sustain Marine Forces with full-spectrum, current and future expeditionary and crisis-response capabilities. MCSC is the only systems command, and serves as the Head of Contracting Authority for major acquisitions. MCSC is headquartered at MCB Quantico, Virginia.

Marine Corps Recruiting Command

The Marine Corps Recruiting Command (MCRC) is responsible for the procurement of qualified active and reserve force Marines in sufficient numbers to meet the established personnel strength levels for officers and the enlisted. The primary objective is the perpetuation of the Marine Corps and its standards of preparedness and military vigor upheld since 1775. Standards for enlistment are strictly set to ensure that future Marines will maintain the Marine Corps' tradition of excellence. Accordingly, the mission of MCRC is to "Make Marines, Win Battles, and Return Quality Citizens" to their communities. MCRC is headquartered at MCB Quantico, Virginia.

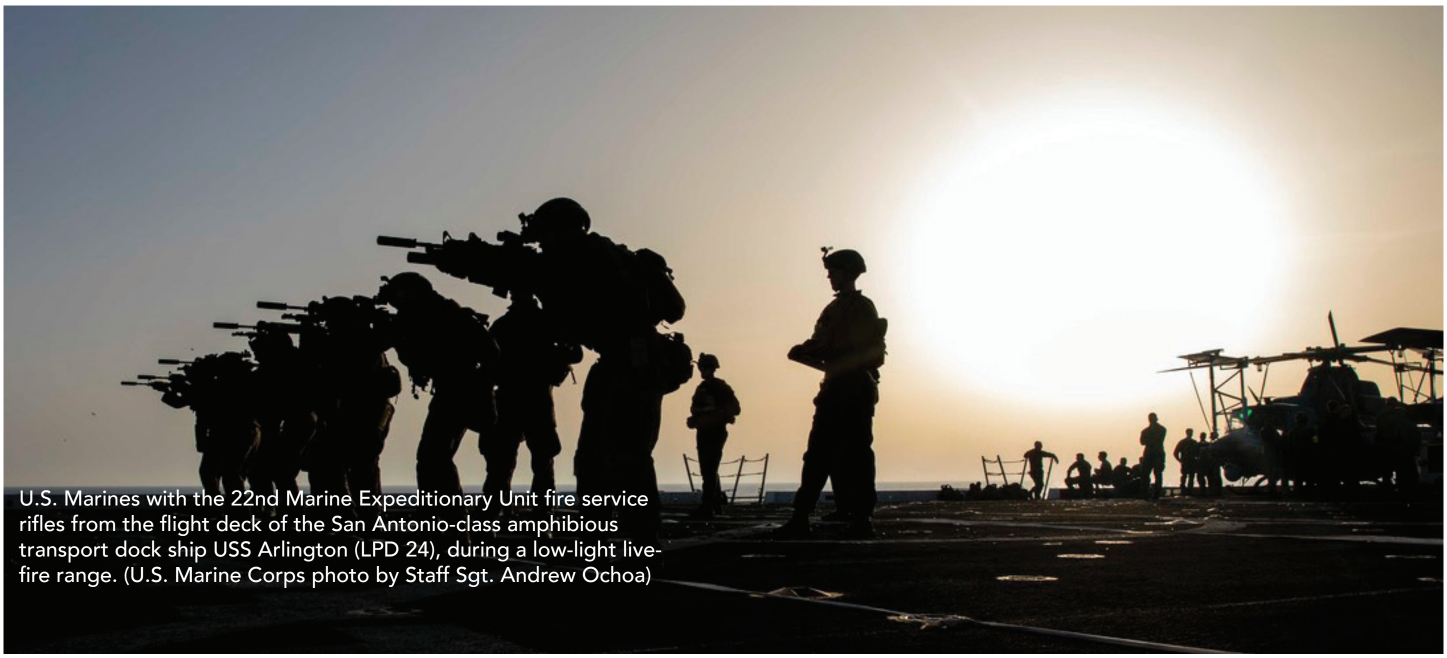
Marine Corps Combat Development Command

The mission of MCCDC is to assist the DC CD&I in the development, implementation, and maintenance of Marine Corps training and education. The commanding general of MCCDC is under the command of the CMC and coordinates with the DC CD&I on force development. The command identifies shortfalls in education and training and develops integrated solutions to capability gaps in coordination with the DC CD&I. MCCDC is headquartered at MCB Quantico, Virginia.

Fleet Marine Forces

The Fleet Marine Forces are the heart of the Marine Corps. They provide the forward presence, crisis response, and combat power that the Marine Corps makes available to combatant commanders. The Fleet Marine Forces maintain a constant state of readiness through an organizational structure that enables rapid, global response by air, land, and sea.

The Marine Corps established U.S. Marine Corps Forces, Command (MARFORCOM), U.S. Marine Corps Forces, Pacific (MARFORPAC), and U.S. Marine Corps Forces, Special Operations Command (MARSOC) as permanent commands to provide forces to unified combatant commanders. U.S. Marine Corps Forces, Reserve (MARFORRES) is a component of MARFORCOM. Marine forces are apportioned to the remaining geographic and functional combatant commands — the U.S. Southern Command (USSOUTHCOM), U.S. Northern Command (USNORTHCOM), U.S. European Command (USEUCOM), U.S. Central Command (USCENTCOM), U.S. Africa Command (USAFRICOM), U.S. Strategic Command (USSTRATCOM), U.S. Cyber Command (USCYBERCOM), and U.S. Forces Korea (USFK) — for contingency planning and are provided to these commands when directed by the Secretary of Defense.



U.S. Marines with the 22nd Marine Expeditionary Unit fire service rifles from the flight deck of the San Antonio-class amphibious transport dock ship USS Arlington (LPD 24), during a low-light live-fire range. (U.S. Marine Corps photo by Staff Sgt. Andrew Ochoa)

U.S. Marine Corps Forces, Command

MARFORCOM commands Active Component of Fleet Marine Forces, while serving as Commanding 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. Pacific Command (USPACOM), USFK, and Fleet Marine Forces, Pacific. In addition, MARFORPAC could be tasked to act as a joint task force command element. The Commander, MARFORPAC performs 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, 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, 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.

U.S. Marine Corps Forces, Northern Command

U.S. Marine Corps Forces, Northern Command (MARFORNORTH) is the USMC service component of 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 Marine Corps service component of 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 Marine Corps service component for USSOUTHCOM. MARFORSOUTH commands all Marines 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 Africa

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

U.S. Marine Corps Forces, Strategic Command

U.S. Marine Corps Forces, Strategic Command (MARFORSTRAT) is the USMC service component command of USSTRATCOM. MARFORSTRAT advises and assists other commands and the 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 Marine Corps 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 USCYBERCOM. 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.

U.S. Marine Corps Forces, Korea

U.S. Marine Corps Forces, Korea (MARFORK) is the service component for 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 Marines 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.

Marine Air-Ground Task Force

The Marine Air-Ground Task Force (MAGTF) is the USMC's principal organizational construct for conducting missions across the range of military operations. As highlighted in Figure 2, 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. They are balanced combined-arms force packages containing command, ground, aviation, and logistics elements. 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.

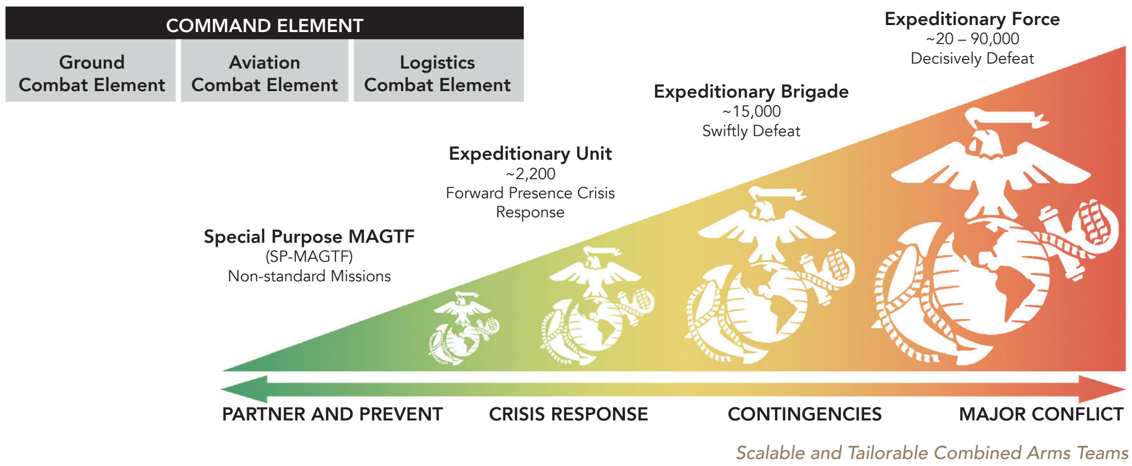


Figure 2. Types of MAGTFs

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.

Marine Corps Installations Command

Marine Corps Installations Command (MCICOM) is the single authority for all installation matters. MCICOM provides timely support to the Marines and their families from the Fleet Marine Forces and maintenance depots. MCICOM serves as a force projection platform that supports training, sustainment, mobilization, and deployment, and force protection. MCICOM consists of a headquarters and four subordinate commands: Marine Corps Installations Pacific, Marine Corps Installations West, Marine Corps Installations East, and Marine Corps Installations National Capital Region.

Marine Corps Logistics Command

Marine Corps Logistics Command (MARCORLOGCOM) provides global integrated logistics management. The command maintains property and performs supply chain and distribution management. MARCORLOGCOM executes strategic prepositioning of property in support of the Fleet Marine Forces and other units to provide materiel readiness and force sustainment. MARCORLOGCOM headquarters is located in Albany, Georgia.

Analysis of Performance Goals, Objectives, and Results

The 2018 National Defense Strategy (NDS) remains the guiding light for the Marine Corps' fighting agenda for now and the near future. Our performance goals and objectives are uniquely tied to the NDS. The 2018 NDS outlined three major areas of effort: (1) restore readiness and build a more lethal force; (2) strengthen existing alliances while building new partnerships; and (3) reform and modernize the DoD for greater performance, accountability and affordability. These three objectives will be met with five different lines of effort from the Commandant's Planning Guidance (CPG).

Line of Effort 1: Force Design. A naval expeditionary force-in-readiness demands that we are firmly integrated into Naval strategy and that our talented work force is equipped and "taken care of" like an elite fighting force should be. The focal point of the future integrated naval force will shift from traditional power projection to meet the new challenges associated with maintaining persistent naval forward presence to enable sea control and denial operations. The Fleet Marine Force (FMF) will support the Joint Force Maritime Component Command and fleet commander concept of operations, especially in close and confined seas, where enemy long-range precision fires threaten maneuver by traditional large-signature naval platforms.

Line of Effort 2: Warfighting. We will need to be better tomorrow to maintain our warfighting overmatch. Decision making requires us to be faster than our enemies. Our *command and control* methodology will always focus on people over systems. We must create systems that are resilient and match our warfighting approach in order to protect our ability to make decisions that generate tempo. The Navy's method for decentralized command and control at the tactical level is composite warfare; therefore, the Marine Corps must prepare to operate within this doctrinal construct. The Marine Corps will add composite warfare to our practical application of naval tactical combat power to complement our understanding of maneuver warfare outlined in the Fleet Marine Force Manual 1, *Warfighting*.

The 2016 *Marine Corps Operating Concept* (MOC) directs partnering with the Navy to develop two concepts, *Littoral Operations in a Contested Environment* (LOCE) and *Expeditionary Advanced Base Operations* (EABO). We will move beyond the MOC itself and partner with the Navy to complement LOCE and EABO with classified, threat specific operating concepts that describe how naval forces will conduct the range of missions articulated in our strategic guidance. The MOC will therefore be replaced by either a Marine Corps or unified capstone naval concept as determined in consultation with the Chief of Naval Operations.

During FY2020, we will release a new concept in support of the Navy's Distributed Maritime Operations Concept and the NDS called – Stand-in Forces. The Stand-in Forces concept is designed to restore the strategic initiative to naval forces and empower our allies and partners to successfully confront regional hegemons that infringe on their territorial boundaries and interests. Stand-in Forces generate technically disruptive, tactical stand-in engagements that confront aggressor naval forces with an array of low signature, affordable, and risk-worthy platforms and payloads.

Another way to drive the continued evolution of the future operating environment is Distributed Operations (DO). DO capable forces are a critically important component of the Marine Corps' modernization. Our desired end state also requires elite warriors with physical and mental toughness, tenacity, initiative, and aggressiveness to innovate, adapt, and win in a rapidly changing operating environment.

Line of Effort 3: Education and Training. The complexity of the modern battlefield and increasing rate of change requires a highly educated force. Professional Military Education is a necessary investment by the service to facilitate readiness across the force. We must focus on student-centered learning using a problem-posing methodology where our students/trainees are challenged with problems that they tackle as groups in order to learn by doing and also from each other. All our formal schools must and will change their programs of instruction to include a greater naval-orientation. In reference to training, we are to train in the manner that we intend to fight. Essential to charting our course in an era of strategic fluidity and rapid change will be the effective integration of professional war-gaming in force design, education, and training. We will build a Wargaming Center on the Marine Corps University Campus. Additionally, our Marine Corps Warfighting Laboratory (MCWL) will continue to serve as the cradle and test bed for the development of enhanced operational concepts, tactics, techniques, procedures, and doctrine which will be progressively introduced into the FMF in concert with new technologies. The MCWL will drive an integrated process of wargaming and experimentation that will rapidly produce solutions for further development in accordance with the CPG.

***Line of Effort 4:* Core Values-Honor, Courage, Commitment**. The Marine Corps has a rich history demonstrating the ethos of honor, courage and commitment, which has been a success story both on and off the field. We will continue to build upon this ethos. Our non-end-of-active-service attrition is an area requiring some improvement. Although the Marine Corps needs only to retain about a fourth of its first termers, it is not cost effective to lose those Marines on their first enlistment to behavioral related issues that disqualify them from further service. Improving upon our ethos, manifested in the leadership of our staff noncommissioned officers (SNCOs) and Officers, we will see more Marines completing their first enlistment. This will steady our work force and increase our opportunities in talent management for the future.

***Line of Effort 5:* Command and Leadership**. Elite organizations do not accept mediocrity and they do not look the other way when teammates come up short of expectations. Accountability is paramount. In the Marine Corps, our company grade officers and mid-grade SNCOs have the appropriate experience base, maturity, and daily interactions with junior Marines. We must trust our younger leaders, and give them every opportunity to lead, educate, train, supervise, and enforce high standards. We are to teach, coach, and mentor. Our maneuver warfare doctrine depends on commanders' intent and mission-type orders. We must train how we fight.

Quantitative and Qualitative Successes

Readiness

- Reform efforts in FY2019 identified over $570 million to reinvest in modernization and warfighting readiness. Examples of vetted and approved reform initiatives include:
  - ✓ Multi-Year Procurement for Aircraft;
  - ✓ H-1 (Aviation) Program Procurement Savings;
  - ✓ Infrastructure Reset;
  - ✓ Enterprise Lifecycle Maintenance Program;
  - ✓ Legacy Counter-Radio Controlled Improvised Explosive Device (CREW) System Divestment; and
  - ✓ DoN Under-Execution Review.

Increased Lethality

- Aligned with the Secretary of Defense's Close Combat Lethality Task Force initiative, the Marine Corps continues to invest heavily in its close combat formation capabilities, to include enhanced combat helmet, binocular night vision devices, M-27 Infantry Automatic Rifle, M320 grenade launcher, M38 Squad Designated Marksman Rifle, and Javelin anti-tank missile.

- Continue to leverage the Marine Corps Rapid Capabilities Office (MCRCO) in order to achieve our desired lethality. MCRCO provides experimentation with new technologies available on the market, determining what will work best in the future operating environment, and then delivering those capabilities to the force quickly to mitigate the rapid rate of technological change.

Modernization and Innovation

- Science and technology efforts in Additive Manufacturing drove the procurement of 160 three-dimensional (3D) printers, with more than 125 ground and 83 Naval Air Systems Command approved aviation parts; immediately improving readiness and lethality.

- Partnered with Australia, the United Kingdom, and Japan to streamline cyber talent management and accelerate deployment of new technology to directly influence conditions in the Indo-Pacific Region.

Operations

- Fulfilled combatant commander requirements in Syria, Iraq, Afghanistan, and throughout the Pacific.

- Maintained approximately one third of our operating forces, or roughly 39,500 Active and Reserve Component Marines, forward deployed and forward stationed.

- Supported Operation INHERENT RESOLVE in Iraq, Kuwait, Jordan, Syria, and Turkey countering violent extremist organizations and deployed to Afghanistan to confront Taliban fighters in Helmand Province.

- Bolstered the North Atlantic Treaty Organization's (NATO) presence along Europe's Northern Flank and resumed cold weather training by partnering with Norwegian forces.

- Conducted over 120 joint, bilateral and multinational exercises, fostering alliances and partnerships.

- Deployed over 30 Marine Security Guard Security Augmentation Units to embassies around the globe to enhance diplomatic security during periods of instability or increased threats.

Business Reform and Savings

- Created the Talent Management Oversight Directorate (TMOD). This office supports the Assistant Commandant in his role as the Talent Management Officer of the Marine Corps, and addresses all personnel and cultural issues impacting the Marine Corps' ability to invest in and leverage a diversely skilled and talented force. The TMOD's mission is to ensure compliance with all objectives, policies, and directives that supports the Marine Corps' efforts to recruit, promote, and retain the best talent the Nation has to offer.

- Continued refinement of the Business Reform Board to better enable oversight of business practices and drive reform efforts throughout the organization.

- Reform initiatives include multi-year procurement for aircraft, H-1 helicopter procurement savings, a reset effort to consolidate infrastructure to meet the needs within existing bases, and divesting legacy CREW systems.

Performance and Accountability

The Marine Corps continues to improve its performance metrics. Ongoing analysis of the current Planning, Programming, Budgeting, Execution & Assessment process reveals that improvements therein will assist our decision makers with resource management. The Marine Corps is deeply focused on continuing business reforms in FY2020 that foster effective resource management, support audit readiness, and streamline the requirements and acquisition process.

The Marine Corps is increasing lethality and evolving our force through prioritized investment in modernization, readiness, and manpower. This evolution is necessary to ensure we maintain current operational readiness, address whatever contingencies may arise today, and anticipate what our force of tomorrow must look like to be capable of addressing unforeseen threats.

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 impacting the financial statements can affect 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) $	Increase/(Decrease) %
COSTS				
Total Financing Sources	$ 24,588,058	$ 30,353,696	$ (5,765,638)	(19.0)%
Less: Net Cost	27,609,445	25,298,908	2,310,537	9.1%
Net Change of Cumulative Results of Operations	**$ (3,021,387)**	**$ 5,054,788**	**$ (8,076,175)**	**(159.8)%**
NET POSITION				
Assets:				
Accounts Receivable	$ 24,833	$ 51,635	$ (26,802)	(51.9)%
Inventory and Related Property	8,701,876	12,163,916	(3,462,040)	(28.5)%
Other Assets	58,710	51,481	7,229	14.0%
Other	32,272,690	31,059,050	1,213,640	3.9%
Total Assets	**$ 41,058,109**	**$ 43,326,082**	**$ (2,267,973)**	**(5.2)%**
Liabilities:				
Accounts Payable	$ 847,504	$ 905,106	$ (57,602)	(6.4)%
Environmental and Disposal Liabilities	190,930	234,001	(43,071)	(18.4)%
Other Liabilities	1,619,147	1,723,335	(104,188)	(6.0)%
Other	194,370	194,654	(284)	(0.1)%
Total Liabilities	**$ 2,851,951**	**$ 3,057,096**	**$ (205,145)**	**(6.7)%**
Net Position (Assets minus Liabilities)	**$ 38,206,158**	**$ 40,268,986**	**$ (2,062,828)**	**(5.1)%**

Significant financial statement line items that varied substantially from the prior year are explained below.

Analysis of Assets

Accounts Receivable, as presented in the Table of Key Measures, includes both intragovernmental and non-federal balances. Accounts Receivable (intragovernmental) decreased $25,088 thousand (65%) due to automation of the billing process which enabled efficiencies in the billing and collection of amounts owed from other federal agencies for goods provided and services performed by the Marine Corps. Accounts Receivable (non-federal) decreased $1,714 thousand (13%) due to automation within the Marine Corps' military payroll system. The automated processes improved the calculations of payroll advances and separation settlements with Marines resulting in a reduction of overpayments and errors associated with Marines separated from service.

Inventory and Related Property decreased primarily due to ongoing audit remediation efforts whereby the Marine Corps is working towards identifying its overall population of OM&S, and establishing supportable beginning balances in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*. In support of

U.S. Marines with the Maritime Raid Force (MRF), 26th Marine Expeditionary Unit (MEU), climb aboard the United States Naval Ship (USNS) Big Horn during a simulated Visit, Board, Search and Seizure (VBSS) mission as part of Combine Composite Training Unit Exercise (COMPTUEX) in the Atlantic Ocean. (U.S. Marine Corps photo by Cpl. Jered T. Stone)

this effort, the Marine Corps re-valued its OM&S assets by re-baselining ammunition, non-ammunition, and ammunition work-in-progress assets in accordance with the established OM&S valuation methodology.

Other Assets decreased due to the reduction of GPP&E assets that were previously deemed as permanently removed but not yet disposed in the prior years. In the current year, GPP&E assets previously included in the Other Assets balance were reactivated and placed back into service, therefore reclassifying these assets back into the GPP&E balance.

Analysis of Liabilities

Accounts Payable, as presented in the Table of Key Measures, includes both intragovernmental and non-federal balances. Accounts Payable (intragovernmental) increased $70,924 thousand (36%) and Accounts Payable (non-federal) decreased $128,526 thousand (18%). The Marine Corps historically lacks accountability and effective internal controls over its receipt and acceptance process which directly impacts how accounts payable is recognized. The fluctuation in the Accounts Payable balances are attributed to ongoing efforts to remediate the known deficiencies. In the current year, the Marine Corps implemented oversight efforts targeting high dollar intragovernmental orders which resulted in improvements in recognizing amounts owed for goods and services received, and contributing to the increase in the Accounts Payable (intragovernmental) balance. In addition, the USMC adjusted its accounts payable accrual estimation methodology, and the Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) revised the methodology for recording contract holdbacks, both of which also contributed to the decrease in the Accounts Payable (non-federal) balance.

Other Liabilities, as presented in the Table of Key Measures, includes both intragovernmental and non-federal balances. Other Liabilities (intragovernmental) decreased $170,014 thousand (74%) on account of the timing of the payment into the Military Retirement Fund at the end of the FY. The prior year amount was paid after the FY close, whereas the current year amount was paid prior to FY close, therefore causing a significant fluctuation in the balance year-over-year.

Environmental and Disposal Liabilities decreased on account of detailed re-estimates performed in the current year using an improved estimation methodology. In addition to requiring adjustments to a number of different factors within the liability calculations, the re-estimate process identified certain costs that should be excluded from the liability based on the revised methodology.

Analysis of Net Position

Unexpended Appropriations, Appropriations transferred in/out increased $388,353 thousand (506%) on account of funding received to address damages incurred to Marine Corps property from Hurricane Florence in September 2018 and Hurricane Michael in October 2018.

Unexpended Appropriations, Other Adjustments increased $117,980 thousand (22%) due to the reduction of funds returned to the Treasury from canceling appropriations in the current year compared to the prior year.

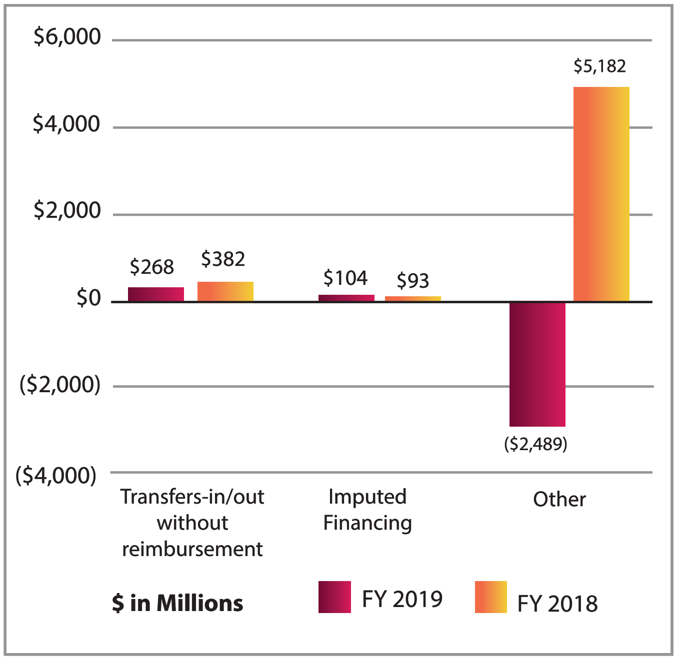


Figure 3. Cumulative Results of Operations, Other Financing Sources Significant Fluctuations

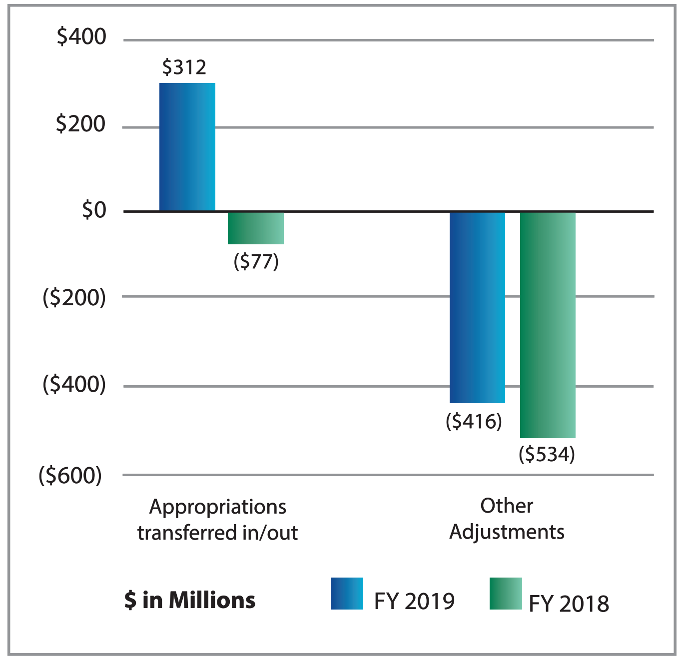


Figure 4. Unexpended Appropriations Significant Fluctuations

Total Financing Sources decreased year-over-year. The significant changes affecting the Total Financing Sources included an increase in Cumulative Results of Operations beginning balance ($5,054,788 thousand or 19%) and a decrease in Other Financing Sources, Other ($7,671,252 thousand or 148%). The fluctuations within these two line items are attributed to gains and losses resulting from property audit cleanup efforts and the re-baselining in reporting property beginning balances. This is due to OM&S and GPP&E property revaluation methodologies and re-baselining of values not being recorded as prior period adjustments but as offsets to the gain/loss accounts in accordance with guidance from the OUSD(C).

Total Financing Sources was also impacted by other events. Other Financing Sources, Transfers-in/out without reimbursement decreased $113,654 thousand (30%) on account of the net effect of GPP&E assets transferred in and out of the Marine Corps during the current year. Other Financing Sources, Imputed financing from costs absorbed by others increased $10,808 thousand (12%) due to a rate increase in Federal Employment Retirement System incurred by the Office of Personnel Management.

Analysis of Budgetary Resources

Unobligated balance from prior year budget authority, net decreased $402,773 thousand (18%), and Expired unobligated balance, end of year decreased $249,786 thousand (29%) from the prior year. The variances for both lines are due to enhanced internal controls over recorded obligations. The Marine Corps strengthened controls over appropriately recognizing new obligations and confirming the validity of existing obligations. These steps have resulted in fewer de-obligations that impacted the unobligated balances compared to the prior year.

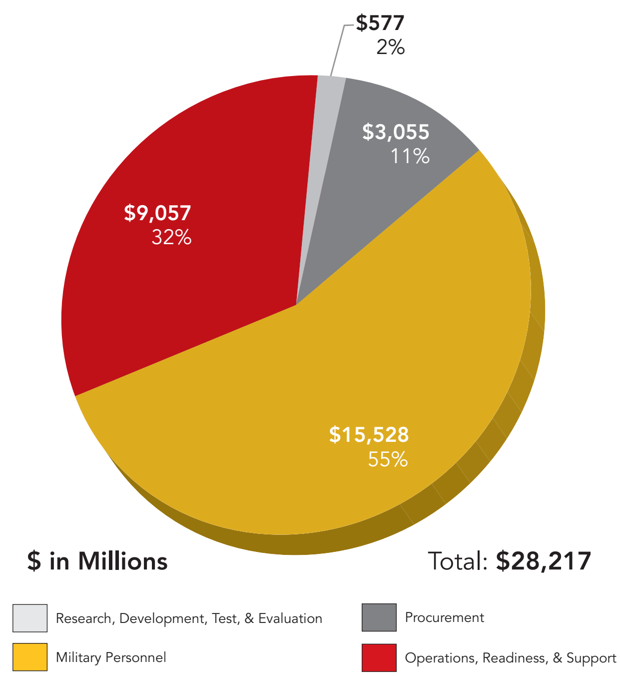


Figure 5. Appropriations

Appropriations (discretionary and mandatory) increased $2,695,274 thousand (11%) from the prior year. The variance is due to an increase in various sources of funding received in the current year which includes the following: the Medicare Eligible Retiree Health Care Fund appropriation on the Marine Corps' standalone financial statements this year, where previously the USMC portion of these appropriations were reported on the Navy financial statements; supplemental funding was received to address damages from Hurricanes Florence and Michael; program rate increases for Military and Reserve personnel; and procurement funding increased to allow for quantity purchase increases of major weapons systems and the transitioning of projects from the research, development, test and evaluation phase to the procurement phase.

The execution of the increased funding resulted in Outlays, net (total) (discretionary and mandatory) increasing $3,238,261 thousand (14%) from the prior year.

The Unexpired unobligated, end of year balance increased year-over-year. The significant change affecting the balance included an increase to the Apportioned, unexpired accounts balance of $325,805 thousand (53%) on account of an increase in multi-year funding that has not yet been obligated. The Unapportioned, unexpired accounts balance decreased $12,150 thousand (100%) due to the apportionment of multi-year funding that was unapportioned in the prior year.

Fiscal Year 2019 Statement of Assurance

United States Marine Corps (USMC) management is responsible for identifying and managing risks and maintaining internal controls and financial systems in accordance with the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). Section 2 of FMFIA and Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, requires USMC management to evaluate the effectiveness of the internal controls to support effective and efficient operations, reliable reporting and compliance with applicable laws and regulations.

Section 4 of FMFIA and the *Federal Financial Management Improvement Act of 1996* (FFMIA) requires USMC management to ensure the financial management systems provide reliable, consistent disclosure of financial data. OMB Circular No. A-123 provides specific requirements for conducting assessments of risk and internal control for compliance with the FMFIA. Material weaknesses were identified in the following areas as a result of the financial statement audit:

- Entity-Level Controls
- Fund Balance with Treasury Controls
- Business Process Controls
- Information Systems
- Ability to Provide Complete, Timely, and Sufficient Evidence
- Accounting for Operating Materials and Supplies
- Accounting for Property, Plant, and Equipment
- Integrated Financial Management Systems
- Financial Reporting and Analysis

The USMC 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 USMC provides no assurance on Internal Controls over Financial Reporting and Internal Controls over Financial Systems. USMC asserts a modified certification statement on Internal Controls over Operations. Material weaknesses were identified in the following areas as a result of MICP assessments:

- Department of the Navy Working Capital Fund Rates at the Marine Depot Maintenance Command
- Physical/Installation security requirements

The FFMIA also 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. USMC is reporting noncompliance with the FFMIA as of 30 September 2019.

Further details regarding the material weaknesses and the status of corrective action plan activities for FMFIA and FFMIA compliance is found within the *Analysis of Systems, Controls, and Legal Compliance* section of the Agency Financial Report. The Marine Corps will continue to ensure accountability and transparency over the management of taxpayer dollars, and strive for ongoing progress and enhancement of its internal control and financial management programs.

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

NOV 0 6 2019

Commanders and managers throughout the Marine Corps must ensure the integrity of their programs and operations. Part of this responsibility entails compliance with Federal requirements for internal controls over financial reporting (ICOFR), internal controls over financial systems (ICOFS), and internal controls over non-financial operations (ICONO) promulgated by FMFIA and FFMIA. These requirements promote the production of more timely, reliable, and accessible financial information. Useful financial information and effective controls save money 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.

The Marine Corps complies with applicable laws and regulations by requiring Commanders and managers at all levels to establish and continuously maintain an active MICP that aligns with the requirements of FMFIA and OMB Circular No. A-123. 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 pertaining to ICOFR, ICOFS, and ICONO. 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 on risks.

OMB Circular No. A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, provides specific requirements for conducting management's assessment of internal control 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) capability is underway. It is being coordinated with the strategic planning and strategic review process established by the Government Performance and Results Modernization Act, the internal control processes required by FMFIA, and the Government Accountability Office's (GAO's) *Standards for Internal Control in the Federal Government* (i.e., the Green Book).

The Marine Corps performs OMB Circular No. A-123 assessments to evaluate the design, implementation, and effectiveness of ICOFR, ICOFS, and ICONO. The following has been done to improve ICOFR and ICOFS during FY2019:

- Developed an Entity Level Controls (ELC) Evaluation Tool based on GAO's "Internal Control Management and Evaluation Tool" to assess ELCs across the Marine Corps.
- Coordinated with process owners and stakeholders across the Marine Corps to assist with the development and/or updating of business process narratives, which included identification and documentation of key internal controls.
- Completed ICOFR testing on Contract Payments and Travel Voucher business processes.
- Completed Internal Controls Compliance Evaluations on Intragovernmental Transfers and Government Charge Card Program business processes.
- Continued ICOFR Testing in the areas of Fund Balance with Treasury, Journal Voucher Posting, Financial Statement Compilation and Reporting, and Suspense Account Oversight and Monitoring.
- Tested and validated the Marine Corps' financially relevant applications and systems' corrective action plans (CAPs) to support USMC's effort to remediate Notices of Findings and Recommendations (NFRs) identified by the independent public accountant (IPA).
- Initiated the performance of internal testing of financially significant systems.
- Performed validation assessments on complementary user entity controls (CUECs), self-identified deficiencies, and CAPs.
- Developed a systems strategy that improves financial management performance.

The Marine Corps is working to resolve material weaknesses identified during prior financial statement audits. The statuses of Marine Corps' unresolved material weaknesses are as follows:

Material Weakness	Summary Description	Corrective Actions and Status
1. Entity Level Controls	The material weakness identified that the Marine Corps has not fully implemented processes to document and evaluate its ELC environment and risk assessment processes to meet financial reporting objectives. Specifically, the Marine Corps has not: * Performed a sufficient gap analysis of business process documentation and properly identified all internal controls therein; * Fully implemented a comprehensive risk management framework (RMF) of the information technology (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 (SOC1) report are designed and implemented correctly and operating effectively; and * Developed sufficient CAPs or performed proper root cause analyses.	The Marine Corps has performed a gap analysis of the current system of internal control to the GAO Green Book and identified principles and/or attributes that are missing or require improvement. The Marine Corps utilized the guidance within OMB Circular No. A-123 to implement effective ELC that are relevant to the preparation of its financial statements. Root cause analysis has been performed to determine the underlying reasons for the deficiencies and to prioritize CAPs. The Marine Corps established documented processes to identify CUECs associated with service organization activities and implemented internal controls to achieve financial reporting objectives with the Defense Finance and Accounting Service (DFAS) financial reporting and Defense Manpower Data Center - Defense Travel System. Corrective actions are estimated to be completed by 4th quarter 2020.

Material Weakness	Summary Description	Corrective Actions and Status
2. Ability to Provide Complete, Timely and Sufficient Evidence	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.	The Marine Corps will complete the development of various repositories to store supporting documentation for easy retrieval. Audit support teams will also be established both at the HQMC and Command Levels to ensure roles and responsibilities and deadlines are understood with respect to providing requested audit documentation. Corrective actions are estimated to be completed by 4th quarter 2021.
3. Financial Reporting and Analysis	The material weakness indicated that the Marine Corps: * Did not adequately define its reporting entity in accordance with SFFAS No. 47, *Reporting Entity*; * Did not produce an Agency Financial Report (AFR) compliant with generally accepted accounting principles (GAAP) and OMB Circular No. A-136, *Financial Reporting Requirements*; * 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.	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. The Marine Corps has implemented and performs oversight controls over service organization activities pertaining to financial reporting activities. The Marine Corps has also implemented and performs quarterly financial analysis over reported balances to address abnormal conditions and/or understand fluctuations in balances. 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. Remaining corrective actions are estimated to be completed by 4th quarter FY2020.

Material Weakness	Summary Description	Corrective Actions and Status
4. Integrated Financial Management Systems	The material weakness identified deficiencies noted in three related areas: ✷ Standard Accounting, Budgeting and Reporting System (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 accountable property systems of record (APSRs) and SABRS to allow Property, Plant, and Equipment and Operating Materiel and Supplies detail to be directly recorded in SABRS versus via quarterly manual journal vouchers as is currently the practice.	The Marine Corps will develop policies, procedures, and the process narratives, as applicable, to outline the sequential file reconciliations process and establish purpose, scope, roles, responsibilities, management commitment, and coordination among organizational entities. Corrective actions are estimated to be completed by 4th quarter FY2021.
5. Accounting for Property, Plant, and Equipment	The material weakness identified that the Marine Corps: ✷ 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, *Accounting for Property, Plant, and Equipment*, or SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*.	The Marine Corps will continue efforts to strengthen the operational effectiveness of inventory management controls to improve the overall accountability of PP&E and the accuracy of property data within APSRs used for financial reporting purposes. Corrective actions are estimated to be completed by 4th quarter FY2020.

Material Weakness	Summary Description	Corrective Actions and Status
6. Accounting for Operating Materials and Supplies	The material weakness identified that the Marine Corps: * Was unable to provide transactional data for its ammunition population; * Was unable to provide populations for its temporary storage projects and set assembly items; * 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; and * Values its OM&S in a manner that is not in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*, or SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.	The Marine Corps will formalize quarterly transactional reconciliation procedures for ammunition receipts, issues, transfers, and disposals within Ordnance Information System – Marine Corps to variances between quarterly reported ammunition quantities from ammunition custodian, including third-party custodians. The Marine Corps is implementing valuation procedures consistent with requirements in SFFAS No. 3. Corrective actions are estimated to be completed by 4th quarter FY2020.
7. Fund Balance with Treasury Controls	The material weakness identified: * 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.	The Marine Corps will develop and implement internal control activities to ensure suspense transactions are accurately allocated to the appropriate reporting entity. Corrective actions are estimated to be completed by 4th quarter FY2021.

Material Weakness	Summary Description	Corrective Actions and Status
8. 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 will evaluate payroll and non-payroll internal control deficiencies to understand their underlying causes. Corrective actions are estimated to be completed by 4th quarter FY2020.
9. 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 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.	The Marine Corps will ensure that an RMF is in place throughout the organization and ensure adherence to National Institute of Standards and Technology 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. Corrective actions are estimated to be completed by 4th quarter FY2020.
10. Naval Audit Navy Working Capital Fund at the Marine Depot Maintenance Command	The material weakness identified that the Marine Corps was not in compliance with unit cost and rate setting practice regulations and were unable to verify rates the Marine Depot Maintenance Command charged its customers.	The Marine Corps established a SharePoint site to house financial data and key supporting documentation. A Cost Estimation Support tool and Depot Metric Analysis tool has also been implemented. Corrective actions were completed during this fiscal year.
11. 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, and submit funding requirements for projects and military construction for funding and approval. Corrective actions are estimated to be completed by 4th quarter FY2025.

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 implementing and maintaining financial management, U.S. GAAP, USSGL at the transaction level, and the 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, 2019. These conditions are caused by the complexity of the Marine Corps and the 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 FY2020.

Compliance with Other Key Legal and Regulatory Requirements

Federal Information Security Modernization Act

The Federal Information Security Modernization Act (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. The results will be provided in future agency financial reports to effectively govern the business processes of the Marine Corps surrounding compliance with FISMA and be incorporated into the overarching ERM strategy across the enterprise.

Anti-deficiency Act

As of September 30, 2019, the Marine Corps has two open Anti-deficiency Act (ADA) investigations that remain under investigation and one closed investigation which has been reported to GAO, OMB, Congress, and the President of the United States for a total of three formal ADA investigations in FY2019. There were also 10 preliminary ADA reviews which are in various stages of the investigation process. Of the 10, the Marine Corps was able to close four of the cases which resulted in non-ADA violations. Of the remaining six cases, two are ongoing, and four 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 is currently working internally to implement next steps to track, monitor, and report DATA Act requirements. 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.

Financial Management Systems Improvement Strategy

The Marine Corps understands ICOFS plays a key role in the generation and auditability of the Marine Corps' financial statements. The Marine Corps is implementing a strategy for identifying and prioritizing assessment of financial and mixed systems. Multiple systems are utilized to support the Marine Corps' complete set of financial statements. After a system is identified as relevant or critical to the audit of a segment assertion package, the Marine Corps works with segment managers to collect additional data points that will affect the assessment scope, approach, and timeline.

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 Marine Corps. SABRS is supported by the SABRS Management Analytical Retrieval Tools application, which was developed using IBM's Cognos financial software. SABRS interfaces with multiple Marine Corps, DoN, and DFAS financial management system.

The Marine Corps lacks an integrated financial system compliant with the FFMIA, OMB Circular A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*, and the DoD Financial Management Regulation Volume 1, Chapter 3, requirements for compliance under the FFMIA of 1982. 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. In addition, we continue to address known deficiencies in system security controls identified through ICOFS assessments.

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 RMF 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.

The Marine Corps continues to coordinate with IT system service providers and USMC stakeholders to ensure audit requirements are met. I&L Business Enterprise Office, Command Control Communications and Computers (HQC4), and P&R support the CMC in his role as a member of the Joint Chiefs of Staff and represents the service financial systems matters. These departments have service staff responsible for the Marine Corps enterprise-wide business systems, governance, resourcing, capital planning and investment control, portfolio management, workforce, and enterprise architecture; and develops and implements the synchronized strategy for the Marine Corps Information Environment. HQC4 and P&R collectively provide leadership and direction to dictate business system management, security, and investment decisions based on the Marine Corps' unique mission requirements to ensure interoperability and operational effectiveness within the Marine Corps, naval, joint, and coalition information environments.

The Marine Corps established a pre-validation process to increase the effectiveness of remediation efforts. This process allows the ICOFS team and remediation team to work jointly during the life cycle of a CAP from the development to closure phase. It also ensures that sufficient testing is performed regarding the design, implementation, and operating effectiveness of internal control over financial reporting systems.

The ICOFS team piloted the pre-validation process with HQC4/Cybersecurity and the Technology Services Organization. The pre-validation process promotes:

- A strong internal control environment and advanced business understanding of functional processes while allowing for a shift in focus from compliance to security;
- Allows the Marine Corps time to identify and mitigate control gaps and prepare for future external audits;
- Prepares for an effective audit through internal control testing and validation which will streamline the audit cycle for the Marine Corps and will result in fewer future NFRs.

By leveraging the results of testing CAPs related to IPA issued NFRs, the ICOFS team assists the Marine Corps in developing a systems strategy that improves financial management and overall control performance. To date, the ICOFS team has tested and validated 23 Marine Corps CAPs related to account management, contingency planning, disaster recovery, segregation of duties, Marine Corps RMF, configuration management documentation approval, and service level agreement reviews.

Forward Looking Information

The coming decade will continue to be characterized by conflict, crisis, and rapid change. Despite our best efforts, history demonstrates that we will not accurately predict every conflict; may be surprised by an unforeseen crisis, and may be late to fully grasp the implications of rapid change around us. While we must accept an environment characterized by uncertainty, we will not ignore strong signals of change nor be complacent when it comes to designing and preparing the force for the future.

The future operating environment will place heavy demands on our Nation's Naval Services. Context and direction is clearly articulated in the National Defense Strategy and Defense Planning Guidance and testimony from our uniformed and civilian leadership. The Marine Corps will be trained and equipped as a naval expeditionary force-in-readiness and prepared to operate inside actively contested maritime spaces in support of fleet operations. In crisis prevention and crisis response, the Fleet Marine Force will be first on the scene, first to help, first to contain a brewing crisis, and first to fight if required to do so. The Marine Corps will be the "force of choice" for the President, Secretary of Defense, and Combatant Commander.

Institutional changes will be based on a long-term view and singular focus on where we want the Marine Corps to be in the next five to 15 years. The following will be our major focuses of effort:

Force Design

The current force is not organized, trained, or equipped to support the naval force operating in contested maritime spaces, facilitating sea control, or executing distributed maritime operations. We will divest of legacy capabilities that do not meet our future requirements and invest in new capabilities that will ensure that the Navy-Marine Corps team cannot be excluded from any region in advancing or protecting our national interests or those of our allies. The rise of both land and sea-based threats to the global commons compels us to reinvigorate the Fleet Marine Force and Navy-Marine Corps Component Command relationship to better integrate our approach to operations in the maritime domain. We will refine our operational structure to posture our Marine Expeditionary Forces and Marine Expeditionary Units to best support Joint Force Maritime Component Commanders. We will work with our Navy partners to develop future amphibious capabilities that will allow us to counter our adversaries' projection of power and influence where needed and on our terms.

Additionally, the Marine Corps still starts and ends with the individual Marine. The Marine Corps' principle challenge to fulfilling its charter as the naval expeditionary force-in-readiness while simultaneously modernizing the force in accordance with the National Defense Strategy is building and retaining a leaner force that is trained and equipped to counter whatever opposition our enemies may present. This will require an accountable, disciplined, and professional force. Stricter enforcement of standards of conduct, balanced with an appreciation for the well-being of our Marines will be the hallmark of Marine leaders. We will modernize our manpower systems to enable us to identify talent within our Corps and align it to opportunities that will develop and exploit that talent. Our appraisal and promotion systems will be enhanced to accurately identify their skills, performance, and future potential; and reinforce retention efforts with effective incentives to encourage our best and brightest to continue their service.

Warfighting

The character of war is increasingly dynamic and the rapid advance in technology by both friend and foe has accelerated the rate of change. This will require significant changes to the concepts and capabilities by which Marines will conduct expeditionary operations. Innovation, ingenuity, and willingness to continually adapt to and initiate changes in the operating environment will enable us to affect the behavior of real-world pacing threats. We must reach and execute effective military decisions faster than our adversaries. Our decision making must drive a mission command that focuses on low level initiatives, simple planning processes, and order writing techniques that are measured by the quality of the intent achieved. Furthermore, we must develop concepts to guide how naval forces will compete for and confront adversaries below the threshold of conflict and conduct sea-based forward presence and crisis-response operations.

To ensure our force is optimally trained to implement our future strategy and capabilities, we will change the training and education continuum from an Industrial Age model, to an Information Age model. We will also optimize our process to minimize training wait times and ensure unavoidable wait times are used constructively. At the conclusion of training, we will make a proper hand-off of our Marines to their first operating force units to ensure they are cared for and mentored during this critical stage in their development.

Education and Training

Education and training are inextricably linked. Education denotes study and intellectual development while training is primarily learning-by-doing. We will not train without the presence of education. Reforms are required in the organization of our training commands and our formal schools and the appropriate focus must be placed on the selection processes to ensure the right Marines are assigned as instructors, trainers, and educators. While we can and should take pride in our ability to develop a deep reservoir of knowledge on counterinsurgency operations, we must now replicate that educational effort in the naval warfare and naval expeditionary warfare domains and integrate wargaming, experimentation, and simulation into our training environments.

"The Marine Corps will be trained and equipped as a naval expeditionary force-in-readiness and prepared to operate inside actively contested maritime spaces in support of fleet operations. In crisis prevention and crisis response, the Fleet Marine Force – acting as an extension of the Fleet – will be first on the scene, and first to fight."

"There is no piece of equipment or major defense acquisition program that defines us…we are defined by our collective character as Marines and by fulfilling our Service roles and functions prescribed by Congress."

– Commandant's Planning Guidance

Chosin Reservoir

The Fighting Withdrawal

U.S. Marine Corps tank convoy of 1st Tank Battalion, 1st Marine Division, crossing mountains on the way to Chosin Reservoir from Hamhung, Korea, Nov. 19, 1950. (U.S. Marine Corps photo by TSgt J. W. Helms Jr.)

Weapons Company, in line with Headquarters and Service Company, 2d Battalion, 7th Marine Regiment, tries to contact temporarily cut off Fox Company in flanking engagement to permit 5th and 7th Marine Regiments to withdraw from Yudam-ni area, Korea, Nov. 27, 1950. (U.S. Marine Corps photo)

U.S. Marine Corps Maj. Gen. Oliver P. Smith with Lt. Col. Ray Murray, left, and Col. Lewis B. Puller, right, stand for a photo on Christmas day, Korea, Dec. 25, 1950. (Defense Department photo)

Historical Perspective

An independent kingdom for much of its long history, Korea was occupied by Japan beginning in 1905 following the Russo-Japanese War. Five years later, Japan formally annexed the entire peninsula. Following World War II, Korea was split with the northern half coming under Soviet-sponsored communist control. Three years after U.S. military authorities accepted the surrender of the Japanese south of the 38th Parallel there were two Korean governments in the land, each hostile to the other and each claiming jurisdiction over the whole country. Out of this arrangement came a conflict which developed into the Korean War, which was waged from 1950 to 1953.

China Enters the War

In late summer of 1950, China in the interest of national security decided to intervene in the war with the intent of placing the entire peninsula under communist rule. By late November 1950, U.S. Marines of the 7th Marine Regiment were heavily engaged in combat with the Chinese Communist Forces (also known as the Chinese People's Volunteer Army), whose numbers were greatly underestimated by U.S. leadership; U.S. forces faced a dozen Chinese divisions with up to four times the number of troops, attempting to encircle them in the Chosin area. With the aid of close air support from Marines and other U.S. forces, a fighting withdrawal from the area was ordered over the course of the 17-day battle.

> *"Retreat, hell!*
> *We're not retreating, we're just advancing in a different direction."*
>
> — Maj. Gen. Oliver P. Smith

Weather: The Persistent Enemy

During the first year of the war, the harsh North Korea winter climate proved to be most formidable. On the first night on the Kot'o-ri plateau, 10-11 November 1950, the temperature dropped 40 degrees to 8 degrees below zero and with a wind of 30 to 35 miles per hour. Over the next four days more than 200 men of the 7th Marine Regiment collapsed from severe cold and were placed in sick bays for medical treatment.

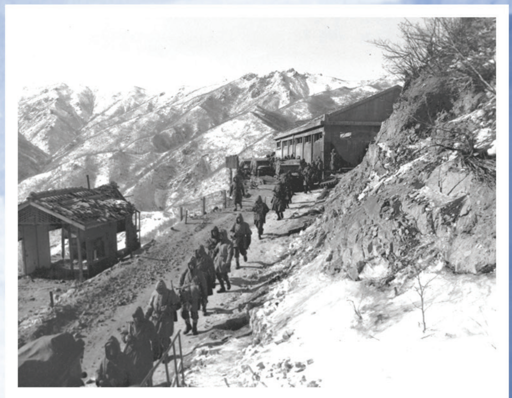
Tentative Truce – Longest Ceasefire

The convergence of the death of Soviet ruler Joseph Stalin and the election of U.S. President Dwight D. Eisenhower fueled the desire to find a way of ending the Korean conflict. While the armistice of 27 July 1953 ended the fighting in Korea, it had not truly ended the war. The armistice was just that: a temporary cease-fire, not a treaty of peace, as neither side had either the will or the means to compel the other to bow to its political agenda.

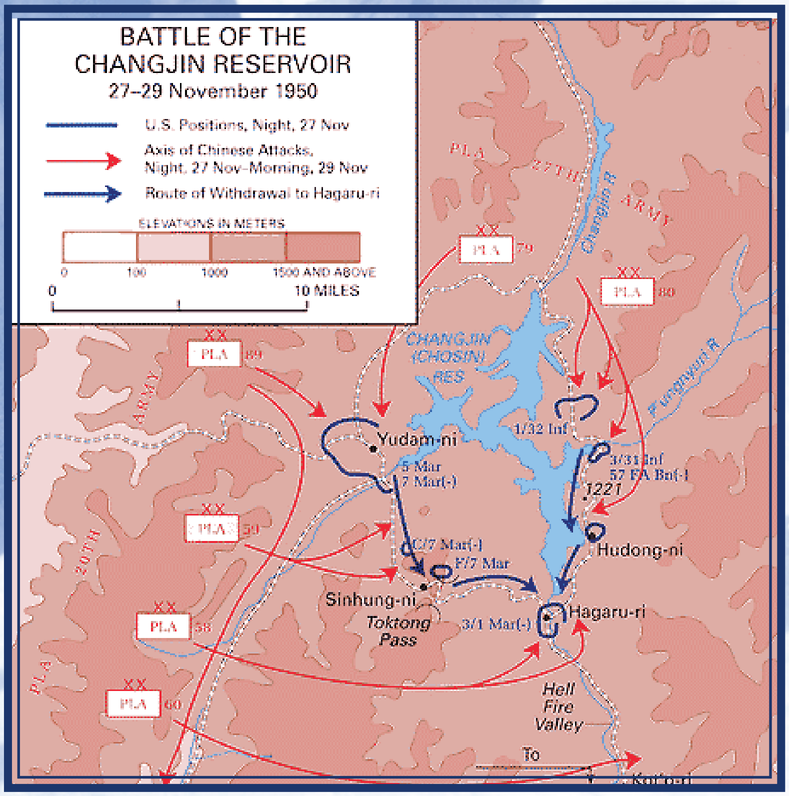
Sources:
- *CIA World Factbook*
- *The Korean War: Years of Stalemate*, July 1951-1953
- *South to the Naktong, North to the Yalu*

U.S. engineers evaluate a destroyed bridge over a gorge south of Koto-ri, Korea, created by the enemy in an effort to stop the withdrawing column. The gap had to be spanned if the vehicles and wounded were to be brought out from Koto-ri. (Defense Department photo)

Exhausted U.S. Marines take a rest in the freezing conditions on the long withdrawal from the Chosin Reservoir area, Korea, Dec. 8, 1950. (U.S. Marine Corps photo by Sgt F.C. Kerr)



U.S. Marines of 1st Marine Division move through a Chinese Communist road block south of Koto-ri, Korea, Dec. 10, 1950. The enemy had blown bridges at a concrete power plant over a mountain gorge to trap the withdrawing column. Engineers installed a bridge that had to be air-dropped at the site, which allowed the column to continue moving south toward the sea. This was the first-of-its-kind ad hoc heavy air delivery of a bridge for U.S. forces. (U.S. Marine Corps photo by Sgt W.R. Keating)



Limitation of Financial Statements

The principal financial statements are 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 GAAP and the formats prescribed by 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.

SECTION 2: FINANCIAL SECTION

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

November 8, 2019

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

SUBJECT: Transmittal of the Independent Auditor's Reports on the U.S. Marine Corps General Fund Financial Statements and Related Notes for FY 2019 and FY 2018 (Project No. D2019-D000FS-0093.000, Report No. DODIG-2020-015)

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, 2019, and 2018. 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 Marine Corps' financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). 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 Inspectors General on Integrity and Efficiency "Financial Audit Manual," June 2018. 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 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 Marine Corps General Fund FY 2019 and FY 2018 Financial Statements and related notes.

Kearney & Company's separate report, "Internal Control Over Financial Reporting," discusses nine material weaknesses related to the Marine Corps General Fund's internal controls over financial reporting.* Specifically, Kearney & Company's report describe the following significant matters:

- The Marine Corps did not demonstrate that its system of internal control was designed to achieve financial reporting objectives relevant to the preparation of financial statements that are free of material misstatement.

- The Marine Corps did not demonstrate the ability to provide timely business process documentation, complete transaction-level data populations, and sufficient and timely support for sampled transactions and followup requests.

- The Marine Corps did not design or implement accounting policies to ensure its transactions and balances were recognized in the general ledger or reporting systems in accordance with GAAP. The Marine Corps also had deficiencies with financial management and oversight, and did not 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 existence and completeness of capitalized Property, Plant, and Equipment reported in its financial statements. Its valuation was not in accordance with GAAP. Additionally, the Marine Corps inaccurately reported its real property additions and deletions, and reported its Operating Materials and Supplies ammunitions procurements as Military Equipment Construction in Progress.

- The Marine Corps could not support the existence or completeness of the ammunition reported in the local accountable property system of record. The Marine Corps was unable to provide a supportable, complete, and reconcilable listing of Operating Materials and Supplies balances. The Marine Corps lacked effective business processes, internal controls,

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* 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.

information systems, and reporting mechanisms to accurately value Operating Materials and Supplies inventory.

- The Marine Corps did not have effective processes and internal controls to ensure transactions affecting Fund Balance with Treasury were identified, properly recorded, and reconciled, and that differences were promptly resolved.

- The Marine Corps did not demonstrate the design and operating effectiveness of its internal control activities for payroll and non-payroll business processes.

- The Marine Corps had deficiencies in the design and operating effectiveness of internal controls related to its accounting system and key feeder systems to include internal control deficiencies related to security management, access controls and segregation of duties, configuration management, continuity planning, and system interface areas.

Kearney & Company's additional report, "Compliance with Laws, Regulations, Contracts, and Grant Agreements," discusses four instances of noncompliance with applicable laws and regulations. Specifically, Kearney & Company's report identifies instances where the Marine Corps did not comply with the requirements of the Federal Managers' Financial Integrity Act of 1982, the Federal Information Security Modernization Act of 2014, and the FFMIA. Additionally, the Marine Corps reported an Antideficiency Act violation.

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 Marine Corps General Fund FY 2019 and FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control over financial reporting, or conclusions on whether the Marine Corps' financial systems substantially complied with FFMIA 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 reports, dated November 8, 2019, and the conclusions expressed within the reports.

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

Lorin T. Venable

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

Attachments:
As stated

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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, 2019 and 2018, 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. The Marine Corps disclosed in Note 1, *Significant Accounting Policies*, instances where its current accounting and business practices represent departures from accounting principles generally accepted in the United States of America. 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.

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, 2019. As of September 30, 2019, the Marine Corps reported $11.2 billion of FBWT and $191 million of environmental liabilities on its balance sheet.

We were unable to obtain the support necessary to reconcile Inventory and Related Property, net, composed of operating materials and supplies (OM&S), quantities observed as of a point in time to opening balances and ending balances for the fiscal year (FY). 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, 2019, the Marine Corps reported $8.7 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) opening balances as of September 30, 2019 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, 2019, the Marine Corps reported $21.1 billion in net PP&E on its balance sheet.

We were unable to obtain sufficient appropriate evidential matter to support the existence and accuracy of Unobligated balance from prior-year budget authority, net. As of September 30, 2019, the Marine Corps reported $1.8 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, 2019. 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, 2019.

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, 2019, the Marine Corps reported $848 million in Accounts Payable on its balance sheet. As of September 30, 2019, the Marine Corps reported $27.9 billion in Gross Costs on its statement of net cost.

As disclosed in Note 1, the Marine Corps' financial statements for FY 2019 include amounts related to opening balance adjustments, which have been recorded as current-year activity.

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, 2019 and 2018, 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.

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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, 2019 and 2018, 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 2019 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, 2019, 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, Required Supplementary Information, and Required Supplementary Stewardship 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, which 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.

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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 8, 2019, 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, 2019. 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.

Kearney & Company

Alexandria, Virginia
November 8, 2019

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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, 2019, and the related notes to the financial statements, which collectively comprise Marine Corps' financial statements, and have issued our report thereon dated November 8, 2019. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

We 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.

Kearney & Company

Alexandria, Virginia
November 8, 2019

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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. Ability to Provide Complete, Timely, and Sufficient Evidence III. Financial Reporting and Analysis IV. Integrated Financial Management Systems
Property, Plant, and Equipment (PP&E)	V. Property, Plant, and Equipment
Inventory and Related Property	VI. Operating Materials and Supplies
Fund Balance with Treasury (FBWT)	VII. Fund Balance with Treasury Controls
Revenue and Accounts Receivable (AR) Expenses and Payables Budgetary Resources	VIII. Business Process Controls
Information Technology (IT)	IX. Information Systems

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

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.

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.

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 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 information technology (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 guidance does not clearly address the requirement to consider and document, as part of an initial risk assessment, the threats, vulnerabilities, likelihood, and impact to organizational operations and assets, individuals, other organizations, and the nation, as required by the National Institute of Standards and Technology (NIST).

The Marine Corps does not maintain complete information on external systems used to process Marine Corps data, such as appropriate points of contact (POC) for all key financial feeder systems. Additionally, 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, and 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 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 insufficient, in that they were not always designed to address prior-year causes of findings and the related recommendations. Further, more than 70 of the Marine Corps' CAPs included remediation dates scheduled to occur during fiscal year (FY) 2019; however, more than 50 of these deficiencies remained un-remediated in FY 2019.

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' MICP has not assessed its entity-level controls using a top-down approach; rather, the Marine Corps assessed the internal controls disparately implemented by individual commands. 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 clear guidance on the implementation of the risk assessment process in accordance with NIST Special Publication (SP) 800-30, Revision (Rev.) 1, *Guide for Conducting Risk Assessments*. Furthermore, the Marine Corps has not sufficiently considered whether the Marine Corps' 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 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, operations, reporting, and compliance objectives. Improper guidance on conducting risk assessments at the organization and mission/business process levels increases the risk that Marine Corps leadership does not 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:

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.

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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 POCs, 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.
   f. Review and update the comprehensive guide on a periodic basis (at least annually).
7. Complete the transition of all the Marine Corps' systems to the RMF propagated by NIST.
8. 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 NIST SP 800-30, including consideration of service organizations/external entities.
9. Implement security controls to address the risks identified by the risk assessments and in consideration of the Marine Corps' risk tolerance.
10. Perform timely assessments of all 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.
11. Consider ongoing review of the Marine Corps' control activities for addressing CUECs to reasonably assure ongoing relevance.
12. 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.
13. 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.
14. 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.
15. 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.

16. Update policies and procedures related to the management and oversight of the CAPs and remediation process.
17. Provide training and guidance to process owners/stakeholders regarding the requirements for developing effective CAPs.

II. Ability to Provide Complete, Timely, and Sufficient Evidence (*Repeat Condition*)

Deficiencies in three related areas define this material weakness:

A. Timeliness of business process documentation for financial management and IT business processes, including policies and procedures and other related documents
B. Transaction-level data populations supporting account balances and activities reported on the Marine Corps' financial statements and disclosures
C. Complete and timely support for sampled transactions and system users, as well as follow-up requests.

Background: Documentation (i.e., evidential matter) takes many forms, including policies and procedures, results from self-assessments, and support for transactions and business events that allow for examination by management and internal or external parties, including auditors. It is critical for entities to maintain documentation to support accounting transactions and the design and operating effectiveness of internal control over operations, reporting, and compliance.

A. Timeliness of Business Process Documentation

Condition: Based on the analysis of audit requests, the Marine Corps provided documentation, other information, or data after the established due date approximately 32% of the time, compared to over 44% of the time in the prior year.

Cause: The Marine Corps' business processes, associated internal controls, and dependencies on legacy information systems and service organizations contributed to its inabilities to timely and sufficiently support controls and recorded transactions. Additionally, some stakeholders were unfamiliar and/or unprepared to respond to documentation requests within the given timeframes. A decentralized environment and insufficient document retention methods or tools integrated into the business processes compounded the issue.

Effect: Without readily available documentation or evidence, 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: In addition to Recommendation #6 in Section I, *Entity-Level Controls*, Kearney recommends that the Marine Corps:

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. Reiterate requirements and provide training to personnel regarding documentation retention requirements.

B. Transaction-Level Data Populations Supporting Account Balances

Condition: Data populations were not provided, not available timely, or incomplete for multiple transaction classes, including:

- **Accounts Receivable (AR), Accounts Payable (AP), and Obligations Incurred** – The Marine Corps has not been able to readily produce reports of open AR and AP balances by customer or vendor, respectively. Further, the Marine Corps was unable to 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, 2019. 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; Marine Online; Standard Procurement System (SPS); and Standard Labor Data Collection and Distribution Application (SLDCADA).

Cause: In addition to the cause presented in Part A above, some systems did not have the capability to readily generate lists of system changes that tie back to change management tools.

Effect: The effect is presented in Part A above.

Recommendations: Kearney recommends that the Marine Corps:

1. Develop 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.
2. Implement processes, systems, and/or tools to identify its current universe of real property assets and related lease information.
3. Collaborate with service organizations to obtain all supporting documentation to support leases executed on behalf of the Marine Corps.
4. 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.
5. 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.
6. Implement a log management tool to reconcile changes to the production environment audit logs.
7. Document the process for reconciling changes, including procedures for handling changes that did not undergo the authorized change management process.

C. Complete and Timely Documentation Supporting Sampled Transactions

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. Supporting documentation was insufficient for more than 19% of the sampled transactions, down from 25% in the prior year. Further, the Marine Corps did not provide any support for 2% of the requested sample items. These conditions occurred across various areas, including:

- Military payroll obligations incurred and expenses
- Net unobligated balance from prior-year budget authority which relates to unpaid obligations brought forward and recoveries of unpaid prior-year obligations
- New Obligations and Upward Adjustments
- Property, Plant, and Equipment (PP&E)
- Global Combat Support System – Marine Corps (GCSS-MC) and SPS user authorizations.

Although the overall undeterminable rate of 21% is a culmination of the aforementioned areas, military payroll testing results attributed to the majority of this outcome, where 45% of the sampled transactions were provided up to 29 days after the requested due date and 4% of sampled transactions were not provided at all.

Overall, the Marine Corps provided sample documentation after the established due date approximately 22% of the time, down from 37% of the time in the prior year.

Cause: The cause is presented in Part A above.

Effect: The effect is presented in Part A above.

Recommendations: In addition to the recommendations in Section II.A, *Timeliness of Business Process Documentation*, Kearney recommends that the Marine Corps:

1. Disseminate the audit testing results to relevant stakeholders, program managers, and custodians to promote awareness of the impact that untimely, insufficient supporting documentation and ineffective management controls can have on accuracy and accountability.
2. Establish and implement policies for retaining PP&E asset records, which support recorded PP&E transactions to ensure compliance with GAAP.
3. Determine whether individual commands and Installation Personnel Administrative Center personnel require targeted training on the execution of key military payroll control activities and document retention. The Marine Corps should define and/or update standardized business processes and key control activities for military payroll, as needed.
4. Ensure that all access requests (including modifications) require documentation and approval and use the appropriate user authorization forms.
5. Maintain user authorization forms in a centralized location.

III. 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 IV, *Integrated Financial Management Systems*. Marine Corps commands' financial data are captured within SABRS from several feeder systems. 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 timely 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 a change in its reporting entity or the effects of remediation activities. The AFR did not include restated prior-year financial statements and did not contain necessary disclosures related to the Marine Corps' two Medicare-Eligible Retiree Health Care Fund (MERCHF) funds. For example, the Marine Corps' AFR did not include a statement that the comparative statements are inconsistent from the prior year or disclose that the MERCHF funds are permanent indefinite appropriations
- The Marine Corps incorrectly reported Deferred Maintenance and Repairs Cost Estimates in its financial statement note disclosure.

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Cause: The Marine Corps has not fully designed and implemented its process for the preparation, 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. The Marine Corps did not perform a comprehensive analysis of the risks related to financial reporting. Additionally, the Marine Corps:

- Has not sufficiently evaluated its business processes and related accounting policies to determine whether related accounting entries are recorded in accordance with GAAP and other administrative guidance
- Did not include all condition codes in its estimate for deferred maintenance costs for military equipment. In addition, the Marine Corps did not include multi-use Heritage Assets when it estimated deferred maintenance costs for real property assets. Lastly, the Marine Corps has not considered qualitative and quantitative information in its estimation of deferred maintenance costs for garrison equipment.

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 documentation hinders its ability to comply with FMFIA and other relevant laws and regulations.

Specifically, the AFR, including financial statements and related disclosures, does not 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:

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. Develop, implement, and document the processes and controls for the accumulation and review of data prior to the development of the AFR, to include documenting support for disclosures and other analytical information reported in the AFR and a formal AFR compliance review.
3. Strengthen 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 GL system's USSGL compliance, financial management analysis, service organization control activities and oversight, and the data provided to support financial reporting activities.

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The Marine Corps' GL system, SABRS, as currently implemented, is not fully compliant with USSGL. Specifically:

- SABRS does not accumulate or transmit complete and accurate attribute data to support financial reporting requirements
- Certain accounts are not consistently closed in SABRS and DDRS
- SABRS posting logic does not align with the USSGL account transactions within the TFM Supplement. For example, SABRS posting logic enables the Marine Corps to record new obligations using expired authority without the use of upward adjustment accounts.

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 either are not designed effectively or are not operating effectively. For example, the service organization did not perform sufficient 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 sufficiently determined the specific variance analysis requirements (e.g., expectations, variance thresholds, frequency of review, data sources, and financial statement elements to be assessed) to provide management value for its mission and objectives. Instead, the Marine Corps' variance analysis was performed at the financial statement line item level and explanations were only provided for line items with variances/fluctuations exceeding 10% 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 the variances.

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

- Perform an adequate review of feeder file crosswalk changes prior to the SABRS feeder file being transmitted to DDRS
- Document the review or provide sufficient documentation to support the operating effectiveness of DDRS-B and DDRS-AFS reconciliation reviews, balancing report reviews, or reconciliations of the Universe of Transactions (UoT) to UTB.

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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 re-calculate and monitor financial reporting data. Further, the Marine Corps' feeder systems do not currently capture or transmit required data attributes to SABRS and the SABRS Chart of Accounts and posting logic tables have not been configured to agree to the USSGL. In addition, the Marine Corps has not thoroughly assessed its financial reporting risks, nor sufficiently designed, implemented, and validated the operating effectiveness of its internal controls, including oversight of its service organizations.

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:

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. Refine the design, implementation, and documentation of internal control activities to monitor functions performed by service organizations to prevent or detect misstatements to its financial statements.
3. Define roles and responsibilities with the service organization through a service-level agreement that is routinely updated, maintained, and considered within the overall financial reporting control environment, to include compensating controls performed by the Marine Corps.
4. Develop a consistent process of reviewing the Marine Corps' financial reporting documentation accumulated by third-party service organizations in support of GL monitoring, financial reporting, and other financial management support services.

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Provide training to stakeholders on the financial statement compilation process to facilitate the detection and correction of misstatements in a timely manner.

5. Work with its service organizations to implement the recommendations provided below. Specifically, the Marine Corps should:
   a. Ensure that SABRS contains all attributes outlined in the TFM's USSGL Supplement, Section IV, *Account Attributes for USSGL Proprietary Account and Budgetary Account Reporting*.
   b. Reconcile all debit and credit pairings in SABRS posting logic tables for USSGL compliance. The Marine Corps should eliminate or deactivate line items that are no longer required or are not USSGL-compliant. The Marine Corps should also maintain evidence of supervisory review, approval, and adjudication of system changes, including testing.
   c. 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 related to estimated transportation and storage costs for personal property, second destination transportation costs, and its AP accrual estimate. Specifically:

- The Marine Corps records estimated obligations for the costs associated with shipping and storing members' personal property during Permanent Change of Station movements. However, estimated obligations are derived using legacy rates provided by a third-party service organization that do not align with the rates used to reimburse transportation service providers, requiring the Marine Corps to record estimated adjustments to its obligated balances. However, the Marine Corps did not provide data or other documentation to support the reliability of these estimates
- The Marine Corps records an estimated bulk obligation, based on historical liquidation data, to accrue for in-process second destination transportation (SDT) movements. These obligations are estimated because the Marine Corps has not received cost information from its trading partner. However, the Marine Corps did not provide data or other documentation to support the reliability of these estimates
- The Marine Corps has not substantiated the material accuracy of its updated methodology for calculating its AP accrual. The Marine Corps' analysis of its estimate indicated that its methodology does not ensure the AP accrual is fairly stated.

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:

- 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 accurate accrual
- The Marine Corps' methodology for calculating its AP accrual used unsupported data points.

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:

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 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 all SDT 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.

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

Deficiencies in three related areas define this material weakness:

A. SABRS interface controls
B. Feeder systems to SABRS reconciliations
C. Integration between Accountable Property System of Records (APSR) and SABRS.

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. Each interface partner holds an Interconnection Security Agreement and/or Memorandum of Agreement (MOA), which defines how every system is processed and reconciled, as well as how interconnections are used. The system MOAs define the edits, validations, error corrections, and communication methods for each interface. Several Department of Defense (DoD) components maintain systems that interface with SABRS for processing, updating data, and retrieving reports. SABRS receives much of its data from source system (i.e., feeder system) interfaces that supply the raw data that SABRS processes. In addition, SABRS interfaces with SMARTS to provide management with financial reports, dashboards, and ad hoc inquiries from SABRS data.

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 operating materials and supplies (OM&S), which the Marine Corps records upon acquisition into an APSR. Quarterly, the Marine Corps compiles asset data from each APSR to record a journal voucher (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.

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.

A. SABRS Interface Controls

Condition: The Marine Corps' interface process for SABRS is missing critical controls for interface receipt validation and routine error processing. In addition, the interface process does not adequately prevent or detect duplicate transactions from processing when submitted via input files. 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: The Marine Corps' practice is to rely on interface partners sending the input files to identify and resolve interface errors without coordinating with interface partners to verify resolution. The Marine Corps does not configure SABRS to identify or prevent the processing of duplicate transactions when source systems send incomplete or inaccurate records. Currently, management's error controls (e.g., errors for unmatched records) within SABRS do not prevent duplicate transactions. 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 and non-secure processing of transactions, which may result in the misstatement of financial balances.

Recommendations: Kearney recommends that the Marine Corps:

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.
3. Develop processes for addressing the following interface conditions and incorporate them into policies and procedures:
    a. Interface files that have not been received as expected.
    b. Resubmission and successful processing of failed batch input files.
    c. Tracking of errors for resolution.
    d. Enforcing the consistent use of a unique identifier (or a combination of unique identifiers) for interfaces. The Marine Corps should reject the interface if the unique identifier is not included.

B. Feeder Systems to SABRS 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, Marine Corps commands independently monitor their own transactions, including point-of-sale transactions recorded through system interfaces (e.g., ServMart and fuel transactions) and those with open and/or error statuses on monitoring reports. However, the monitoring reports are not utilized by individual commands consistently and commands do not consistently 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, SLDCDA, 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 and 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 by SABRS
- Transactions recorded in SABRS from feeder systems are properly supported by feeder systems and are 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:

1. Identify the military payroll and non-payroll SABRS feeder systems that are key to the Marine Corps' financial reporting objectives.
2. 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. Update its existing policy for monitoring all command transactions. The policy update should include the frequency of the control, the items to be monitored, the individuals responsible, and control documentation requirements. The policy should also include reconciliation of interfaced transactions to the approved purchase requests, as well as ensuring all valid transactions for the command interfaced appropriately.
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 APSR and SABRS

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 expenses from non-capital expenses within SABRS. Accordingly, there is no way to accurately differentiate capital expenditures and non-capital expenses in the UoT data
- Track and accumulate construction in process (CIP) expenditures for individual military equipment assets based on accumulated historical costs
- Record capital renovation and improvement projects valued less than $1 million funded using Operations and Maintenance (O&M) appropriations in SABRS and the real property APSR until the project is complete
- Provide a supportable, complete, and reconciled listing for OM&S ammunition, temporary storage project, and set assembly balances or supportable, reconciled transactional information (e.g., issues, receipts, losses, gains) to the on-hand quantities generated from OM&S APSRs. See further details in Section VI, *Accounting for Operating Materials and Supplies*
- Track accumulated software-in-development (SID) expenditures by individual internal use software (IUS) assets in accordance with GAAP-compliant reporting
- Separate routine maintenance from its military equipment capital improvement balance. Further, the Marine Corps does not capture, track, and maintain military equipment capital improvements in 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 O&M appropriations
- Provide supportable, complete, and reconciled listings for OM&S balances and transactional data
- Identify SID costs and track the accumulation of SID expenditures by individual IUS asset in the Defense Property Accountability System (DPAS)
- Distinguish routine maintenance expenses from costs captured as capital improvements for military equipment.

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 property balances may be misstated. Consequently, CIP and SID may be valued at incorrect amounts and, upon completion of the finished asset, the transfer of costs between CIP/SID and finished goods may be recorded incorrectly.

Because CIP costs funded with O&M appropriations are not recorded as capital expenditures, the Marine Corps' PP&E balance is understated and O&M expenses are overstated. In addition, these capital projects that have not been recorded will result in an understatement of the Marine Corps' real property asset balances as of September 30, 2019. The corresponding accumulated depreciation expense is also understated for completed projects that have not been capitalized.

Without a process to formally track and maintain military equipment capital improvements and to separately identify routine maintenance expense, the Marine Corps' expenses and property balances may be misstated. Consequently, maintenance expenses and capital improvements may be valued at incorrect amounts or may be incomplete.

Recommendations: Kearney recommends that the Marine Corps:

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 the Marine Corps 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 work in process (WIP), capital improvements, and SID.
c. Update SABRS posting logic for capital expenditures to comply with USSGL Treasury Guidance. SABRS business rules should be established for capital expenditures to be recorded 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 versus OM&S.
e. Establish and formalize quarterly reconciliation procedures between PP&E and OM&S APSRs and the activity recorded in SABRS.

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

Deficiencies in two related areas define this material weakness:

A. Existence and Completeness of PP&E
B. Valuation of PP&E.

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.

Statement of Federal Financial Accounting Standards (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 2019, 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.

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A. Existence and Completeness of PP&E

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 5% of the total assets tested for physical inspection, down from 13% 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 completeness of approximately 3% of the total assets tested, down from 4% in the prior year, which were selected while performing testwork at Marine Corps installations and bases (i.e., completeness of the Marine Corps assets).

Testing of the existence and completeness of the Marine Corps' current-year PP&E activity identified the following issues:

- The Marine Corps could not locate or did not provide sufficient appropriate evidence to support the existence of approximately 18% of the total assets tested for physical inspection or through alternative supporting documentation. 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 provide sufficient appropriate evidence to support the completeness of approximately 5% of the total assets tested, which were selected while performing testwork at Marine Corps installations and bases (i.e., completeness of the Marine Corps assets).

Cause: The Marine Corps' inventory management controls were not operating effectively. Inaccurate reporting of assets within APSRs, inadequate system capabilities, insufficient 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.

Additionally, non-capital assets were included in the garrison asset detail schedule due to a manual data entry error in the DPAS. Insufficient reviews during quarterly reporting did not detect the errors.

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. The Marine Corps could not provide sufficient appropriate evidence of the existence and completeness for approximately 3% of beginning balance and 21% of current-year tested assets, which may represent potential misstatements to the PP&E balance as of September 30, 2019. Additional information over the dollar impact of the PP&E testing results are presented below in the PP&E valuation discussion.

Recommendations: Kearney recommends the Marine Corps continue its efforts to strengthen 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:

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.

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

5. Subject all real property assets to inventory management control procedures in accordance with DoD Instructions (DoDI). However, the Marine Corps should increase the frequency of inventories performed.
6. Obtain guidance, in consultation with the Office of the Under Secretary of Defense (Comptroller) (OUSD[C]), for the implementation of significant accounting policy revisions, specifically modifications to property accountability and reporting requirements.
7. Produce formalized Real Property Accountable Officer (RPAO) inventory schedules on an annual basis and submit them to Marine Corps Installation Command (MCICOM). During quarterly data calls for financial reporting, the status of the annual inventory schedule should be provided to MCICOM to monitor the overall execution of the real property inventory.
8. 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 military equipment, Kearney recommends that the Marine Corps:

9. 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.
10. Perform an assessment of the complete general equipment portfolio included in the financial statements as of September 30, 2019 to verify that all general equipment assets are appropriately aligned to a Supply Officer and, thus, included in the quarterly inventory process.
11. Incorporate quarterly floor-to-book inventory requirements for capital assets into the inventory control plans for each Supply Officer.
12. 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.
13. 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 PP&E

Condition: The Marine Corps' PP&E valuation as of September 30, 2019 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, 2019, 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.

Additionally, the Marine Corps incorrectly reported ammunition procurements as military equipment CIP as of Quarter (Q) 3 FY 2019.

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. Further, the Marine Corps does not have a formal review process to differentiate current-year or prior-year activity or validate the proper timing of APSR updates based on approved beneficial occupancy or disposal dates.

The Marine Corps did not provide proper oversight of the application of Deflated Plant Replacement Value (D-PRV) in calculating its beginning balances under the guidance of SFFAS No. 50 as the cost to Government was inappropriately applied in the calculation of D-PRV rather than the PRV.

Consistent with the cause described in Section IV.C, *Integration between APSR and SABRS*, above, the Marine Corps does not have a process in place to accurately track the accumulation of CIP expenditures by individual military equipment asset in SABRS or an alternate system/method due to Marine Corps APSR limitations and finalization of compensating controls for CIP reporting by Marine Corps Systems Command.

Effect: The Marine Corps was unable to accurately and appropriately value its PP&E assets for FY 2019 and withheld its unreserved assertion for SFFAS No. 50. The Marine Corps' PP&E as of September 30, 2019 does not reflect historical cost as required by SFFAS No. 6, and the Marine Corps' opening balances for FY 2019 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 existence and completeness testwork, capital property misclassification errors, ownership errors, errors in the application of deemed cost, and lack of sufficient support for recorded transactions and balances. Collectively, these errors and unsupported items resulted in potential overstatements of $681 million, net of depreciation, as of interim reporting periods. Specifically:

- Overstatements of CIP of approximately $248 million due to the inclusion of OM&S ammunition procurements as military equipment CIP
- Overstatements of garrison property by $91.3 million, net of depreciation. The total amount of potential misstatement related to unsupported assets resulted in an overstatement of $8 million, net of depreciation
- Known errors for current-year additions at the project level resulted in an overstatement of real property gross costs by $61.7 million. Also, without fully supported Supervision, Inspection, and Overhead (SIOH), there is no assurance that the rate charged by Naval Facilities Engineering Command is correct
- Overstatements of $46.3 million for the Marine Corps' real property asset balances reported during FY 2019 due to prior-period adjustments for consolidations that have been recorded as capital improvements and capital improvements incorrectly recorded with fund codes other than those designated for O&M appropriations
- Overstatements of general equipment (military equipment) of approximately $10 million, net of depreciation, and of potential misstatement as a result of unsupported existence is $39 million, net of depreciation
- Known errors for current-year additions and deletions resulted in an overstatement of real property gross costs by $14.1 million and understatement of real property gross costs by $6.3 million, respectively
- Overstatements of $2.2 million for the Marine Corps' real property asset balances reported during FY 2019 due to O&M CIP dollars that were not properly recorded as capital expenditures and/or transferred to a completed asset
- The total amount of known real property existence exceptions was $1.27 million. The total amount of potential misstatement as a result of unsupported asset existence is $59.77 million

- Understatements of approximately $733 thousand, net of depreciation, across 11% of tested real property sample items. Two percent of sample items without sufficient evidence resulted in a potential overstatement of $8.9 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 strengthen 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:

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 sufficient oversight and review of the recalculation of D-PRV to ensure compliance with SFFAS No. 50 prior to the quarterly reporting.
5. Monitor the changes to the SIOH and revisit its understanding of and support for the calculated rate. The Marine Corps should work with the United States Navy (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, both military equipment and garrison property. Specifically, Kearney recommends that the Marine Corps:

6. 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.
7. 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.
8. Establish unique identifiers for CIP transactions by individual asset.
9. Continue to implement valuation methodologies consistent with the requirements set forth in SFFAS No. 50 and ensure that proper reviews are completed to validate the valuation data is accurate and properly recorded.
10. Create and execute the necessary training at all Marine Corps installations to increase the knowledge base and understanding of acceptable supporting documentation for substantiating changes to the financial records.
11. Perform quality assurance reviews over quarterly populations, inventory management results, and rollforward analyses in a timely manner to ensure assets are reported in the quarter received, removed in the quarter disposed, and/or tracked as prior period adjustments.

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VI. Operating Materials and Supplies (OM&S) (*Repeat Condition*)

Deficiencies in three related areas define this material weakness:

A. Ammunition Existence and Completeness
B. Populations and Transactional Data
C. Valuation for OM&S.

Background: In FY 2018, the Marine Corps reported approximately $12.2 billion in Inventory and Related Property on its balance sheet. This balance consists of OM&S, with the primary sub-assessable units being ammunition, reparables, consumables, temporary storage projects, and set assembly items. The Marine Corps faces logistical and financial reporting challenges for OM&S, resulting from global operations and mission requirements.

FASAB'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. Prior to FY 2019, 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 2019, the 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. Ammunition Existence and Completeness

Condition: The Marine Corps and its third-party service organizations use several APSRs to manage the accountability of ammunition across the various storage activity types. Additionally, the Marine Corps uses Ordnance Information System – Marine Corps (OIS-MC) as its Total Item Property Record (TIPR). OIS-MC processes requisitions, issues, redistributions, and asset and procurement data, as well as provides the capability to plan, procure, position, and distribute ammunition, encompassing the pre- and post-production ammunition lifecycle.

The Marine Corps was unable to reconcile transactional level detail to the revalued OM&S ammunition balance as of Q2 FY 2019, nor provide transactional level data for Q3 FY 2019 financial reporting. Further, the Marine Corps has been unable to reconcile its TIPR (OIS-MC) to its Marine Corps' custodians and third-party service organization's APSRs.

The Marine Corps could not support the existence of the ammunition reported in the local APSR and/or TIPR as of March 31, 2019. Specifically:

- On-hand quantities recorded in the APSR, and confirmed through physical observation, could not be reconciled to quantities reported in the TIPR for 70 of 296 existence samples
- The inventory counts reported in the APSR and/or TIPR did not agree to physical counts of ammunition, were not available for inspection, or were unable to be tested through alternative testing procedures for 15 of 296 existence samples.

The Marine Corps could not support the completeness of the ammunition reported in the local APSR and/or TIPR as of March 31, 2019. Data transactions did not properly process from the APSRs to the TIPR, nor were the variances identified and adjusted in a timely manner, for 44 of 335 completeness samples.

The Marine Corps was unable to support the existence and completeness of the ammunition reported in the local APSR and/or TIPR as of March 31, 2019. Specifically:

- Existence and completeness could not be substantiated through physical observation due to storage conditions (e.g., located in a banded pallet) for 13 of 631 combined samples
- The Marine Corps was not able to provide timely or sufficient documentation to support the existence and completeness of 36 of 631 combined samples.

Additionally, as of Q2 FY 2019, the Marine Corps reported $58 million of ammunition at manufacturer locations. The Marine Corps noted that these items should have not been reported within its population as held for use ammunition.

Cause: The Marine Corps has not designed, completed, or implemented recurring business processes with an effective system of internal control to properly account for ammunition recorded in the 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 properly designed interfaces and interface reconciliations, as well as consistent, suitable data elements to support recurring APSR to TIPR reconciliations.

Current system configurations limit the ability to produce transactional level detail as part of financial reporting and reconciliation efforts between the APSRs and TIPR. Specifically, systematic/processing errors between the APSRs and the TIPR exist. While upgrade efforts to provide the capability to reconcile transactional level detail to quarterly reported ammunition activity are ongoing, delays in the implementation and validation of system patches occurred in FY 2019 and the Marine Corps has not addressed the effects of the processing errors which occurred prior to identification of the interface issues.

Additional existence and completeness exceptions were caused by:

- Incorrect receipt of ammunition into another military service's ownership account, rather than the Marine Corps' ownership account, in the APSR

- A third-party service organization did not properly update its APSR for condition code changes
- Disconnects between a third-party service organization and the Marine Corps as to whether the item should be cataloged and, therefore, reported as Marine Corps ammunition
- Incorrect reporting of ammunition items held at a manufacturer site in OIS-MC prior to the physical receipt and acceptance at a third-party service organization's location.

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

- Inconsistent/missing attributes on sampled ammunition and/or accessibility to observe the complete sample based on storage requirements (e.g., commingled lots within the same banded pallet[s])
- Insufficient documentation to support that ammunition's existence or completeness as of the date of the site visit testing conducted over the sample counts.

Effect: Without complete, effective business processes, properly designed systems, and associated internal controls in place at the Marine Corps' remote storage activities for physical inventory of assets, as well as the Marine Corps' accountable property held by third-party service organizations, the Marine Corps TIPR is not accurate and cannot be relied upon for financial reporting purposes. As such, management cannot assert to the material accuracy and completeness over the ammunition portion of the Inventory and Related Property, net line item in accordance with GAAP.

Existence and completeness testing identified potential quantity overstatements of up to 484 thousand and 56 thousand items, respectively. Conversely, existence and completeness testing identified potential quantity understatements of up to 96 thousand and 807 thousand items, respectively. Thus, additional misstatements to the ammunition balance as of September 30, 2019 may exist.

Recommendation: Kearney recommends that the Marine Corps:

1. Perform a comprehensive risk analysis over OIS-MC to determine the potential errors that could occur related to the financial reporting of ammunition. The Marine Corps should determine where the breakdowns occur within the process and develop internal controls to prevent such errors from occurring.
2. Finalize upgrade efforts to OIS-MC and test the capability to retrieve ammunition lot data from field-level ammunition APSRs, resulting in transactional details for ammunition production receipts and issuance expenditures.
3. Continue OIS-MC upgrade validation testing to ensure OIS-MC is properly interfacing with third-party service organization's APSRs.
4. Continue remediation efforts designed and/or in process, as outlined in the Marine Corps' CAP, to formalize APSR to TIPR reconciliation procedures of ammunition held by custodians and third-party service organizations. Quarterly transactional activity should

be reconciled to quarterly OM&S inventory quantities by a unique identifier. The quarterly reconciliation should be certified with a signature of appropriate personnel to indicate review and approval.

5. Perform an assessment of ammunition held by third-party service organizations. For third-party service organizations which are deemed to be holding qualitatively or quantitatively significant Marine Corps ammunition (e.g., quantity, value, type), 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. Until which time third-party service organizations can positively assert to an effective system of internal control over inventory, Program Manager, Ammunition (PM Ammo) should not rely on its third-party service organization's inventory management.
6. Perform an assessment of available supporting documentation and adjust, to the extent appropriate, the TIPR for known existence and completeness exceptions.
7. Disseminate the ammunition existence and completeness audit testing results to all ammunition custodians and/or third-party service organizations to promote awareness of the impact that effective inventory management controls and reconciliation procedures have on ammunition accountability and financial statement reporting.
8. Perform monitoring procedures on a quarterly basis through Installations and Logistics (I&L) Internal Controls and Audit Readiness Team (ICART) to assess the accuracy and completeness of quarterly inventory procedures over ammunition.
9. Verify that all ammunition items have accurate, complete physical markings and are in compliance with storage requirements while conducting inventory procedures.

B. Populations and Transactional Data

Condition: The Marine Corps was unable to provide a supportable, complete, and reconciled listing for OM&S balances or supportable, reconciled transactional information (e.g., issues, receipts, losses, gains) to the on-hand quantities generated from APSRs for temporary storage projects and set assembly items, demonstrated by a baseline wall-to-wall inventory. The Marine Corps reported that $1.2 billion (net) of temporary storage projects ($301 million) and set assembly items ($894 million) composed 14% of the Marine Corps' revalued FY 2019 OM&S opening balance.

The Marine Corps' reconciliation process of its APSR (i.e., GCSS-MC) to its third-party service organization's APSR for temporary storage projects is not complete and data accuracy and improvement efforts remain ongoing. Additionally, a baseline wall-to-wall inventory for temporary storage projects has not been completed, nor validated by the Marine Corps in FY 2019.

The Marine Corps procures ammunition that requires assembly by contractors or vendors that may result 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. Additionally, the Marine Corps incorrectly included OM&S ammunition procurements as part of the military equipment CIP balance. The

Marine Corps' review of the misclassified activity to determine if it should be reported as OM&S Ammunition in Development or Held for Use is under assessment.

Cause: The Marine Corps' inability to provide a supportable, complete, and reconciled listing for OM&S temporary storage project and set assembly balances or transactional data was due to data inaccuracies from legacy systems from the cut-over to GCSS-MC. While the Marine Corps has noted an ability to reconcile its data with minimal variances, ongoing efforts related to inventory management and causative research, including data clean-up and the accuracy of the GCSS-MC APSR, remain in process during FY 2019.

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 recurring APSR to TIPR reconciliations. For assets held by third-party service organizations, formalized agreements (i.e., MOA) 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. Additionally, rather than performing its own wall-to-wall inventory, the Marine Corps is relying on third-party service organizations to perform an inventory and provide results to its customers.

The Marine Corps does not have or has not implemented a systemic solution to collectively track ammunition in development costs as incurred. The current business rules consider only ammunition in development within one appropriation; ammunition in development under other program managers and/or appropriations was not tracked or reported under the business rules. Further, the controls associated with management reviews did not properly identify the misaligned OM&S in development in its military equipment CIP balance.

Effect: As a result of the Marine Corps' inability to provide supportable, complete, and reconciled quarterly data for OM&S temporary storage projects and set assembly items held by the Marine Corps or by a third-party service organizations, along with its ongoing inventory and data clean-up efforts, 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 over these sub-assessable units 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.

The Marine Corps is not completely and properly reporting full purchase and production costs associated with ammunition in an asset account. Additionally, the OM&S ammunition procurements reported as military equipment CIP in Q3 FY 2019 resulted in an understatement of $248 million in the Inventory and Related Property, net line item and an overstatement in the Property, Plant, and Equipment, net line item.

Recommendations: Kearney recommends that the Marine Corps:

1. Continue audit remediation efforts to establish a complete and recurring effective inventory control program. The Marine Corps should consider a higher frequency of inventory procedures at remote storage activities (e.g., monthly and quarterly inventory procedures) than what is required under governing directives until which time the inventory results achieve a sufficient inventory accuracy rate.
2. Continue the quarterly on-site assessments of audit readiness at the Marine Corps' remote storage activities performed by the Marine Corps' I&L ICART. Detailed assessments and reporting should be provided for the status of the Marine Corps' remote storage activities remediation efforts based on certified CAPs.
3. Continue efforts to verify the accuracy of the data imported into GCSS-MC and over the OM&S activity that continues to occur in real-time. The data cleansing remediation efforts should validate that all required and critical data fields have been accommodated by the transition to GCSS-MC and should be tested appropriately.
4. Formalize quarterly reconciliation procedures of temporary storage projects and set assembly issues, receipts, losses, and gains. Quarterly transactional activity should be reconciled to quarterly asset quantities by National Stock Number (NSN) and serial number. The quarterly reconciliation should be certified with a signature to indicate the completion.
5. Formalize reconciliation procedures of OM&S held by third-party service organizations.
6. Update APSRs to properly reflect the results of any variances noted during the periodic inventory reconciliations provided by third-party custodians, as appropriate.
7. Ensure that MOAs 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.
8. Continue its current efforts to work with OUSD(C) as formalized DoD policy and guidance is developed for reporting ammunition in development.
9. Expand its business rules to appropriately track, analyze, and report ammunition in development for all applicable program managers and appropriations and integrate activity into the APSR and/or SABRS versus external databases.
10. Identify and report all purchase and production costs associated with ammunition during production to properly value the Inventory and Related Property, net line item on the balance sheet.
11. Establish a process by which the Marine Corps can analyze and identify capital CIP and Ammunition in Development costs recorded as expenses in SABRS, including a process to properly classify activity into their respective GL account for accurate financial reporting.
12. Design and implement a control activity to search for unrecorded ammunition in development that may have been misclassified as an expense.

C. Valuation for OM&S

Condition: The Marine Corps' opening balance and current-year valuation of OM&S inventory as of September 30, 2019 is 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.

Cause: The Marine Corps lacks effective business processes, internal controls, information systems, and reporting mechanisms in place to accurately value OM&S inventory. The Marine Corps defined its valuation approach within the updated Marine Corps Bulletin (MCBUL) 4440, *Reporting of OM&S and Government Furnished Material (GFM)*; however, it was not published as an approved policy during FY 2019. The Marine Corps' implementation of SFFAS No. 48 over opening balances is further hindered by the combination of:

- Lack of detailed analysis to support its accounting methods (i.e., consumption vs. purchases methods) and presentation of each supply class on the financial statements
- Ineffective inventory management controls, to include reconciliations performed over third-party service organizations that are in the custody of Marine Corps-owned inventory
- Information systems that cannot produce transaction-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.

Effect: The updates to the Marine Corps valuation methodologies, along with other clean-up efforts over OM&S sub-assessable unit populations, resulted in the Marine Corps revaluing its net OM&S inventory opening balance at Q2 FY 2019 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 business processes, internal controls, information systems, and reporting mechanisms in place to accurately value OM&S, Marine Corps management cannot assert to the material accuracy of OM&S on the balance sheet in accordance with GAAP as of September 30, 2019.

Underlying issues have prevented the Marine Corps' transition to OM&S inventory valuation under SFFAS No. 3 and are necessary to accurately capture the Marine Corps' OM&S inventory portfolio. The Marine Corps will be unable to make an unreserved assertion until the systems are 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:

1. 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. 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 or revise 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.

VII. 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 due to timing differences, clerical errors, and unreported transactions. In addition, when transactions cannot be identified to a specific appropriation or reporting entity at the end of a reporting period, these transactions are reported in the disbursing office's associated suspense account for research and resolution.

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 fully implemented internal control activities to ensure that all transactions affecting FBWT are identified and recognized in its financial statements. Specifically, the Marine Corps has not assessed other agencies' suspense accounts or SODs related to disbursing offices that process its transactions to demonstrate that material amounts of Marine Corps transactions have not been incorrectly excluded from its financial statements.

In addition, the Marine Corps does not have effective processes and internal controls to ensure transactions affecting FBWT are identified, properly recorded, reconciled, and 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.

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 yet formalized its processes for monitoring SODs and suspense activity on an ongoing basis. 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, consistent with Section II, *Ability to Provide Complete, Timely, and Sufficient Evidence*, the Marine Corps has not implemented effective documentation archival and retrieval processes to respond to requests in a timely manner.

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

- The Marine Corps is unable to determine if SODs for Marine Corps and non-Marine Corps disbursing offices and balances or portions of balances within other agencies' suspense accounts represent unrecorded transactions in the Marine Corps' accounting records. Amounts within DoD suspense accounts had an absolute value of approximately $952 million as of March 31, 2019 and SODs related to disbursing offices that regularly

process Marine Corps collections and disbursements were approximately $1.1 billion as of March 31, 2019
- As of September 30, 2019, approximately $35 million of net disbursements remained unresolved in SABRS
- 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:

1. Continue to perform comprehensive risk assessments of cross-disbursements to identify disbursing offices that have a higher risk of including Marine Corps transactions in SODs or suspense accounts and work towards timely resolution.
2. Perform root cause analysis to determine why SODs exist and why Marine Corps transactions are recorded in suspense accounts. In addition, the Marine Corps should perform corrective actions to prevent or reduce amounts within SODs and suspense accounts at the end of reporting periods.
3. Design and implement monitoring controls to determine whether amounts included in net disbursement JVs recorded in shared appropriations pertain to the Marine Corps and are properly recorded.
4. 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.
5. Improve its document archival and retrieval system to respond to requests in a timely manner.

VIII. 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, segregation of duties for entitlement certification, revenue recognition, receipt and acceptance, recording of expenses,

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accounting for refunds and returns, budgetary accounting, and timely and accurate recording of transportation transactions, including support for estimates.

With respect to military payroll, the Marine Corps maintains certain key supporting documentation for dependency-based entitlements in each Marine's Official Marine Personnel File (OMPF). In the event of missing documentation, however, certain Marine Corps officials have the ability to generate and process new documentation using readily available information and add it into the Marine's OMPF without review of the underlying evidence of the entitlement. In addition, current Marine Corps policy does not require proper segregation of duties over the certification process for this entitlement documentation for Officers. Officers can attest to their own dependents without presenting source documents.

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

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
- Recognition of revenues from certain programs.

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 sufficiently 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 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.

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 improperly obligates amounts for certain bonuses in advance of Marines completing related 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 recorded administrative reclassifications of obligations as recoveries of unpaid prior-year obligations and new obligations incurred, even though no such accounting events have occurred
- 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 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 sufficiently supported recording of obligations, expenses, and outlays. Related to these processes, the Marine Corps did not provide sufficient 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, the 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 MOUs 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 $1.3 billion of open orders as of October 1, 2018.

By inconsistently and inaccurately recording obligations for personal property shipment and storage costs and second destination freight costs or support the validity of open orders, the Marine Corps lacks assurance that its budgetary resources and obligated balances are sufficient to cover future outlays. Through Q2 FY 2019, the Marine Corps recorded $109 million in obligations related to personal property shipment and storage costs and was billed approximately $31 million for certain second destination freight shipment costs.

By recording certain bonus obligations when a Marine signs his/her re-enlistment contract, and not when payable, increases the risk that the Marine Corps' obligations are overstated. As of Q2 FY 2019, the Marine Corps recorded approximately $78 million of new obligations of these bonuses.

Further, approximately $283 million of the Marine Corps' recoveries of unpaid prior-year obligations recorded through Q2 FY 2019 were not true recoveries.

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 inventory WIP. The LGTE JVs for September 30, 2019 and 2018 totaled approximately $312 million and $373 million, respectively.

Because the Marine Corps does not record a LGTE JV for intragovernmental liquidations, a $1.43 billion abnormal AP balance existed in SABRS as of Q3 FY 2019. This abnormal balance was partially offset in Q3 when the Marine Corps' service organization recorded a $1.02 billion unsupported reclassification adjustment to agree the Marine Corps' intragovernmental AP with AR balances reported by its trading partners. The Marine Corps' Q3 financial statements included an approximately $100 million abnormal AP balance after LGTE JVs and other adjustments were recorded. The Marine Corps may be unable to support the validity of its recorded outlays without obtaining receipt and acceptance documentation.

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:

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:

4. Assign agreement managers responsibility for administering authorized support agreements and develop a mechanism to help ensure agreement managers are involved with the acceptance of reimbursable work orders.
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. Conduct a complete review of all aged open orders and de-obligate all orders that no longer are valid and will not require future payment.
8. Ensure that, for all non-payroll business processes, expenses are recorded in the proper period as they are incurred, 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 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. Implement 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 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.

IX. Information Systems (*Repeat Condition*)

Background: The Marine Corps operates in a complex information system environment to execute its mission and record transactions timely and accurately. In addition to its core accounting system, SABRS, the Marine Corps' information system environment consists of several Tier 1, Tier 2, Tier 3, and third-party systems that impact the Marine Corps' business processes and financial statements. The Marine Corps defines Tier 1 systems as systems that interface (i.e., feed) into SABRS. Tier 2 systems are those that feed Tier 1 systems, and Tier 3 systems feed the Tier 2 systems. Third-party systems are systems that organizations other than the Marine Corps own and operate but still affect the agency's business processes and financial statements.

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 actions and milestones

- Undocumented, incomplete, and/or not fully implemented policies and procedures for incident response for key financial management systems
- Untimely periodic review and update of cybersecurity policies and procedures
- Undocumented policies and procedures for continuous monitoring of security controls

- 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
  - Incomplete and/or unimplemented controls to prevent processing of duplicate interface files for the core financial management system.

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*, Section II, *Ability to Provide Complete, Timely, and Sufficient Evidence*, and Section IV, *Integrated Financial Management Systems*, Kearney recommends that the Marine Corps:

1. Continue to transition all Marine Corps' systems to 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.

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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) 2018 financial statements, we noted several issues that were related to internal control over financial reporting. The status of the FY 2018 internal control findings is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2018 Status	FY 2019 Status
Entity-Level Controls	Material Weakness	Material Weakness
Ability to Provide Complete, Timely, and Sufficient Evidence	Material Weakness	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

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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, 2019, and the related notes to the financial statements, which collectively comprise the Marine Corps' financial statements, and have issued our report thereon dated November 8, 2019. 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.

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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.

Kearney & Company

Alexandria, Virginia
November 8, 2019

KEARNEY&
COMPANY

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, consistently communicated internal control directives for common business processes, or finalized monitoring procedures to ensure internal controls remain effective over time
- The Marine Corps has not fully implemented the Risk Management Framework for all Marine Corps systems. The Marine Corps has not fully implemented comprehensive risk management for the information technology (IT) control environment. Specifically, the Marine Corps' guidance does not clearly address the requirement to consider and document, as part of an initial risk assessment, the threats, vulnerabilities, likelihood, and impact to organizational operations and assets, individuals, other organizations, and the nation, as required by the National Institute of Standards and Technology (NIST)
- 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, 2019, over 20 corrective action plans (CAP) did not contain documented approval by the appropriate Senior Accountable Official and over 40 CAPs did not sufficiently address the causes and/or recommendations outlined in the prior-year findings.

KEARNEY& COMPANY

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. 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 IX, *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 IX, *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 systems 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 IX, *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 in Note 1, *Significant Accounting Policies*, 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 III, *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:
  - Accumulate or transmit complete and accurate attribute data to support financial reporting requirements. For example, the Marine Corps did 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 and new obligations are recorded using expired authority without the use of upward adjustment accounts
  - Consistently close certain accounts in 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 IV.D, *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 reapportionment 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.

During fiscal year 2019, the Marine Corps notified the President, Congress, and GAO of an event that resulted in one violation of 31 U.S.C. § 1301(a) as to purpose and one violation of 31 U.S.C. § 1341 as to funds availability. The reported violation involved the use of procurement funds to partially construct a facility under the $750 thousand military construction threshold. Procurement funds were not available for this purpose; rather, the Marine Corps should have funded the construction of the facility using the Marine Corps' operations and maintenance funds.

Additionally, Marine Corps management has identified eight potential violations of the ADA, which are in various stages of the investigation process. These potential violations primarily consist of similar purpose issues as reported above.

* * * * *

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

IN REPLY REFER TO:
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NOV 0 8 2019

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 2019 (CONTRACT NO. GS-00F-031DA/HQ0423-16F-0114)

The Marine Corps concurs with Kearney and Company's Independent Auditor Reports on the Marine Corps Financial Statements for Fiscal Year 2019, on Internal Control over Financial Reporting, and on Compliance with Laws, Regulations, Contracts and Grant Agreements.

The Marine Corps acknowledges the material weaknesses and findings identified in the auditor's report and their impact on financial reporting. The auditor's reports provide insight and detailed recommendations for improvement. As we continue to fix our challenge areas, I want to thank your audit team for their continued hard work and cooperation with our Marine Corps team and our Department of Defense partners.

Thank you for helping us to improve our accountability for funding appropriated to us by the Congress and benefitting our most important resource, Marines.

Sincerely,

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

Copy to:
ASN (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.

United States Marine Corps

CONSOLIDATED BALANCE SHEETS

As of September 30, 2019 and 2018
(Amounts in thousands)

	Unaudited 2019	Unaudited 2018
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 11,150,277	$ 10,523,730
Accounts Receivable (Note 5)	13,681	38,769
Total Intragovernmental Assets	11,163,958	10,562,499
Cash and Other Monetary Assets (Note 4)	5,741	6,220
Accounts Receivable, Net (Note 5)	11,152	12,866
Inventory and Related Property, Net (Note 6)	8,701,876	12,163,916
General Property, Plant, and Equipment, Net (Note 7)	21,116,672	20,529,100
Other Assets (Note 8)	58,710	51,481
TOTAL ASSETS	$ 41,058,109	$ 43,326,082
STEWARDSHIP PROPERTY, PLANT, AND EQUIPMENT (Note 7)		
LIABILITIES (Note 9)		
Intragovernmental:		
Accounts Payable	$ 269,446	$ 198,522
Other Liabilities (Note 12 and 13)	60,148	230,162
Total Intragovernmental Liabilities	329,594	428,684
Accounts Payable	578,058	706,584
Military Retirement and Other Federal Employment Benefits (Note 10)	194,370	194,654
Environmental and Disposal Liabilities (Note 11)	190,930	234,001
Other Liabilities (Note 12 and Note 13)	1,558,999	1,493,173
TOTAL LIABILITIES	2,851,951	3,057,096
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
NET POSITION		
Unexpended Appropriations - Other Funds	9,449,488	8,490,929
Cumulative Results of Operations - Dedicated Collections (Note 14)	1,293	1,270
Cumulative Results of Operations - Other Funds	28,755,377	31,776,787
TOTAL NET POSITION	38,206,158	40,268,986
TOTAL LIABILITIES AND NET POSITION	$ 41,058,109	$ 43,326,082

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, 2019 and 2018
(Amounts in thousands)

	Unaudited 2019	Unaudited 2018
Program Costs		
Gross Costs	$ 27,904,565	$ 25,624,625
(Less: Earned Revenue)	(295,120)	(325,717)
Net Cost of Operations	$ 27,609,445	$ 25,298,908

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, 2019 and 2018
(Amounts in thousands)

	Unaudited 2019	Unaudited 2018
UNEXPENDED APPROPRIATIONS		
Beginning Balances	$ 8,490,929	$ 8,292,587
Budgetary Financing Sources:		
Appropriations received	27,779,162	25,516,292
Appropriations transferred-in/out	311,612	(76,741)
Other adjustments (+/-)	(416,282)	(534,262)
Appropriations used	(26,715,933)	(24,706,947)
Total Budgetary Financing Sources	958,559	198,342
Total Unexpended Appropriations (Includes Funds from Dedicated Collections - See Note 14)	9,449,488	8,490,929
CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances (Includes Funds from Dedicated Collections of $1,270 in FY2019 and $1,212 in FY2018 – See Note 14)	31,778,057	26,723,269
Budgetary Financing Sources:		
Other Adjustments (+/-)	(10,361)	(9,935)
Appropriations used	26,715,933	24,706,947
Non-exchange revenue	–	105
Transfers-in/out without reimbursement	–	(5)
Other Financing Sources (Non-exchange):		
Transfers-in/out without reimbursement (+/-)	267,910	381,564
Imputed financing from costs absorbed by others	103,512	92,704
Other (+/-)	(2,488,936)	5,182,316
Total Financing Sources (Includes Funds from Dedicated Collections of $0 in FY2019 and $105 in FY2018 – See Note 14)	24,588,058	30,353,696
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of ($23) in FY2019 and $47 in FY2018 – See Note 14)	27,609,445	25,298,908
Net Change	(3,021,387)	5,054,788
Cumulative Results of Operations (Includes Funds from Dedicated Collections of $1,293 in FY2019 and $1,270 in FY2018 – See Note 14)	28,756,670	31,778,057
Net Position	$ 38,206,158	$ 40,268,986

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, 2019 and 2018
(Amounts in thousands)

	Unaudited 2019	Unaudited 2018
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 1,785,080	$ 2,187,853
Appropriations (discretionary and mandatory)	28,217,438	25,522,164
Spending Authority from offsetting collections (discretionary and mandatory)	318,133	318,005
Total Budgetary Resources	$ 30,320,651	$ 28,028,022
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 28,749,500	$ 26,520,740
Unobligated balance, end of year:		
Apportioned, unexpired accounts	944,500	618,695
Unapportioned, unexpired accounts	–	12,150
Unexpired unobligated balance, end of year	944,500	630,845
Expired unobligated balance, end of year	626,651	876,437
Unobligated balance, end of year (total)	1,571,151	1,507,282
Total Budgetary Resources	$ 30,320,651	$ 28,028,022
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	$ 27,038,486	$ 23,800,225
Distributed offsetting receipts (-)	2,650	(3,280)
Agency Outlays, net (discretionary and mandatory)	$ 27,041,136	$ 23,796,945

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 described in Note 1.D., *Basis of Accounting*. 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 is required to produce stand alone financial statements. However, as a component reporting entity of the DoN, the USMC's financial data also gets 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 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, the maintenance and repair for which are performed by the DoN's Naval Air Systems Command (NAVAIR); healthcare services are provided to 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 goods and services.

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. Additional information is provided in 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; procurement; Medicare Eligible Retiree Health Fund Contribution (MERHFC), and research, development, test, and evaluation (RDT&E). These General Fund appropriations may be non-shared (i.e., USMC only) appropriations or shared appropriations (i.e., shared with the DoN). The USMC is reporting MERHFC in its financial statements in fiscal year (FY) 2019, whereas it was included in the DoN financial statements in prior years. 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 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, unless otherwise indicated below as departures from U.S. GAAP. 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, obligations for transportation of things, and obligations for transportation of people.

Departures from U.S. GAAP. Financial management systems and operations continue to be refined as the USMC strives to record and report its financial activity in accordance with U.S. GAAP. Currently, the USMC has identified the following departures from GAAP, a number of which are pervasive problems within DoD that all military services face and cannot be remediated at the USMC level.

Operating Materiel and Supplies. The USMC's accountable property systems of record (APSRs) are not currently configured to support Operating Materiel and Supplies (OM&S) operations in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*. This condition applies to all relevant OM&S subsets and business processes, to include ammunition and non-ammunition. Specifically, the USMC does not (1) consistently apply the consumption method to its accounting of OM&S; and (2) fully implement valuation processes that comply with SFFAS No. 3. In addition to APSR concerns, the USMC needs to: (1) identify and properly record excess, obsolete, and unserviceable (EOU) OM&S; (2) conduct extensive wall-to-wall inventory counts of its OM&S; and (3) rectify existing reconciliation issues between the USMC and the U.S. Department of the Army (U.S. Army) to account for the USMC ammunition currently in the U.S. Army's custody. OM&S beginning balances have not been established because the USMC's management has not yet made its unreserved assertion in accordance with SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.

Materiel Returns Program. The Materiel Returns Program (MRP) enables the USMC to receive credit for excess and obsolete returns made to the DLA. Public law provides for the expedient availability of MRP funds for expenditure. In accordance with DoD policy, the USMC records MRP credits as negative liquidations and misclassifies the associated transactions as refunds instead of anticipated collections.

General Property, Plant, and Equipment. The USMC has efforts ongoing to address difficulties in determining the completeness and accuracy of reported balances and providing support for all asset costs. Specifically, improvements are needed in (1) the recurring performance of wall-to-wall inventory counts; (2) the recurring performance of impairment assessments; (3) identification of the full universe of its internal use software (IUS) and software in-development costs; (4) accounting for General Equipment (GE) Construction in Progress (CIP) properly at the transaction level; (5) identification of the full scope of government-furnished property provided to contractors; (6) recording and reporting receipt and acceptance of goods timely; and (7) the identification and recordation of indirect, integration, and transportation costs to record full costs in accordance with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and/or SFFAS No. 10, *Accounting for Internal Use Software*. As the USMC does not yet have SFFAS No. 6 and SFFAS No. 10 compliant go-forward processes, supportable General Property, Plant, and Equipment (GPP&E) beginning balances have not been established, and USMC management has not made its unreserved assertion in accordance with SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*. In addition, 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*.

Accounts Payable. Accounts payable and accounts payable accruals reported at period end are not in full compliance with SFFAS No. 1, *Accounting for Selected Assets and Liabilities* and SFFAS No. 5, *Accounting for Liabilities of the Federal Government*. The current Treasury Intragovernmental Payments and Collections process allows payments to be made without requiring confirmation of the receipt and acceptance of goods and services provided to the USMC by other federal entities. Post payment receipt and acceptance may occur but is not recorded and reported timely. In addition, the receipt and acceptance of goods and services provided to the USMC by non-federal entities are not recorded or reported timely. As such, expenses and accounts payable are not recorded until liquidation/disbursement, resulting in understated unpaid delivered orders and abnormal accounts payable balances driven by liquidations exceeding expenses. Additionally, to comply with DoD trading partner requirements, the Marine Corps' buyer-side accounts payable are adjusted to agree with the interagency seller-side accounts receivable.

Leases. The USMC is in the process of reviewing lease information to properly account for capital and operating leases, and to identify property where the USMC is the lessor. Accordingly, the USMC is not compliant with SFFAS No. 5 and SFFAS No. 6. In addition, the USMC does not separately present lease information in the footnotes as required by OMB Circular No. A-136.

Environmental and Disposal Liabilities. The USMC does not report environmental and disposal liabilities for relevant GE in accordance with SFFAS No. 5, SFFAS No. 6, and Federal Financial Accounting and Auditing Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, as detailed disposal cost data is not readily available or provided by DoD entities responsible for asset disposal. Specifically, the USMC does not estimate and report costs associated with weapons systems despite the fact that such systems can give rise to environmental liabilities given the materials and compounds used in them and for their operation.

The U.S. Navy centrally manages and executes the Defense Environmental Restoration Program (DERP) and Base Realignment and Closure (BRAC) portions of the environmental liability at the DoN level. Therefore, the USMC does not report DERP and BRAC environmental liabilities.

Prior Period Adjustments. The USMC identified correcting adjustments in the current year that should have been recorded in prior years. At the direction of the Office of the Under Secretary of Defense (Comptroller) (OUSD (C)), the USMC records these error corrections from prior periods as other gains and losses.

The Marine Corps' FY2018 financial statements are not comparable because they exclude and were not adjusted for the financial activity associated with appropriations 17X1001, MERHFC, Marine Corps, and 17X1003, MERHFC, Reserve Personnel, Marine Corps.

Suspense Accounts and Revenue. The Marine Corps does not recognize revenue as it is earned or in the amount received for certain program sales as required by SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. Instead, the USMC deposits receipts from these sales in a suspense fund. The Marine Corps subsequently recognizes revenues as program costs are incurred and reimbursed from amounts previously deposited in the suspense fund.

Presentation and Disclosure. The USMC is not in full compliance with OMB Circular No. A-136 because the following required footnotes and disclosures are not prepared due to a lack of readily available data and/or a process to compile them:

- *Cost of Stewardship PP&E;*
- *Stewardship PP&E through Transfer, Donation or Devise;*
- *Exchange Revenue;*
- *Contractual Commitments/arrangements that may require future financial obligations; and*
- *Required Supplementary Information – Military Equipment and Garrison Property Deferred Maintenance.*

Marines Bonus Obligations. Marine Corps does not substantially comply with certain provisions in OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* and 37 United States Code (U.S.C.) §1015, as amended on 25 November 2015, for recognizing reenlistment and enlistment bonus obligations to pay Marines. Specifically, Marine Corps obligates the entire bonus amount upfront instead of when payment is made.

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. USMC is not in receipt of non-exchange revenue. Due to system mapping, the USMC's FY2018 Statement of Changes in Net Position (SCNP) includes exchange transactions incorrectly mapped as non-exchange revenue.

The USMC receives revenue from a number of sources, including commercial vendors conducting business at USMC installations (e.g., remittances of rent or lease payments to the USMC for space on 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 USMC installations. Other federal and non-federal entities pay the USMC based on the specific terms of the agreements that govern the use of USMC facilities, often reimbursable agreements.

The USMC's known issues with revenue recognition are discussed at the *Suspense Accounts and Revenue* GAAP departure within Note 1.D., *Basis of Accounting*.

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 GPP&E and 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 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. The USMC has incorporated intragovernmental purchases into its accrual process that recognizes intragovernmental work performed but not invoiced by the seller.

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. These suspense accounts are shared with the DoN and the transactions recorded therein are 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 due from the public are based upon analysis of outstanding aged receivables and an allowance percentage derived from collection experience. In accordance with the TFM Part 2 – Chapter 4700, the DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies (intragovernmental receivables) as receivables from other federal agencies are considered to be inherently collectible. Claims on intragovernmental receivables are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the TFM. See Note 5, *Accounts Receivable, Net*.

1.K. Inventories 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 the consumption method of accounting. Certain OM&S acquisitions are accounted for under the purchase method, such as fuels, oils, lubricants, medical supplies, clothing and textiles, food rations, construction materials, and spare/repair parts when those items are determined to have been acquired by the end user. 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 USMC operations. OM&S "held in reserve for future use" consists of items not normally used in the course of USMC operations but have more than a remote chance of being needed in the future. OM&S "held for repair" consists of damaged material on hand that is more economical to repair than to dispose. 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. EOU OM&S consists of scrap material or items that cannot be economically repaired and are awaiting disposal. 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; however, beginning balances have not yet been asserted as disclosed in the GAAP departures in Note 1.D., *Basis of Accounting*. 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 and SFFAS No. 10 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 with respect to this balance sheet line item or any of the property components thereof, and reported a GAAP departure in Note 1.D., *Basis of Accounting*.

Real property, which constitutes a significant amount of the GPP&E line item balance, has a capitalization threshold of $250 thousand, as does IUS. In accordance with SFFAS No. 50 and OUSD(C) 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.

The DoN accumulates and reports real property CIP on the DoN'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.

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 2019 and 2018, 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's reporting of GE CIP is not fully GAAP compliant as specified in Note 1.D., *Basis of Accounting*. See Note 7, *General Property, Plant, and Equipment, Net*.

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. The USMC's reporting of Stewardship PP&E is not fully GAAP compliant as specified in Note 1.D., *Basis of Accounting*. See Note 7, *General Property, Plant, and Equipment, Net*.

1.M. Advances and Prepayments

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, 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. As disclosed in Note 1.D., *Basis of Accounting*, 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. Per the federal leave policy established by the Office of Personnel Management (OPM), full-time employees with less 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 less than 15 years of service accrue six hours of annual leave each pay period; and full-time employees with more than 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. Per 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 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.

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. See Note 10, *Military Retirement and Other Federal Employment Benefits*.

Note 2. Non-Entity Assets

As of September 30 *(Amounts in thousands)*	Unaudited **2019**	Unaudited **2018**
Intragovernmental Assets		
Fund Balance with Treasury	$ 45,472	$ 41,921
Total Intragovernmental Assets	45,472	41,921
Non-Federal Assets		
Cash and Other Monetary Assets	5,741	6,220
Accounts Receivable	84	109
Total Non-Federal Assets	5,825	6,329
Total Non-Entity Assets	51,297	48,250
Total Entity Assets	41,006,812	43,277,832
Total Assets	$ 41,058,109	$ 43,326,082

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 Thrift Savings Plan (TSP) provided by Marines, civilians, and the USMC.

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' Fund Balance with Treasury 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 from which the USMC can draw upon to pay for its ongoing operations. The USMC's FBWT primarily includes direct appropriations to the USMC and appropriations shared with the DoN. Deposit funds, special revenue funds, funding transfers, clearing accounts, and funding sub-allocated to the DOT are also included.

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 suspense accounts, deposit funds, and parent/child funding; temporary timing differences between amounts disbursed by Treasury, but not yet recorded into the USMC's general ledger; and misclassified transactions.

Status of Fund Balance with Treasury

As of September 30 *(Amounts in thousands)*	Unaudited **2019**	Unaudited **2018**
Unobligated Balance:		
Available	$ 944,500	$ 618,695
Unavailable	626,651	888,587
Total Unobligated Balance	1,571,151	1,507,282
Obligated Balance not yet Disbursed	9,545,214	9,036,651
Non-Budgetary FBWT:		
Clearing accounts	35,094	37,832
Deposit funds	45,472	41,922
Total Non-Budgetary FBWT	80,566	79,754
Non-FBWT Budgetary Accounts:		
Unfilled Customer Orders without Advance	(33,857)	(52,466)
Receivables and Other	(12,797)	(47,491)
Total Non-FBWT Budgetary Accounts	(46,654)	(99,957)
Total FBWT	$ 11,150,277	$ 10,523,730

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. The unobligated available balance increased by $325,805 thousand or 52.7%. This increase is attributable to the increase in the multi-year shared appropriations with the DoN that have been apportioned but not obligated in FY2019. 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 $261,936 thousand or 29.5%. This decrease is attributable to improved management of obligations recognition resulting in less recoveries.

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.

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. Unfilled customer orders without advance decreased by $18,609 thousand or 35.5%. This decrease is attributable to year end close out actions that recognized completed reimbursable activities reducing the outstanding unfilled customer orders. Receivables and other balance decreased by $34,694 thousand or 73.1%. This decrease is attributable to process automation implemented to reduce overpayments to military personnel or retirees for permanent change of station and separation settlements that would require the recognition of receivables.

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.

Note 4. Cash and Other Monetary Assets

As of September 30 *(Amounts in thousands)*	Unaudited **2019**	Unaudited **2018**
Cash	$ 5,738	$ 6,220
Foreign Currency	3	–
Total Cash and Other Monetary Assets	$ 5,741	$ 6,220

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 **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	$ 27,613	$ (2,780)	$ 24,833

As of September 30 *(Amounts in thousands)*	Unaudited **2018**		
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net
Intragovernmental Receivables	$ 38,769	–	$ 38,769
Non-Federal Receivables (From the Public)	15,422	(2,556)	12,866
Total Accounts Receivable	$ 54,191	$ (2,556)	$ 51,635

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.

The intragovernmental receivables balance decreased by $25,088 thousand or 64.7%. This decrease is attributable to the automation of the billing process and the efficiencies gained in making collections.

Accounts Receivable, Net include amounts related to criminal restitution owed to the USMC. In FY2019, Accounts Receivable, Net included $300 thousand 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 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	

As of September 30 *(Amounts in thousands)*	Unaudited 2018						
		OM&S, Gross Value		Revaluation Allowance		OM&S, Net	Valuation Method
Held for Use	$	10,322,305	$	–	$	10,322,305	SP/LAC
Held in Reserve for Future Use		491,971		–		491,971	SP/LAC
Held for Repair		734,828		–		734,828	SP/LAC
In Development		614,812		–		614,812	SP/LAC
Excess, Obsolete, and Unserviceable		352,955		(352,955)		–	NRV
Total	$	12,516,871	$	(352,955)	$	12,163,916	

Legend for Valuation Methods:

SP: Standard Catalog Price   LAC: Latest Acquisition Cost   NRV = Net Realizable Value

The USMC has identified departures from GAAP in its accounting for OM&S in Note 1.D., *Basis of Accounting*.

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 (DC I&L) 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 represents scrap materiel awaiting disposal which is written down to its net realizable value prior to transfer to DLA's Disposition Services.

Correction of Prior Period Accounting Errors

In FY2019, the USMC continued to establish beginning balances for its OM&S in line with SFFAS No. 48 to overcome the fact that its conventional beginning balances cannot be supported with evidential matter. The valuation methodology used to arrive at beginning balances is subject to change as more information becomes available and refinements are made. Such refinements to the methodology required periodically re-baselining the estimates for beginning balances, leading to very large fluctuations in the OM&S balance year-over-year.

During FY2019, journal entries totaling ($3,478,138) thousand (net) were recorded to correct accounting errors that were identified related to both current and prior fiscal years. The adjustments were recorded in current year gains/losses and not as prior period adjustments. The net effect of the prior year and current year activity resulted in a decrease in the USMC's OM&S balance by $3,462,040 thousand or 28.5%.

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

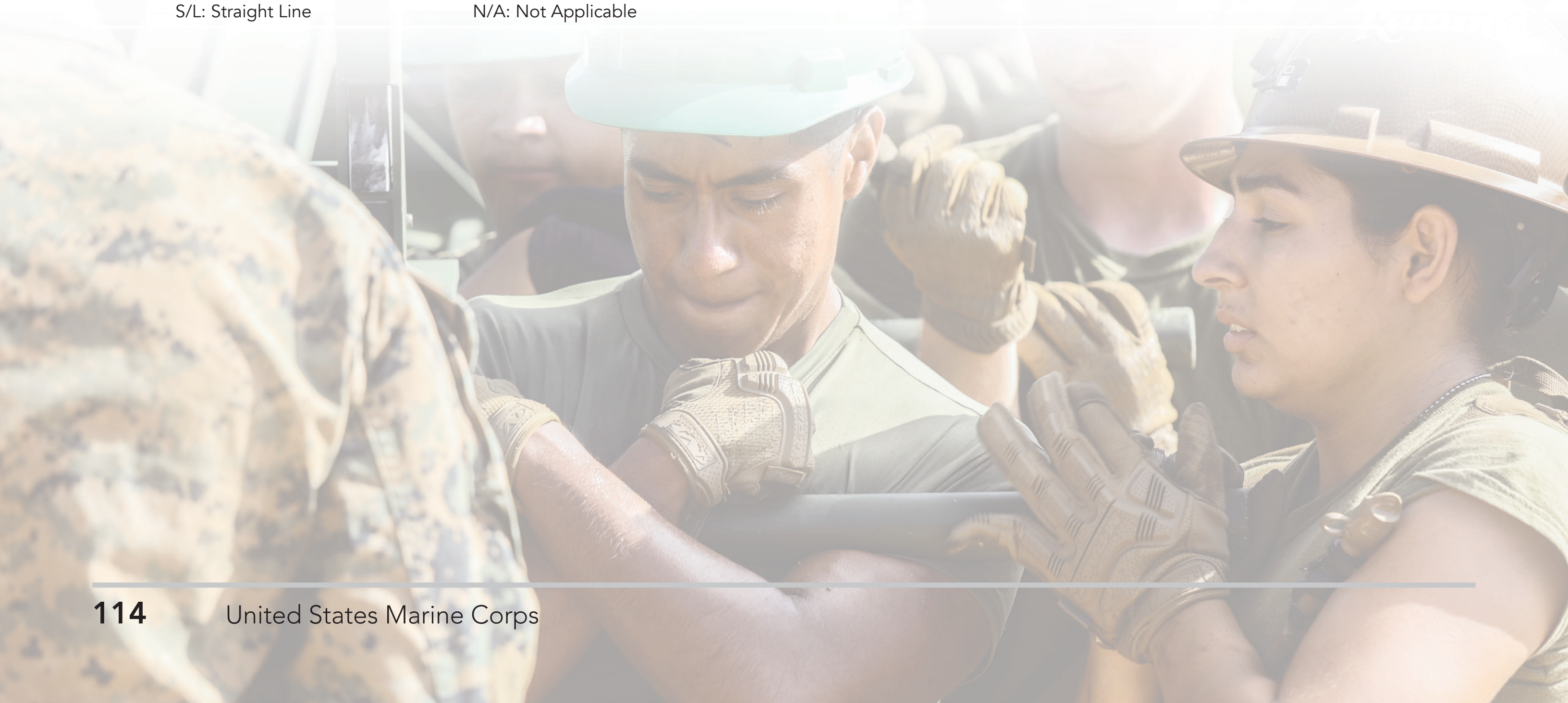
As of September 30 *(Amounts in thousands)*	Unaudited 2019				
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	35, 40 or 45	$ 21,559,528	$ (8,441,335)	$ 13,118,193
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

As of September 30 *(Amounts in thousands)*	Unaudited 2018				
	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	$ 18,955,466	$ (7,363,734)	$ 11,591,732
Internal Use Software	S/L	2-5 or 10	1,036	–	1,036
General Equipment	S/L	Various	20,832,534	(12,153,209)	8,679,325
Construction-in-Progress	N/A	N/A	257,007	–	257,007
Total General PP&E			$ 40,046,043	$ (19,516,943)	$ 20,529,100

Legend for Depreciations Methods:

S/L: Straight Line

N/A: Not Applicable



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 would be disclosed under the 'Change in Acreage' column of the following table.

Unaudited
Land Acreage *(in thousands)*

As of 9/30/2017	Additions	Change in Acreage	Deletions	As of 9/30/2018	Exclusion of Stewardship Land*	Adjusted Beginning Balance at 10/01/2018	Additions	Change in Acreage	Deletions	As of 9/30/2019
2,424	44	19	(7)	2,480	(1,273)	1,207	33	–	(1)	1,239

**In previous years the land acreage reported was inclusive of stewardship land and has been updated in the current year to exclude stewardship land.*

Real Property

Real property comprises the majority of the USMC's net GPP&E balance. The USMC may use Operations and Maintenance (O&M) funding for buildings, structures, and capital improvements less than $750,000. In accordance with Title 10 of the 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 placed in service date (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.

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 reports a GAAP departure in its accounting for IUS as disclosed in Note 1.D., *Basis of Accounting*.

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 aircraft used by the USMC in its financial records. GE consists of Garrison Property and Military Equipment (ME). Garrison Property 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 are ongoing to identify the full population of impaired assets and design impairment tests that will facilitate GAAP accounting moving forward. As disclosed in Note 1.D., *Basis of Accounting*, impairment losses are not recorded, and the full nature of impairment may not be documented.

Corrections of Prior Period Accounting Errors

During FY2019, journal entries were recorded to adjust the GE and real property portions of GPP&E to correct accounting errors identified in both current and prior fiscal years. These adjustments were in the net amounts of $314,663 thousand for GE and $3,324,877 thousand for real property and were recorded in current year gains/losses and not as prior period adjustments. The USMC reports a departure from GAAP for this accounting treatment in Note 1.D., *Basis of Accounting*.

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, 2019 consist of the following:

Unaudited
Heritage Assets

Categories	Measure Quantity	As of 9/30/2017	Additions	Deletions	As of 9/30/2018	ADJ*	Adjusted Beginning Balance at 10/01/2018	Additions	Deletions	As of 9/30/2019
Buildings and Structures	Each	79	–	–	79	(1)	78	–	–	78
Archaeological Sites	Each	34	–	–	34	–	34	–	–	34
Museum Collection Items (Objects, Not Including Fine Art)	Each	62,675	2,717	(1,770)	63,622	–	63,622	1,599	(120)	65,101
Museum Collection Items (Objects, Fine Art)	Each	10,008	172	(34)	10,146	–	10,146	227	(4)	10,369

**The beginning quantity for Building and Structures has been adjusted to reflect re-evaluation of reportable heritage assets.*

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 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. The USMC reports a GAAP departure in not reporting physical quantity of multi-use heritage assets as disclosed in Note 1.D., *Basis of Accounting*.

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, 2019 is presented as follows:

Unaudited
Stewardship Land Units *(in thousands)*

Facility Code	Facility Title	As of 9/30/2017	Additions	Deletions	As of 9/30/2018	Additions	Deletions	As of 9/30/2019
9120	Withdrawn Public Land	1,254	19	–	1,273	1	–	1,274
							Total - Stewardship Land	1,274

Some of this land is used as a buffer around the perimeter of 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 leases were identified but the scoring criteria, required to determine capital versus operating leases, is not available for the lease universe. Refer to GAAP departure disclosure in Note 1.D., *Basis of Accounting*.

Note 8. Other Assets

As of September 30 *(Amounts in thousands)*		Unaudited **2019**		Unaudited **2018**
Non-Federal Other Assets				
Advances and Prepayments	$	16,409	$	15,728
Other Assets (With the Public)		42,301		35,753
Total Non-Federal Other Assets		58,710		51,481
Total Other Assets	$	58,710	$	51,481

"Non-Federal Other Assets – Advances and Prepayments" represents payments the USMC made to servicemen and women in advance for payroll and travel. "Non-Federal Other Assets – Other Assets (With the Public)" consists of real property 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*.

Note 9. Liabilities Not Covered by Budgetary Resources

As of September 30 *(Amounts in thousands)*		Unaudited **2019**		Unaudited **2018**
Intragovernmental Liabilities				
Other	$	42,225	$	47,727
Total Intragovernmental Liabilities		42,225		47,727
Non-Federal Liabilities				
Accounts Payable		2,134		600
Military Retirement and Other Federal Employment Benefits		192,825		192,368
Environmental and Disposal Liabilities		190,930		234,001
Other Liabilities		771,963		754,540
Total Non-Federal Liabilities		1,157,852		1,181,509
Total Liabilities Not Covered by Budgetary Resources		1,200,077		1,229,236
Total Liabilities Covered by Budgetary Resources		1,651,874		1,827,860
Total Liabilities Not Requiring Budgetary Resources		–		–
Total Liabilities	$	2,851,951	$	3,057,096

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 then are 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" consists 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" represents 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" represents civilian and military unfunded leave and contingent liabilities. Unfunded military and civilian leave liability represents accrued, earned leave that will be funded in future-year appropriations.

"Total Liabilities Covered by Budgetary Resources" represents 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 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	$ 194,370	$ (1,545)	$ 192,825

As of September 30 *(Amounts in thousands)*	Unaudited 2018		
	Liabilities	(Assets Available to Pay Benefits)	Unfunded Liabilities
Other Benefits			
FECA	$ 192,368	$ –	$ 192,368
Other	2,286	(2,286)	–
Total Other Federal Employment Benefits	$ 194,654	$ (2,286)	$ 192,368

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 15, *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, were approximately $192,825 thousand and $192,368 thousand at September 30, 2019 and 2018, respectively, and are considered an unfunded liability.

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 $25,000 as an incentive to voluntarily separate.

Note 11. Environmental and Disposal Liabilities

As of September 30 *(Amounts in thousands)*		Unaudited **2019**		Unaudited **2018**
Environmental Liabilities—Non-Federal				
Environmental Closure Requirements	$	123,957	$	158,751
Asbestos		66,379		74,842
Non-Military Equipment		594		408
Total Environmental and Disposal Liabilities	$	190,930	$	234,001

Applicable Laws and Regulations for Cleanup Requirements

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

Description of the Types of Environmental Liabilities and Disposal Liabilities

Other Environmental Liability (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 DERP or BRAC Program. OEL estimates are developed from field data collected by knowledgeable persons at USMC installations. OEL does not include environmental liabilities associated with weapons systems and/or radiological operational units. DERP and BRAC environmental liabilities are reported on the DoN's financial statements, as the DoN is funded to remediate the environmental issues and executes each respective program. 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, USMC-developed estimates for non-friable asbestos abatement costs total $66,379 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, 2019 and September 30, 2018, there were $78,900 thousand and $72,000 thousand of unrecognized OEL, respectively.

Environmental Liabilities for Weapons Systems

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. The USMC acknowledges that estimates for these cleanup costs are currently not being reported in compliance with GAAP, as described in Note 1.D., *Basis of Accounting*.

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 1.8% inflation factor in FY2019 per the Unified Facilities Criteria DoD Facilities Pricing Guide. Regulatory changes did not affect OEL in FY2019. The USMC OEL totaled $190,930 thousand as of September 30, 2019. This is a decrease of $43,071 thousand or 18.4% year-over-year. This decrease is primarily attributable to changes in the liability made necessary by detailed re-estimates that were performed using the most current information available. In addition to requiring adjustments to factors going into the liability calculations, the re-estimate process identified costs requiring exclusion from the liability based on the current OEL methodology.

Note 12. Other Liabilities

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

As of September 30 *(Amounts in thousands)*	Unaudited **2018**		
	Current Liability	Non-Current Liability	Total
Intragovernmental			
Disbursing Officer Cash	$ 6,236	$ –	$ 6,236
FECA Reimbursement to the Department of Labor	17,191	20,865	38,056
Custodial Liabilities	93	–	93
Employer Contribution and Payroll Taxes Payable	10,662	–	10,662
Other Liabilities	175,115	–	175,115
Total Intragovernmental Other Liabilities	209,297	20,865	230,162
Non-Federal			
Accrued Funded Payroll and Benefits	589,218	–	589,218
Advances from Others	3,424	–	3,424
Deposit Funds and Suspense Accounts	79,754	–	79,754
Accrued Unfunded Annual Leave	748,722	–	748,722
Contract Holdbacks	99	27,050	27,149
Employer Contribution and Payroll Taxes Payable	39,088	–	39,088
Contingent Liabilities	5,818	–	5,818
Total Non-Federal Other Liabilities	1,466,123	27,050	1,493,173
Total Other Liabilities	$ 1,675,420	$ 47,915	$ 1,723,335

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 Intragovernmental Other Liabilities balance decreased by $169,686 thousand or 96.9%. This decrease is attributable to the timing of the related payments remitted to the MRF. In FY2019, the USMC transmitted retirement benefit amounts to MRF prior to the fiscal year close-out compared to in FY2018 when the amounts were remitted after the fiscal year end.

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. The contract holdbacks balance increased by $36,006 thousand or 132.6%. This increase is primarily attributable to the reclassification of amounts expected to be paid within a year as contract holdbacks which was previously recorded as accounts payable.

Contingent Liabilities

The amount reported represents contingent liabilities related to pending litigations and contractual arrangements.

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 reasonable estimated, the USMC has disclosed the estimated range of loss in the table 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.

Other Contingencies

Other contingencies represent contingent liabilities USMC recognized related to existing contractual arrangements.

Contingent Losses

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
Other Contingencies:			
Probable	$ 74	$ 74	$ 74

As of September 30, 2018 *(Amounts in thousands)*	Unaudited **2018**		
	Accrued Liabilities	Estimate Ranges	
Legal Contingencies:		Lower End	Upper End
Probable	$ –	$ –	$ –
Reasonably Possible	$ –	$ –	$ –
Other Contingencies:			
Probable	$ 5,818	$ 5,818	$ 5,818

Obligations Related to Canceled Appropriations

The USMC recognizes a $2,134 thousand estimated liability and future-funded expenses for obligations related to canceled appropriations for which the USMC still has a contractual commitment to pay vendors for goods provided and services rendered, at such time when the vendor invoices are received. This liability is reported within the Accounts Payable balance.

Note 14. Funds from Dedicated Collections

Combined Balance Sheet — Funds from Dedicated Collections

As of September 30 *(Amounts in thousands)*	Unaudited **2019**	Unaudited **2018**
	Wildlife Conservation, etc., Military Reservations	
ASSETS		
Fund balance with Treasury	$ 1,352	$ 1,332
Total Assets	$ 1,352	$ 1,332
LIABILITIES and NET POSITION		
Accounts Payable and Other Liabilities	$ 59	$ 62
Total Liabilities	59	62
Cumulative Results of Operations	1,293	1,270
Total Liabilities and Net Position	$ 1,352	$ 1,332

Combined Statement of Net Cost — Funds from Dedicated Collections

For the years ended September 30 *(Amounts in thousands)*	Unaudited **2019**	Unaudited **2018**
	Wildlife Conservation, etc., Military Reservations	
Gross Program Costs	$ 64	$ 47
Less: Earned Revenue	(87)	–
Net Cost of Operations	$ (23)	$ 47

Combined Statement of Changes in Net Position — Funds from Dedicated Collections

For the years ended September 30 *(Amounts in thousands)*	Unaudited **2019**	Unaudited **2018**
	Wildlife Conservation, Military Reservations	
Net Position, Beginning of the Period	$ 1,270	$ 1,212
Budgetary Financing Sources	–	105
Less: Net Cost of Operations	(23)	47
Change in Net Position	23	58
Net Position, End of Period	$ 1,293	$ 1,270

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

For the years ended September 30 *(Amounts in thousands)*	Unaudited **2019**	Unaudited **2018**
Intragovernmental Undelivered Orders:		
Unpaid	$ 80,200	$ 151,316
Total Intragovernmental	80,200	151,316
Non-Federal Undelivered Orders:		
Unpaid	7,907,569	7,141,858
Prepaid/Advanced	16,409	15,728
Total Non-Federal	7,923,978	7,157,586
Total Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$ 8,004,178	$ 7,308,902

Intragovernmental Unpaid undelivered orders (UDO) at the end of the period decreased by $71,116 thousand or 46.9%. The decrease is on account of targeted efforts occurring through the year to identify and recognize delivered goods and services which reduced the UDO balance. Due to process and control deficiencies, historically the USMC has not properly accounted for orders received and accepted which 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 had 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

Unaudited

(in millions)	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (9/30/2018)	$ 28,028	$ 26,521	$ (3)	$ 23,800
Shared Appropriations with DoN included in the SBR but excluded from USMC direct appropriations presented in the President's Budget	1,328	1,130	(3)	917
Unobligated Balance Brought Forward from expired and non-expiring years included in the SBR but not included in the President's Budget	1,390	–	–	–
Other	(1)	–	–	1
Budget of the U.S. Government	$ 25,311	$ 25,391	$ –	$ 22,882

The U.S. Government Budget amounts used in the reconciliation above represents the FY2018 balances. The U.S. Government Budget amounts for FY2019 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 **2019**	Unaudited **2018**
Fiduciary Net Assets, Beginning of Year	$ 2,564	$ 3,763
Contributions	4,810	5,031
Investment Earnings	274	326
Distributions To and On Behalf of Beneficiaries	(4,697)	(6,556)
Increase/(Decrease) in Fiduciary Net Assets	387	(1,199)
Fiduciary Net Assets, End of Period	$ 2,951	$ 2,564

Schedule of Fiduciary Net Assets

As of September 30 *(Amounts in thousands)*	Unaudited **2019**	Unaudited **2018**
Fiduciary Assets		
Fund Balance with Treasury	$ 2,951	$ 2,564
Fiduciary Liabilities		
Less: Liabilities	–	–
Total Fiduciary Net Assets	$ 2,951	$ 2,564

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 $10,000 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 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	(29,509)	(1,192,982)	(1,222,491)
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	–	654,182	654,182
Other Temporary Timing Differences	–	–	–
Net Outlays	$ 8,027,731	$ 19,013,405	$ 27,041,136

The reconciliation of net cost to net outlays explains the relationship between 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 that are not part of net outlays include depreciation expense which is an allocation of expenses over multiple reporting periods. Other significant adjustments include decrease in accounts payable and salaries and benefits liabilities.

Components of net outlays that are not part of net cost primarily includes GPP&E acquired throughout the year that were capitalized. Reported amount for the Acquisition of inventory line item shows an abnormal balance due to OM&S issuances offsetting the acquisition balance for the year. This issue is expected to be addressed in FY2020.

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 Marine Corps military housing improved more expediently and efficiently than the traditional Military Construction process would allow. 10 U.S.C. §§ 2871-2886 codifies the Service Secretaries' MHPI authority.

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 and unaccompanied 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.

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

Funding

Contributions from the DoD MHPI program and the partner typically occur at the beginning of any new project, as required by the operating agreement (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) or DoD Military Unaccompanied Housing Improvement Fund (MUHIF).

The DoD MHPI program made direct cash contributions and loans to the LLCs. Cash contributions to MHPI P3 partners from the DoD FHIF or DoD MUHIF 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 or MUHIF. However, the enactment of P.L. 115-91 § 603, and then P.L.115-232 § 606 required the Marine Corps to make direct payments to the MHPI entities (lessors) in an amount up to 1% of the Basic Allowance for Housing (BAH) amount as 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 through December 31, 2018. From September 1, 2018 forward, P.L.115-232 § 606 direct payments to the MHPI entities of 5% of BAH will occur monthly 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, 2019:

Unaudited

Marine Corps Contributions	
Funding contributions to DoD MHPI program*	$ 127.4M
Real property contributions to the LLCs (value of Real Property Assets (RPA) conveyed, per OMB scoring documents and financial statements)*	$ 728.4M
Marine Corps direct payments as required by P.L.115-91 § 603 and P.L. 115-232 § 606	$ 32.3M
DoD Contributions*	
Direct cash contributions	$ 1.16B
Direct loans	$ 29.4M

**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.*

The DoD MHPI program is projected to receive direct loan repayments in the amount of $12.3 million through September 30, 2019 (aggregate) and $1.1 million 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 $962 million over the remaining life of the OAs.

Non-federal funding for the MHPI arrangements generally included 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, 2019:

Unaudited

Private-Partner Contributions	
Direct cash contribution	$ 36.5M
Bonds/Loans contributed	$ 2.24B
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

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" which prioritizes payments to "must pay" accounts first. The waterfall is in effect a risk mitigation strategy to the LLC, should unexpected interruptions occur to the revenue stream during project operation.

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

Gains and Losses

The Marine Corps does not recognize unrealized gains or losses within the MHPI arrangements. Gains or losses will only occur upon the termination of an MHPI arrangement. Upon dissolution, residual cash from the arrangement (i.e., sale of assets or remaining capital improvement funding) reverts to the DoD FHIF or DoD MUHIF, and thus will have no impact to the Marine Corps' financial statements. The Marine Corps will take ownership of all real property assets left on the leased premises at the end of the lease term (generally 50 years). The Marine Corps will recognize any gains or losses of RPA valuation at that time.

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 members of the uniformed services, 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. 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, 2019, USMC holds title to such fixed assets totaling $859,567 thousand included in the USMC's financial statements.

NAFIs are generally governed by DoDI 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.

<u>Marine Corps Community Services</u>

Marine Corps Community Services (MCCS) is the name for the consolidated operations of the United States Marine Corps' 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; with well-rounded, wholesome, athletic, and recreation leisure activities to ensure their mental, physical and social well-being; and with dining, beverage, 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 Commandant of the Marine Corps. The NAFIs, for the most part, are 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 has 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. In FY2019, MCCS NAFIs received $211M in appropriated fund (APF) support under law and policy.

MCCS NAFIs have a low risk exposure based on the Standard & Poor's annual credit rating which views MCCS NAFIs' financial policy as very conservative based on low debt burden and relatively consistent credit metrics. MCCS NAFIs' credit rating as of March 2019 is AA-/Stable/NR.

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

<u>Other NAFIs</u>

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 (MCNAFAS). In FY2019, Other NAFIs received $224 thousand in APF support. These NAFIs include Program Group III - Civilian MWR Programs and Program Group IV - Lodging Program (Billeting), and Program Group V - Supplemental Mission Funds.

Required Supplementary Stewardship Information

Unaudited, see accompanying Independent Auditors' Report.

Investment in future weaponry and technologies is vital for the USMC's mission. RDT&E is one of five major appropriations received by the USMC. RDT&E finances efforts to develop equipment, materiel, and computer application software. Funding covers items such as military and civilian salaries, equipment, components, materials, and weapons. RDT&E is a multi-year appropriation that remains available for obligation for a period of two fiscal years. As federal spending has tightened, the USMC is required to do more with less with funding levels for RDT&E continuing to decrease annually.

Advanced Component Development and Prototypes (ADC&P) and System Development and Demonstration (SDD) cover efforts to fully develop and acquire integrated weapon systems. ADC&P and SDD activities include technology maturation as well as engineering and manufacturing development tasks for the technology. RDT&E Management Support funds efforts to sustain or modernize the installations or operations required for general RDT&E. Work areas covered in RDT&E Management Support include test ranges, military construction, maintenance support of laboratories, studies and analyses, and operations and maintenance of test aircraft and ships. Operational Systems Development is used to designate research and development efforts for systems that have already been approved for production or those that have already been fielded. Continuing research and development (R&D) efforts after fielding helps keep systems up to date with current technology, while avoiding obsolescence and related associated costs with technology upkeep and replacement.

Expenses for USMC R&D Investment Activities *(Amounts in thousands)**

RDT&E Investment Programs	2015	2016	2017	2018	2019	Total
ACD&P	$125,721	$130,225	$239,774	$167,105	$51,358	$714,183
SDD	9,350	2,174	4,914	56,021	110,931	183,390
RDT&E Management Support	45,586	32,138	36,754	36,853	40,276	191,607
Operational Systems Development	415,547	438,372	380,213	348,798	405,217	1,988,147
Total	**$596,204**	**$602,909**	**$661,655**	**$608,777**	**$607,782**	**$3,077,327**

**Amounts have been revised to reflect previously excluded R&D expenses.*

Advanced Component Development and Prototypes. ACD&P work seeks to evaluate integrated technologies or prototype systems in a high fidelity and realistic operating environment. System-specific efforts are undertaken that help expedite technology transition from the test laboratory to operational use. The major outputs of ACD&P are hardware and software components, or complete weapon systems ready for operational and developmental testing and field use.

Three primary programs were in progress during FY2019 for ACD&P to include the Joint Non-Lethal Weapons (JNLW), Additive Manufacturing, and Rapid Capabilities. The following is a representative program example of the ACD&P:

The JNLW program funds Joint Service RDT&E of non-lethal weapons, devices, munitions and technologies which provide a non-lethal capability to minimize significant injuries as well as undesired damage to property and the environment. FY2019 JNLW activities include counter-personnel and counter-materiel capabilities which are focused on directed energy (e.g., lasers, millimeter wave, high power microwave), multi-sensory suppression/incapacitation initiatives (e.g., noise, sight depravation, electro-muscular incapacitation), and other up and coming technologies transitioning from coordinated JNLW Science and Technology Program Element initiatives. Investments focus on joint and allied experimentation, exercise, demonstration, and assessment of advanced component and prototype initiatives in order to assist transition of suitable and effective capabilities to both joint and allied operational applications.

System Development and Demonstration. SDD includes programs that are approved and ready for the next phase of development which involves conducting engineering and manufacturing development tasks aimed at meeting validated requirements prior to full-rate production. It consists primarily of pre-production efforts such as logistics and repair studies. The major SDD outputs are weapons systems finalized for complete operational and developmental testing. The most significant projects funded under this budget activity are the Amphibious Combat Vehicle (ACV) 1.1 and 1.2, Marine Corps Recruiting Information Support Systems, Technology Services Organization, and Cyber Operations Technology Development.

The ACV is expected to be a partial and complementary replacement for the legacy Assault Amphibious Vehicle (AAV) battalions within the Marine Divisions. ACV-equipped Assault Amphibian companies will provide protected mobility and troop transport to elements of Marine Infantry Battalions. The ACV, an advanced generation, eight-wheeled armored personnel carrier, will mitigate current and projected capability gaps by providing improved lethality against dismounted enemy troops, more effective land and water tactical mobility, and increased force protection and survivability from blast, fragmentation, and kinetic energy threats.

RDT&E Management Support. RDT&E Management Support provides support for installations and operations for general R&D use. This program includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the R&D programs. Endeavors are aimed at the sustainment and/or modernization of the installations or operations required for general RDT&E. Costs of laboratory personnel, either in-house or contractor operated, are assigned to projects, as appropriate.

Three projects of focus in FY2019 were the Family of Incident Response Systems, Marine Corps Operational Test & Evaluation Activity, and Marine Corps Studies and Analysis.

The following is a representative example for the RDT&E Management Support program:

Marine Corps Studies and Analysis: Marine Corps Studies and Analysis operates as the sole operations research, analytic support, and studies management program for the Marine Corps Study System (MCSS). It provides research and analysis to ensure a greater understanding of issues and alternatives concerning organizations, tactics, doctrine, policies, force plans, strategies, procedures, intelligence, weapon selection, systems' programs, and resource allocation. Through the MCSS, the Marine Corps nominates, approves, commences, manages and distributes the resultant analytical products. Efforts are approved by the Commanding General, Combat Development and Integration and are targeted to a particular audience that understands current and future USMC mission requirements and the need for comprehensive analyses that meets the Commandant of the Marine Corps' Strategic Goals, supports and protects forces in theater, and utilizes funds efficiently. Research conducted produces comprehensive and integrated analyses aligned to Senior Leadership's requirements and decision timelines.

Operational System Development. Operational System Development includes efforts to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in the current or subsequent fiscal year. Programs in this category involve systems that have received approval for initial, small-quantity production to allow thorough development and testing prior to mass production.

In FY2019, the Operational System Development program funded multiple projects. The following are representative examples:

Ground/Air Task Oriented Radar: The Ground/Air Task Oriented Radar (G/ATOR) is a multi-role, ground-based, expeditionary radar that replaces five legacy radar systems for the Marine Air Ground Task Forces (MAGTFs). The G/ATOR will provide mobile, multi-functional, three-dimensional surveillance of air breathing targets, detection of cruise missiles, and the queuing of air defense weapons to allow Naval forces to control deep inland.

Ground Based Air Defense System: The Ground Based Air Defense (GBAD) program supports the Marine Corps' Low Altitude Air Defense (LAAD) Battalion's missions of Short Range Air Defense (SHORAD). SHORAD is a group of anti-aircraft weapons and tactics that provide defense against low-altitude air threats, primarily helicopters and low-flying close air support aircraft. GBAD also provides the MAGTFs with the necessary force protection to defeat the full spectrum of threats associated with the Marine Corps LAAD mission, to include hostile aerial threats from Unmanned Aerial Systems (UAS). With the proliferation of both military and commercial UAS platforms, the program is pursuing and acquiring more lethal and survivable GBAD Future Weapons System platforms such as Joint Light Tactical Vehicles with armored protection and better maneuverability than the High Mobility Multipurpose Wheeled Vehicle, providing increased counter-UAS capabilities now and continually spiraling out increasing capability for the foreseeable future.

Unaudited, see accompanying Independent Auditors' Report.

Real Property Deferred Maintenance and Repairs

USMC maintains real property assets such as buildings, aviation runways, roads, communication stations, and weapons ranges to support its mission. Maintenance and repairs 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. USMC's DM&R as of September 30, 2019 is shown below:

Real Property Deferred Maintenance as of September 30, 2019 *(Amounts in thousands)*		
Property Type	**Beginning DM&R Balance**	**Ending DM&R Balance**
1. Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	$10,278,252	$10,311,218
2. Category 2: Buildings, Structures, and Utilities (Heritage assets)	1,039,882	1,097,775
3. Category 3: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	–	–
Total	**$11,318,134**	**$11,408,993**

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 criteria are considered to have DM&R. The maintenance and repair 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, dams, and rail assets 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%).

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 14.48% and 23.53% 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 Marine Corps' GE consists 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 garrison property. The Marine Corps does not have military equipment that are considered to be heritage assets. Furthermore, the USMC has not completed assessing DM&R for garrison property. The exclusion of garrison property DM&R is disclosed as a GAAP departure in Note 1.D., *Basis of Accounting*. The following section provides DM&R information related to ME.

General Equipment - Military Equipment Deferred Maintenance and Repairs

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 performed if an asset is non-mission capable or degraded. When the routine maintenance and repair procedures will not be performed in the current period, the DM&R status is assigned to the asset. The following table provides USMC's DM&R as of September 30, 2019:

Military Equipment Deferred Maintenance as of September 30, 2019 *(Amounts in thousands)*

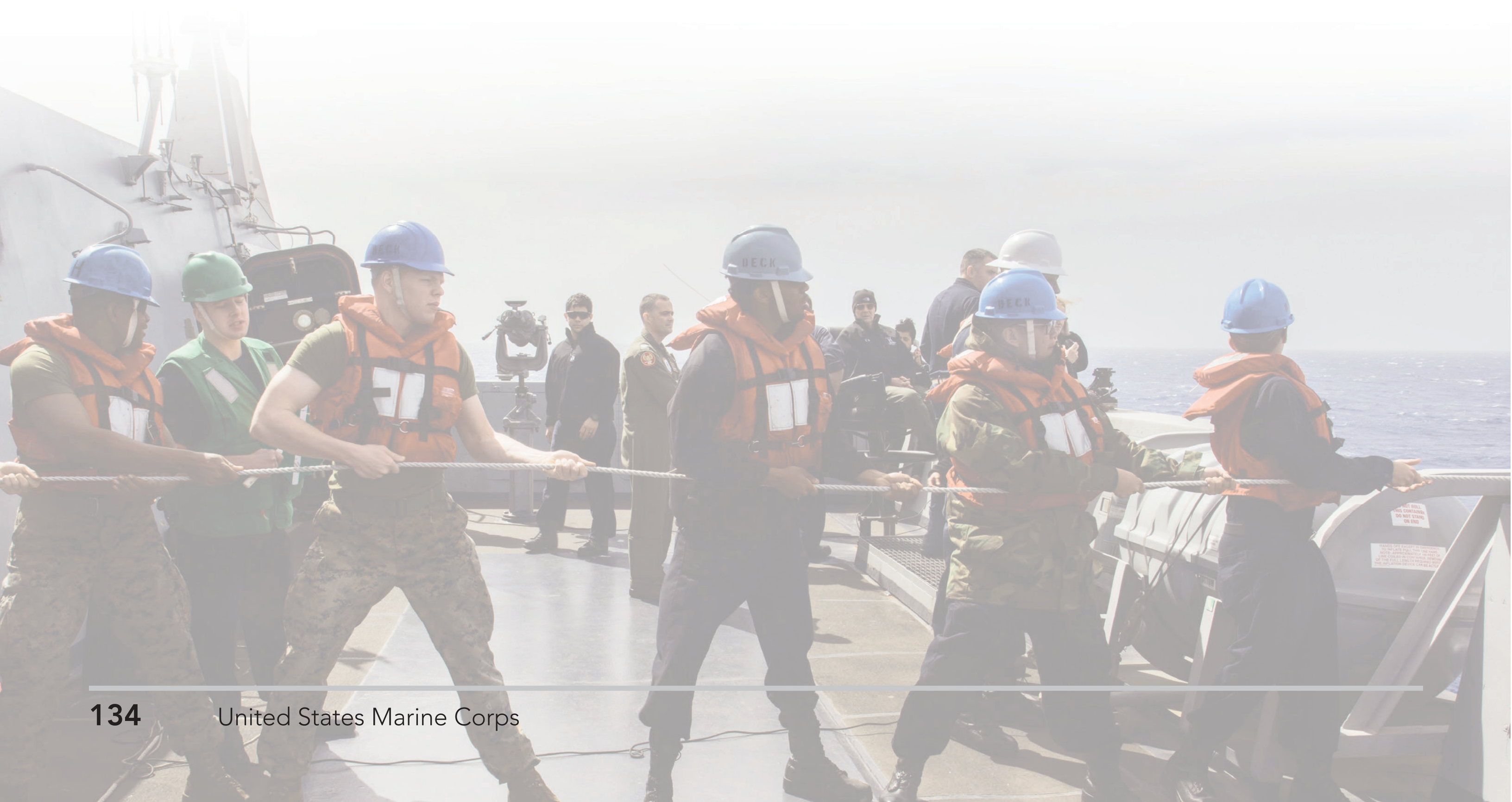
Military Equipment DM&R Category	Beginning DM&R Balance	Ending DM&R Balance
Communications - Electronics (e.g., radios, satellites, radar)	$11,884	$2,638
Engineer (e.g., generators, bulldozers, earth movers)	17,457	11,500
General Supply (e.g., tents, water cans, fuel cans)	2,622	7
Motor Transport (e.g., ground-wheeled vehicles)	86,329	10,154
Ordnance (e.g., tanks, howitzers)	21,387	50,763
Total	**$139,679**	**$75,062**

The USMC deferred maintenance programs for ME consist of Administrative Deadline Program (ADL), Administrative Storage Program (ASP), and unfunded maintenance and repair for assets located at a Remote Storage Activities (RSA). The ME assets that have been 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.). The ME DM&R includes fully depreciated assets but does not include assets that have not been capitalized.

Significant Change from Prior Year

The reduction of the DM&R balance in FY2019 compared to FY2018 is the result of a more detailed asset condition assessment process that resulted in a decrease in the quantity of ME assets included in the DM&R. In addition, improvements made in estimating preventive maintenance cost and requisition costs contributed to the reduction in the costs associated with DM&R.



United States Marine Corps

Combining Statement of Budgetary Resources

For the year ended September 30, 2019
(Unaudited)

(Amounts in thousands)

	Research, Development, Test & Evaluation	Procurement	Military Personnel	Operations, Readiness & Support	2019 Combined
Budgetary Resources:					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 180,631	$ 572,175	$ 452,399	$ 579,875	$ 1,785,080
Appropriations (discretionary and mandatory)	577,050	3,055,216	15,527,978	9,057,194	28,217,438
Spending Authority from offsetting collections (discretionary and mandatory)	1,266	714	41,526	274,627	318,133
Total Budgetary Resources	$ 758,947	$ 3,628,105	$ 16,021,903	$ 9,911,696	$ 30,320,651
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 654,186	$ 2,884,123	$ 15,545,936	$ 9,665,255	$ 28,749,500
Unobligated balance, end of year:					
Apportioned, unexpired accounts	94,154	703,938	127,390	19,018	944,500
Unexpired unobligated balance, end of year	94,154	703,938	127,390	19,018	944,500
Expired unobligated balance, end of year	10,607	40,044	348,577	227,423	626,651
Unobligated balance, end of year (total)	104,761	743,982	475,967	246,441	1,571,151
Total Budgetary Resources	$ 758,947	$ 3,628,105	$ 16,021,903	$ 9,911,696	$ 30,320,651
Outlays, Net:					
Outlays, net (total) (discretionary and mandatory)	$ 605,002	$ 2,464,809	$ 15,510,246	$ 8,458,429	$ 27,038,486
Distributed offsetting receipts (-)	–	–	–	2,650	2,650
Agency Outlays, net (discretionary and mandatory)	$ 605,002	$ 2,464,809	$ 15,510,246	$ 8,461,079	$ 27,041,136

SECTION 3: OTHER INFORMATION

Statement from the USMC Inspector General

DEPARTMENT OF THE NAVY
DEPUTY NAVAL INSPECTOR GENERAL FOR MARINE CORPS MATTERS
INSPECTOR GENERAL OF THE MARINE CORPS
WASHINGTON, DC 20380-1775

IN REPLY REFER TO:
5200
IGMC
6 Sep 19

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: UNITED STATES MARINE CORPS AGENCY FINANCIAL REPORT STATEMENT, 4TH QUARTER, FISCAL YEAR 2019

Ref: (a) Marine Corps Bulletin 7000

1. Per reference (a), the Inspector General of the Marine Corps (IGMC) is responsible for the "Management Challenges" letter within the "Other Information" section.

2. IGMC has not identified any serious management or performance challenges facing the service.

3. For questions concerning this statement, please contact the Director of Readiness, LtCol Erick Min at (703) 604-4625.

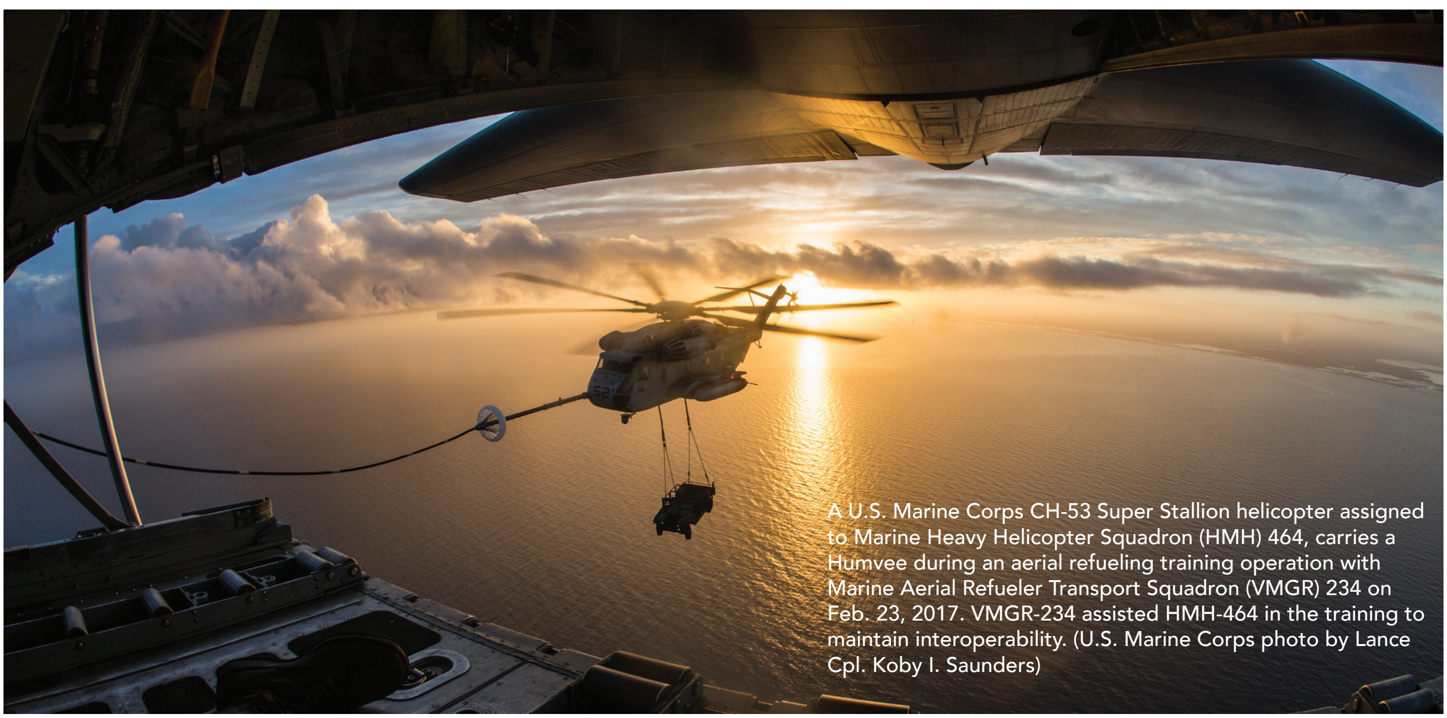
C. E. SHELTON, JR.
Deputy

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' (hereafter referred to as the USMC or Marine Corps) Managers' Internal Control Program (MICP). Table 1 reflects the material weaknesses identified in the Reports of Independent Certified Public Accountants issued by Kearney and Company in November 2019. The material weaknesses included in the Federal Manager's Financial Integrity Act (FMFIA) Table 2 represents the material weaknesses reported in the Marine Corps FY2019 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
Accounting for Property, Plant and Equipment	1	–	–	–	1
Accounting for Operating Materiel & Supplies	1	–	–	–	1
Fund Balance with Treasury Controls	1	–	–	–	1
Business Process Controls	1	–	–	–	1
Information Systems	1	–	–	–	1
Total Material Weaknesses	9	–	–	–	9



A U.S. Marine Corps CH-53 Super Stallion helicopter assigned to Marine Heavy Helicopter Squadron (HMH) 464, carries a Humvee during an aerial refueling training operation with Marine Aerial Refueler Transport Squadron (VMGR) 234 on Feb. 23, 2017. VMGR-234 assisted HMH-464 in the training to maintain interoperability. (U.S. Marine Corps photo by Lance Cpl. Koby I. Saunders)

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
General Property Accountability	1	–	–	1	–	–
Real Property Accountability	1	–	–	1	–	–
Accounting for Property, Plant, and Equipment	1	–	–	–	–	1
Accounting for 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
Offline Requisitions	1	–	1	–	–	–
Building Partner Capacity (Use of the Foreign Military Sales Line of Accounting)	1	–	–	1	–	–
Reimbursable Work Orders Missing Support Agreement and Receipt and Acceptance Supporting Documentation	1	–	–	1	–	–
Naval Audit Navy Working Capital Fund at the Marine Depot Maintenance Command	–	1	–	–	–	1
Total Material Weaknesses	12	1	1	4	–	8

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Modified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Protection/Physical Security Enhancements for Recruiting Facilities	1	–	–	–	1	–
Physical/Installation security requirements	1	–	–	–	–	1
Small Arms Transfer (Small Arms Accountability)	1	–	–	–	1	–
Total Material Weaknesses	3	–	–	–	2	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
Global Combat Support System – Marine Corps	1	–	–	1	–	–
Marine Corps Certification and Accreditation Process	1	–	–	1	–	–
Standard Accounting, Budgeting, and Reporting System	1	–	–	1	–	–
Integrated Financial Management Systems	1	–	–	–	–	1
Information Systems	1	–	–	–	–	1
Total non-compliances	5	–	–	3	–	2

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	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 (USSGL) 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 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. For detailed reporting on DoD payment integrity, refer to the Other Information section of the consolidated DoD Agency Financial Report at: http://comptroller.defense.gov/ODCFO/afr2019.aspx.

Fraud Reduction Report

The Fraud Reduction and Data Analytics Act of 2015 (FRDAA), mandates that agencies take steps to improve internal controls and procedures to assess and mitigate fraud risks. The objective of fraud risk management is to proactively facilitate a program's mission by continuously and strategically mitigating the likelihood and impact of fraud.

In FY2019, the USMC initiated the compilation of 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 Controls (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 USMC conducted compliance reviews over financial operations across the organization during which potential indicators of fraud were identified and evaluated. Any non-compliance issues identified during the review were further assessed for risk of fraud associated with the identified issues. The USMC also incorporated fraud risks into the MICP coordinator training to provide necessary training required for an effective execution of fraud risk assessment.

The USMC developed questions to enable a more comprehensive review of fraud risks and to design financial and administrative controls pursuant to the FRDAA. Specific questions in the areas of procurement, asset management, automated information systems, civilian labor, and accounting were developed to identify potential indicators of fraud. In addition, the USMC created ELC questions based on available Government Accountability Office guidance to assess the design and operating effectiveness of existing internal controls designed to combat fraud.

USMC is executing the fraud risk principle in the Standards for Internal Control in the Government by leveraging the implementation of fraud risk assessments that capture types of fraud risk, fraud risk factors, and response to fraud risks. This risk-based approach to assess fraud risks allows the USMC to prioritize material fraud risks and mitigation strategies. The risk-based approach also allows the USMC senior management to efficiently monitor fraud risks based on significance. As these efforts progress, the USMC will continue to analyze the compliance and status of fraud risk management programs including the programs to prevent, identify, prevent, and respond to fraud.

The USMC also deployed the Marine Corps Managers' Internal Control Remediation and Reporting (MICRR) application. 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 Marine Corps enterprise.

Reduce The Footprint

In accordance with OMB, Management Procedures Memorandum No. 2015-01, each agency was required to develop and submit to General Services Administration and OMB a 5-year Real Property Efficiency Plan (Plan) during FY2015 to serve as a baseline assessment against which to measure future performance. The DoN produced a consolidated USMC and Navy Reduce the Footprint (RTF) Real Property Efficiency Plan to implement RTF. Optimizing installation facility capability within constrained resource availability while supporting the Fleet Marine Forces and Supporting Establishment to achieve the specified mission is consistent with the RTF mandate.

In pursuit of ensuring the most efficient use of real property inventory, the USMC's Campaign Plan and Infrastructure Reset Strategy for FY2018 initiated an eleven-year effort to reduce infrastructure costs to sustainable levels, demolish burdening and non-useful facilities, and take advantage of consolidation opportunities and new or reenergized authorities.

The USMC strategy is to maintain the minimal number of facilities required to adequately support the mission. The USMC utilizes a planning process and governance structure that identifies current and future uses for land and facilities, as well as under-utilized and excess facilities capacity on installations. The use of operation review boards at installations and bases, along with the implementation of planning tools such as the Shore Facility Planning System, the USMC Facilities Support Requirements and Master Plans, allow the USMC to arrive at the correct "size" and location of assets to support operational mission requirements. Master Plans are the future vision and guide the installation staff towards in-depth evaluations of facility conditions, locations, and utilizations to optimize space use.

Table 3, below, identifies the USMC square footage of owned and leased facilities subject to RTF, comparing FY2018 versus FY2015, the baseline year. An overall decline in the real property footprint over time is observed.

Reduce the Footprint Policy Baseline Comparison			
	FY2015 Baseline	FY2018 (CY-1)	Change (FY2015 Baseline to FY2018)
Square Footage (SF in thousands)	32,092*	31,213	(879)

Table 3

** Adjusted for rounding*

Facilities are regularly inspected for operational capabilities and condition, with the worst buildings targeted for renovation, reclassification/reuse, or divestiture at the earliest opportunity. Where facility assets exceed the Basic Facility Requirement (BFR), outlive their intended purpose, or are excess to the force, efforts are made to consolidate and reduce facility inventory while ensuring mission integrity. Older facilities that cannot be feasibly or inexpensively renovated are demolished or otherwise disposed of. However, reuse and repurposing of such facilities is preferred if such an option is compatible with the mission. Replacement of inefficient buildings with more compact development has proven to be costly and new land acquisitions go through substantial scrutiny prior to possible approval.

A unique consideration for real property in the DoD environment is national security needs. They can rapidly change mission parameters and drive force structure changes, quickly impacting infrastructure development and recapitalization. Weapon system changes and upgrades also often necessitate the construction of new or expanded support facilities because the existing facilities are not equipped or sized properly to support new platforms (examples include the F-35 "Lightning II" Joint Strike Fighter or the KC-46 "Pegasus" air refueling aircraft).

In Table 4, annual operating costs subject to RTF, as reported in the most recent Federal Real Property Profile for owned and leased facilities, are provided.

Reporting of O&M Costs - Owned and Direct Lease Buildings			
	FY2015 Reported Cost	FY2018 (CY-1)	Change (FY2015 Baseline to FY2018)
Operation and Maintenance Costs (in thousands)	$103,140	$95,789	$(7,351)

Table 4

Acronyms

Acronym	Definition
3D	Three-Dimensional
AAV	Assault Amphibious Vehicle
ACD&P	Advanced Component Development and Prototypes
ACV	Amphibious Combat Vehicle
ADA	Anti-deficiency Act
ADL	Administrative Deadline Programs
AFR	Agency Financial Report
APF	Appropriated Fund
APSR	Accountable Property System of Record
ASP	Administrative Storage Programs
BAH	Basic Allowance for Housing
BFR	Basic Facility Requirement
BRAC	Base Realignment and Closure
CAP	Corrective Action Plan
CD&I	Combat Development and Integration
CFO	Chief Financial Officers
CIP	Construction in Progress
CMC	Commandant of the Marine Corps
CPG	Commandant's Planning Guidance
CREW	Counter-Radio Controlled Improvised Explosive Device
CRO	Cumulative Results of Operations
CUEC	Complementary User Entity Control
CY	Current Year
DATA Act	Digital Accountability and Transparency Act of 2014
DC	Deputy Commandant
DC I	Deputy Commandant, Information
DC I&L	Deputy Command, Installations and Logistics
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DM&R	Deferred Maintenance and Repairs
DO	Distributed Operations
DoD	Department of Defense
DoDI	DoD Instruction
DOL	Department of Labor
DoN	Department of the Navy
DOT	Department of Transportation
D-PRV	Deflated Plant Replacement Value
EABO	Expeditionary Advanced Base Operations
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
FFMIA	Federal Financial Management Improvement Act
FHIF	Family Housing Improvement Fund
FISMA	Federal Information Security Modernization Act
FMEA	Financial Management Evaluation and Assessment
FMF	Fleet Marine Force
FMFIA	Federal Manager's Financial Integrity Act
FY	Fiscal Year
G/ATOR	Ground/Air Task Oriented Radar
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office

Acronym	Definition
GBAD	Ground Based Air Defense
GE	General Equipment
GMRA	Government Management Reform Act
GPP&E	General Property, Plant, and Equipment
GSA	General Services Administration
HQC4	Command Control Communications and Computers
HQMC	Headquarters, U.S. Marine Corps
I&L	Installations and Logistics
ICOFR	Internal Control Over Financial Reporting
ICOFS	Internal Control Over Financial Systems
ICONO	Internal Controls Over Non-Financial Operations
IE Ops	Information Environment Operations
IGMC	Inspector General of the Marine Corps
IPA	Independent Public Accountant
IT	Information Technology
IUS	Internal Use Software
JNLW	Joint Non-Lethal Weapons
LAAD	Low Altitude Air Defense
LLC	Limited Liability Company
LOCE	Littoral Operations in a Contested Environment
M&RA	Manpower and Reserve Affairs
MAGTF	Marine Air Ground Task Forces
MARCENT	U.S. Marine Corps Forces, Central Command
MARCORLOGCOM	Marine Corps Logistics Command
MARFORCOM	U.S. Marine Corps Forces, Command
MARFORCYBER	U.S. Marine Corps Forces, Cyberspace Command
MARFOREUR/AF	U.S. Marine Corps Forces, Europe and Africa
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
MARSOF	Marine Special Operations Forces
MCB	Marine Corps Base
MCCDC	Marine Corps Combat Development Command
MCCS	Marine Corps Community Services
MCICOM	Marine Corps Installations Command
MCRC	Marine Corps Recruiting Command
MCRCO	Marine Corps Rapid Capabilities Office
MCSC	Marine Corps Systems Command
MCSS	Marine Corps Study System
MCWL	Marine Corps Warfighting Laboratory
ME	Military Equipment
MERHCF	Medicare Eligible Retiree Health Fund Contribution
MERHFC	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
MOC	Marine Corps Operating Concept

Acronym	Definition
MOCAS	Mechanization of Contract Administration Services
MRF	Military Retirement Fund
MRP	Materiel Returns Program
MUHIF	Military Unaccompanied Housing Improvement Fund
MWR	Morale, Welfare, and Recreation
N/A	Not Applicable
NAF	Non-Appropriated Funds
NAFI	Non-Appropriated Fund Instrumentalities
NATO	North Atlantic Treaty Organization
NAVAIR	Naval Air Systems Command
NAVFAC	Naval Facilities Engineering Command
NDS	National Defense Strategy
NFR	Notice of Findings and Recommendations
NRV	Net Realizable Value
O&M	Operations and Maintenance
OA	Operating Agreement
OEL	Other Environmental Liabilities
OGC	Office of General Counsel
OM&S	Operating Materiel and Supplies
OMB	Office of Management and Budget
OPM	Office of Personnel and Management
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
P&R	Programs and Resources
P.L.	Public Law
P3	Public-Private Partnerships
PISD	Placed in Service Date
PP&E	Property, Plant, and Equipment
PP&O	Plans, Policy, and Operations
PRV	Plant Replacement Value
R&D	Research and Development
RDT&E	Research, Development, Test, and Evaluation
RMF	Risk Management Framework
RPA	Real Property Assets
RSA	Remote Storage Activities
RTF	Reduce the Footprint
S/L	Straight Line
SABRS	Standard Accounting Budgeting and Reporting System
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDD	System Development and Demonstration
SDP	Savings Deposit Program
SECNAV	Secretary of the Navy
SFFAS	Statement of Federal Financial Accounting Standards
SHORAD	Short Range Air Defense
SNC	Statement of Net Cost
SNCO	Staff Non-Commissioned Officers
SOFA	Status of Forces Agreements
TFM	Treasury Financial Manual
TMOD	Talent Management Oversight Directorate
TSP	Thrift Savings Plan
U.S.	United States
U.S.C.	United States Code
UAS	Unmanned Aerial System
UNC	United Nations Command
USAFRICOM	U.S. Africa Command
USCENTCOM	U.S. Central Command
USCYBERCOM	U.S. Cyber Command

Acronym	Definition
USEUCOM	U.S. European Command
USFK	U.S. Forces Korea
USMC	United States Marine Corps
USNORTHCOM	U.S. Northern Command
USPACOM	U.S. Pacific 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

2

1

COVER CAPTIONS

1. Marines and Sailors man the rails as the San Antonio-class amphibious transport dock ship USS New York (LPD-21) transits the Hudson River in preparation for Fleet Week New York, May 22, 2019. Fleet Week NY is an opportunity for the American public to meet their Marine Corps, Navy, and Coast Guard service members and experience America's sea services firsthand. (U.S. Marine Corps photo by Cpl. Tiana Boyd)

2. U.S. Marines with the New Equipment Training Team for the Amphibious Combat Vehicle at Program Manager Advanced Amphibious Assault, Program Executive Officer Land Systems, conduct a training exercise at Camp Pendleton, California, July 30, 2019. (U.S. Marine Corps photo by Ashley Calingo)

U.S. Marines with the Silent Drill Platoon perform at the Statue of Liberty, May 26, 2019. Marines with the Battle Color Detachment performed at multiple venues during Fleet Week in New York City. (U.S. Marine Corps photo)

For More Information

Fiscal Director of the Marine Corps

Headquarters, Marine Corps
Programs and Resources Department

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