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**PROUDLY SERVING
FOR TWENTY-FIVE YEARS**

FISCAL YEAR 2016 ANNUAL FINANCIAL REPORT



**DEFENSE FINANCE AND
ACCOUNTING SERVICE**
Working Capital Fund



DoD Chief Financial Officer Mike McCord walks through DFAS Cleveland with Site Director Bob Edwards during an official visit.

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Celebrating 25 years of delivering efficient, exceptional quality pay and financial information while proudly serving America's heroes

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DIRECTOR'S MESSAGE

I am pleased to present the Defense Finance and Accounting Service (DFAS) Fiscal Year (FY) 2016 Annual Financial Report. This report provides a comprehensive view of DFAS' financial position and condition, revenues and costs, assets and liabilities, and other obligations and commitments.

This year, we celebrate DFAS' 25th Anniversary, marking a quarter century of proudly serving America's heroes. I am extremely proud to lead this Agency during this significant milestone. Through the consolidation of the finance and accounting efforts across the Department of Defense, DFAS empowered our mission partners with critical accounting and financial services, while driving efficiencies and savings for our customers. Today, we continue to provide world-class pay, accounting, and reporting services that our customers deserve.

DFAS plays an integral role in the audit success of our customers and DoD. While we have already achieved tremendous success in DoD auditability, we will continue to forge ahead as a recognized leader in financial management to sustain and achieve additional unmodified opinions on key processes in support of our customers. We will also continue to conduct self-reviews of our internal processes and systems in accordance with our Managers' Internal Control Program.

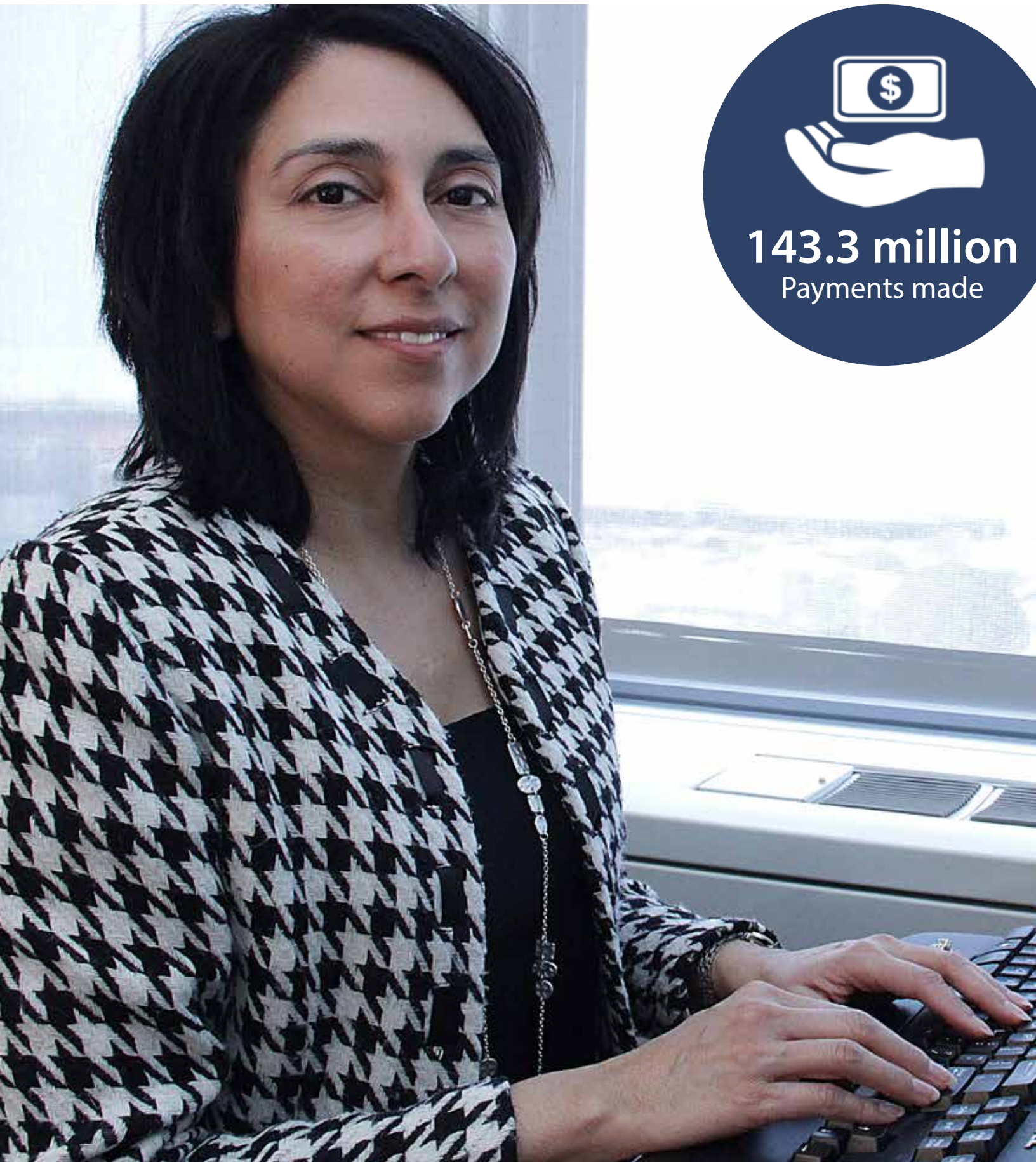
As an Agency, we have been diligent in our efforts to achieve our FY 2016 strategic priorities and to successfully close out our FY 2011-2016 Strategic Plan. Our new FY 2017-2021 Strategy will continue to focus the Agency and affirm our core values of integrity, service and innovation while emphasizing our commitment to customer collaboration, continuous improvement, and operational excellence.

DFAS remains focused on leading our customers in finance and accounting, while consistently delivering first-class service and products. Building upon past successes, we stand ready to overcome future challenges. At DFAS, it is both a privilege and an honor to support and serve the men and women who continue to protect our great Nation.



Teresa A. McKay
Director





143.3 million
Payments made

OUR AGENCY

DFAS was established in 1991, chartered to provide finance and accounting services for Department of Defense components during times of peace and conflict.

The Agency supports military and civilian DoD and other federal customers throughout the world. Our mission emphasizes the importance of DFAS' leadership role in standardizing and improving finance and accounting activities across the Department.

DFAS pays all DoD military and civilian personnel, retirees, annuitants, and major DoD contractors and vendors. The Agency also provides services to customers outside the DoD in support of electronic government initiatives. Those customers include: Executive Office of the President, Department of Energy, Department of Veterans Affairs, Department of Health and Human Services, and Broadcasting Board of Governors.

In 1995, DFAS was also established as a Fourth Estate Regional Service Center for human resources operations to provide overhead efficiencies for Defense Agencies and Office of the Secretary of Defense components. DFAS currently provides HR services for eight Fourth Estate customers.

Primarily financed as a working capital fund, rather than being funded through direct appropriations, DFAS bills its customers for the costs required to provide them goods and services. The Agency sets annual billing rates for services two years in advance based on anticipated customer workload and estimated costs calculated to offset any prior year gains or losses.

DFAS operations are subject to oversight by the DoD as well as the executive and legislative branches of the federal government. DFAS has consistently managed resources with a forward-looking focus on anticipated customer workload and efficiently achieving its required financial operating results. The Agency has the strategic goal of providing services at the best value for our customers. Optimal value is delivered through the Agency's continuous search for innovation, resource savings, efficiencies, and enhanced business practices and controls.

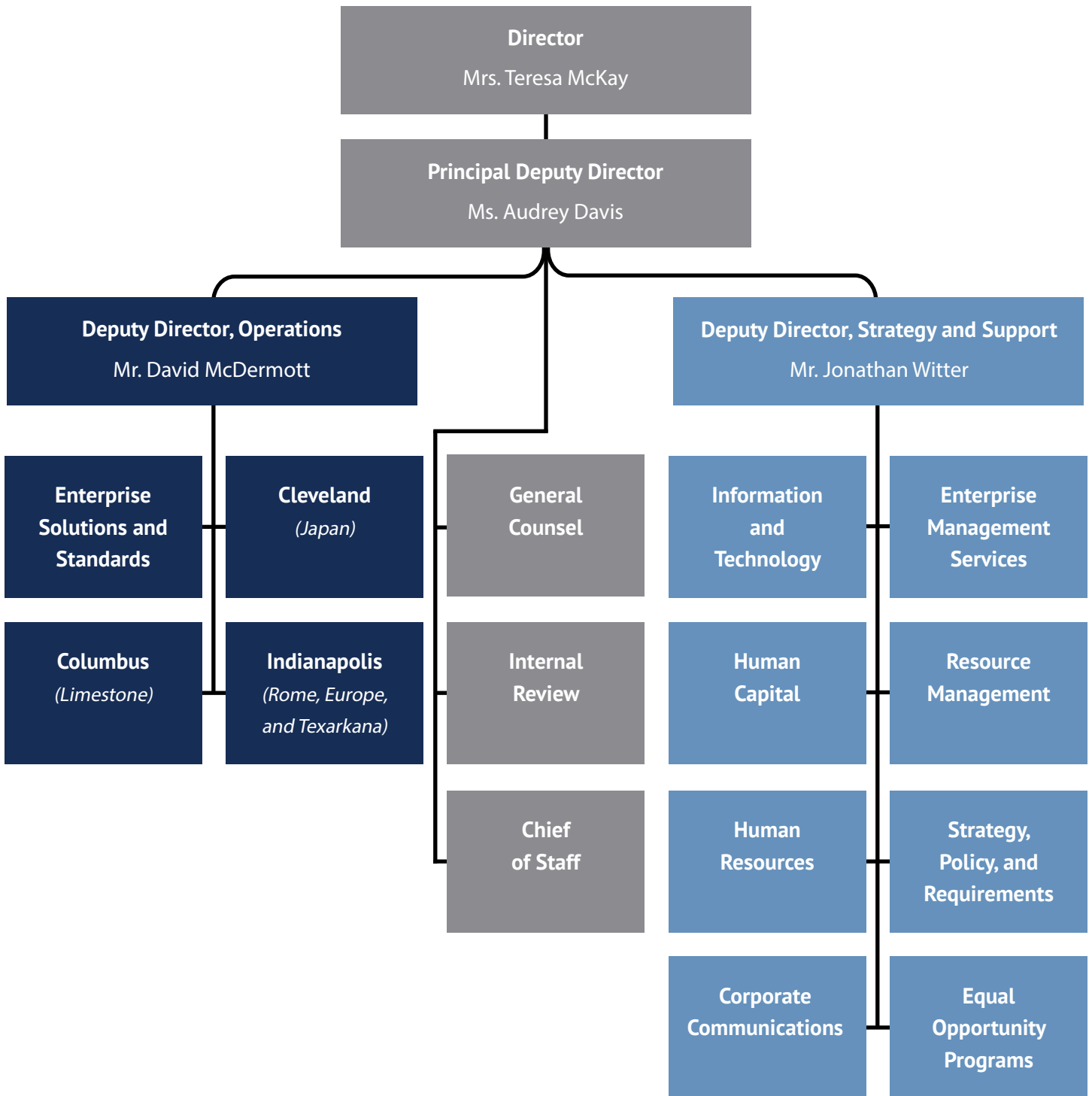


\$476.6 billion
Disbursed to 6.3 million customers, comprising 150.2 million pay transactions and 11.8 million commercial invoices paid



1,367
Active DoD appropriations, comprising \$675.9 billion of DoD funds

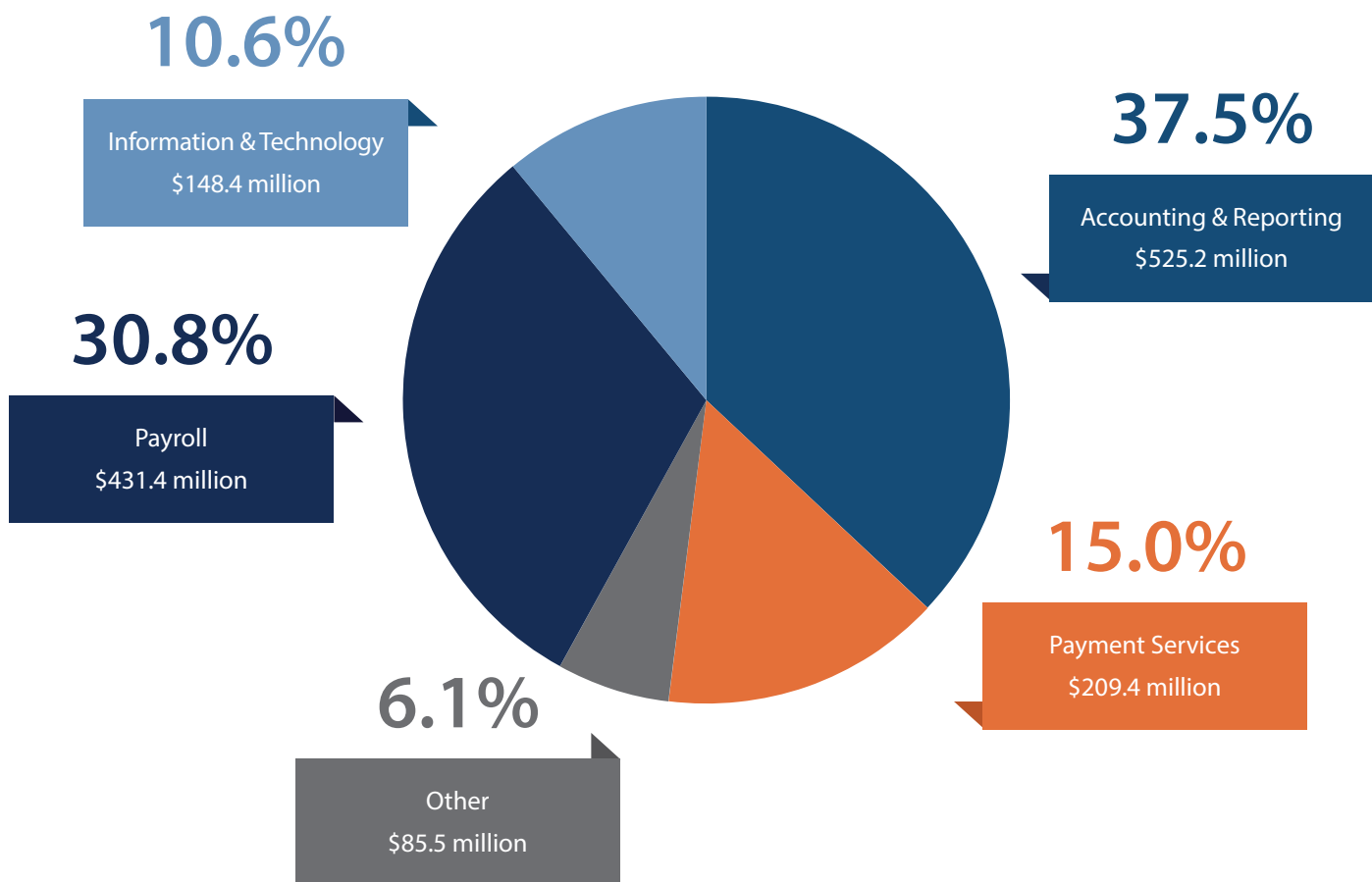
ORGANIZATIONAL STRUCTURE



EXECUTIVE OVERSIGHT BOARDS

<p>BOARD OF DIRECTORS</p> <p>Evaluates DFAS’ strategy, oversees the budget formulation and execution, approves recommendations from the Executive Business Council, and acts as the Agency’s Internal Audit Committee.</p> <p>Members: Director, Chair; Principal Deputy Director; Deputy Directors Operations and Strategy & Support</p>	<p>STRATEGIC COUNCIL</p> <p>Evaluates content and structure of the DFAS Strategy, Corporate Operational Dashboard, and other Agency priorities to successfully execute strategy.</p> <p>Members: Board of Directors and Senior Executives</p>	<p>EXECUTIVE BUSINESS COUNCIL</p> <p>Oversees and approves resourcing, business aspects of operations, and support functions.</p> <p>Members: Principal Deputy Director, Chair; other appointed members</p>
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REVENUE STREAMS





OUR HISTORY

This year, DFAS celebrated its 25th anniversary as an organization that consolidated the financial and accounting efforts of multiple uniformed services into one umbrella agency.

The “peace dividend” from the end of the Cold War with the fall of the Berlin Wall and the crumbling of the Soviet Union offered the world a new hope of standing down large military armies. Nations were gradually signing the Nuclear Nonproliferation Treaty, and attention was turning to domestic concerns such as the economy, education, and social issues.

A decision in the Defense Department was made in the summer of 1990 to combine the military financial management operations. The goal was to create a joint finance and accounting arm of the DoD to reduce duplication of effort, consolidate resources, and become better stewards of the taxpayers' money for the nation's defense.

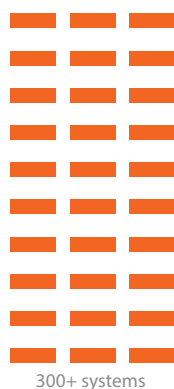
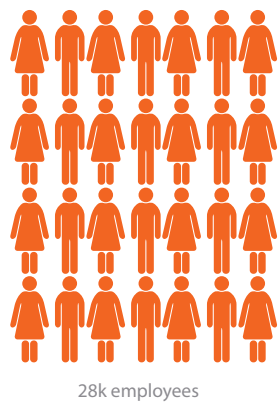
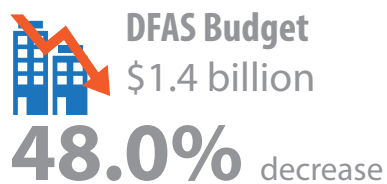
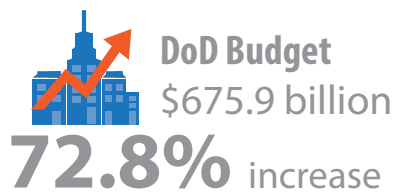
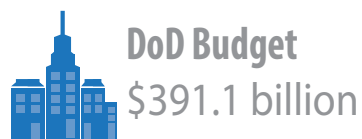
A team of top DoD federal civilians working in financial management were gathered to stand up the Defense Finance and Accounting Service. They had six months to develop systems to disburse and track all monies entrusted to the Defense Department and supporting governmental agencies.

The post Cold War peace was short-lived and shattered as Iraqi forces invaded Kuwait in August of 1990. The world's attention was turned to the Middle East for the coalition efforts in Operations Desert Shield and Desert Storm. Despite a build-up to an inevitable showdown in Southwest Asia, DFAS stood up in January 1991, nearly coinciding with combat operations in Kuwait.

The pace of operations has not stopped nor has it slowed down in the last quarter century. Since then, military service members have been in the far reaches of the globe including humanitarian, peacekeeping or combat operations in Central America, Africa, Bosnia, Kosovo, Afghanistan and Iraq.

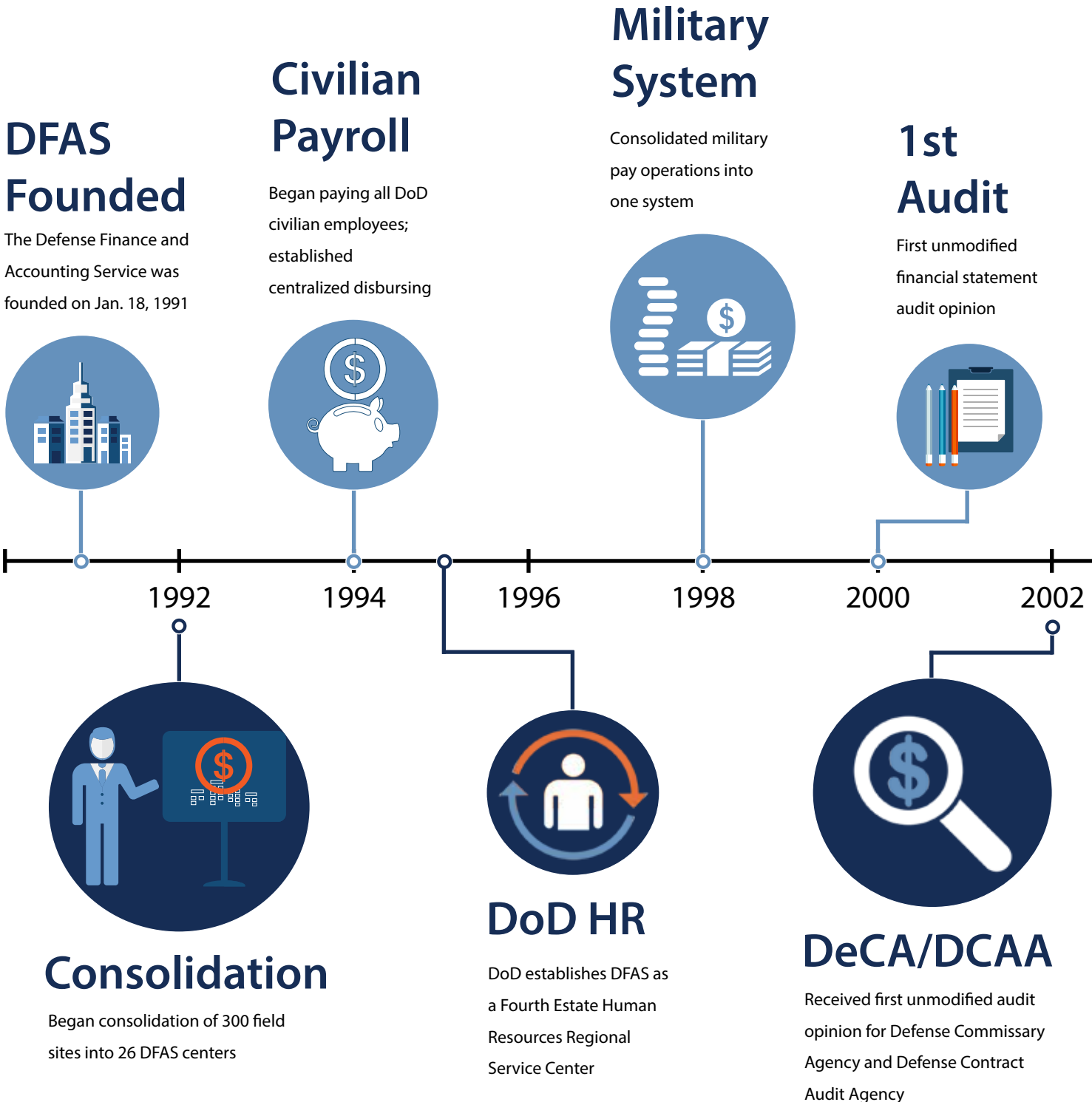
Since the September 11, 2001, attacks, DFAS has rotated hundreds of its own civilian finance specialists to serve alongside their military counterparts in various theaters of operation through the Expeditionary Support Organization. DFAS has also responded to meet the special needs of deployed service members through the Mobilized and Wounded Warrior Pay Management Organization. A priority one emphasis has been to meet with each wounded service member within 72 hours of admittance to a hospital, starting at Landstuhl Regional Medical Facility in Germany.

The past quarter century has offered unique challenges and rare opportunities to provide services to those who wear the uniform and the federal civilians who support the men and women who keep the country strong and engaged on the world stage.



OUR TIMELINE

When DFAS began operations in January 1991, our newly founded organization consolidated the finance and accounting operations of the three branches of the military at the height of Operations Desert Shield and Desert Storm. Since then, we have reduced our global footprint by consolidating from 300 to 10 locations, while maintaining our global reach. While we've reduced the number of people, we've increased our efficiencies and developed better ways of doing our nation's business.



Warfighter Support

Initiated Wounded-in-Action program providing real-time financial support to wounded servicemembers



17th Audit Opinion

Achieved the 17th unmodified audit opinion for DFAS WCF Financial Statements



Audit Readiness

Created Audit Readiness Directorate



2004

2006

2008

2010

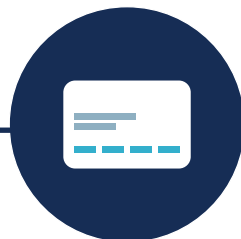
2012

2014



2005 BRAC

Base Realignment and Closure realigns DFAS into 10 sites



Family Support

Wounded Warrior Family Support Debit Card Program implemented providing funds to families of wounded warfighters



SSAE16s

Achieved unmodified opinions on Statement on Standards for Attestation Engagement No. 16 for Civilian Pay, Military Pay, and Disbursing



PROGRAM PERFORMANCE OVERVIEW

DFAS defined its vision through the identification of four strategic priorities, derived from the Department’s Quadrennial Defense Review, the DoD Comptroller’s and Personnel & Readiness’ Functional strategies, client engagements, and a variety of current environmental factors.

The priorities are a piece of the strategic portfolio and are essential to ensure the Agency’s resources are aligned and focused on achieving these critical outcomes.

Operational excellence: Meet and exceed agreed-upon customer expectations by consistently delivering first-class service and products.

Audit Readiness: Be prepared when customers assert on specific

parts of the financial statements within mutually agreed upon timeframes.

Target Business Systems Environment: Identify and support timely implementation of the TBSE. Identify and leverage opportunities to reduce non-target systems. Identify the ideal mix of business systems (ERP/Core/Legacy) that most efficiently and effectively perform the Agency’s mission.

Efficiencies: Provide services at best value and sponsor efficiency opportunities for the Agency.

Throughout the fiscal year, DFAS monitors the progress toward achieving the intended outcomes by tracking and reporting the accomplishment of key deliverables and corresponding milestones.



MISSION

Lead the DoD in finance and accounting by ensuring the delivery of efficient, exceptional quality pay and financial information



VISION

To be a recognized leader in DoD’s financial management by consistently delivering first-class service and products



VALUES

Integrity: Doing what is right
Service: Remain a trusted financial partner
Innovation: Creating better ways to do business

SCORECARD REVEALS WORKPLACE BALANCE

Nine strategic objectives form the strategy's building blocks, making it actionable and measurable. Objective owners assess Agency initiatives by reviewing and analyzing strategic results in comparison to intended performance targets.

The strategic objectives tie directly to enhancing mission support at best value to DFAS customers – balancing effectiveness and efficiency to best meet requirements in a period of complex challenges and resource constraints.

The objectives also provide the basis for our active engagement to achieve DoD priorities. The balanced scorecard is the Agency's performance management tool. It provides management an overview of strategic goals and expected outcomes to ensure progress is being made and reported to customers.

The FY 2016 strategic BSC results provide highlights of the key performance measures and results.

The Agency continues to excel during times of significant change and constraints. In FY 2016, DFAS sustained a competent, engaged workforce, achieving quality and accuracy goals for its customer deliverables.

As a shared service provider and DoD working capital fund, DFAS has been a worthy steward of its \$1.4 billion in annually allocated resources. The Agency consistently achieves or exceeds its cost and revenue targets by proactively investing in people and tools to deliver tremendous

contributions to the DoD in business management, financial statement auditability, and implementation of modern financial systems.

The focus on customer service is evidenced by the BSC results, the strategic investments, the leadership team, and the employee contributions that enabled DFAS to exceed expectations for four of the key performance indicators this year.

The Agency exceeded the anticipated net operating result goals through diligent process improvement efforts and realized efficiency opportunities. This ensured that DFAS was able to provide service to customers while maintaining necessary cash balances.

DFAS surpassed its Agency operational health goal by 1.8%, exceeding agreed upon accuracy and timeliness performance standards in support of its mission and customer agreements.

Innovation is a core value, and DFAS employees actively innovate by submitting ideas to leadership for changes and improvements to business products and services in support of our customers.

The Agency exceeded its target by 4% for workforce completion of DoD's Financial Management Certification by ensuring 100% of the initial population was certified before the required deadline and exceeded expectations for the Leadership Development Health Index. These measures highlight the professionalism and continuing education of the workforce.

DFAS continued its focus on customer priorities. This included collaborating with customers on critical efforts and focusing on customer concerns.

FY 2016 Strategic Balanced Scorecard Results		
Customer Perspective - Increase customer satisfaction by improving customer relations, providing proactive user-friendly products and services, and demonstrating service excellence		
Objective	Performance Measures	FY 2016 Results
<i>Improve Customer Satisfaction</i>	- Annual Customer Survey - Satisfying Customer Priorities	Materially Met Expectation
Financial Perspective - Increase efficiency and value by providing solutions/support at least cost, increasing quality and productivity, and achieving expected financial outcomes		
<i>Improve Cost Efficiencies</i>	- Variance to Planned Net Operating Result (NOR)	Exceeded Expectation
Internal Perspective - Improve processes through meaningful analysis and collaboration, employ continuous improvement processes/tools and execute standardized operating procedures		
<i>Improve Service Excellence</i>	- Agency Operational Health - Quarterly	Exceeded Expectation
<i>Improve Business Processes and Controls</i>	- % Key Controls that Pass Independent Public Accounting (IPA) Testing	Materially Met Expectation
<i>Strengthen Partnering Processes</i>	- Sustainment of Audit Readiness CONOPs/MOUs	Materially Met Expectation
Organizational Capacity Perspective - Engage, equip, empower and align our people to understand client/customer needs, target improvement opportunities and demonstrate functional expertise and personal leadership		
<i>Build a Culture of Innovation to Improve Service Excellence</i>	- Ideation Process Participation %	Exceeded Expectation
<i>Leverage Technology</i>	- % Cost and Work Years Efficiencies	Met Expectation
<i>Improve Talent Management</i>	- Leadership Development Health - % of Initial Population FM Certified	Exceeded Expectation



OPERATIONAL EXCELLENCE

DFAS works within the organization to improve ways that it accounts for funds, transacts business, and connects with customers. Working from within and reaching out, DFAS personnel work together to do the best job for the organization, the customers, and, ultimately, the nation.

Agency employees collaborated to improve how things were done, develop tools, and streamline processes throughout the year to show the organization could work more effectively by:

- Collaborating with the Army to deploy a global tracking system for supplies that converted 265 standalone systems into one unified platform.
 - Developing and deploying online videos to answer customer questions during tax season resulting in 335,300 views.
 - Re-prioritizing and rescheduling open contract audits with canceling balances in MOCAS to reduce the outstanding balance by \$2.2 billion.
 - Implementing a system change request to improve the identification, reporting, and remediation of improper payments with projected savings of \$1 million by FY 2021.

\$543 million GCSS-A deployment

DFAS partnered with the Army to deploy 34 Global Combat Support System–Army Field Groups, increasing processing efficiency from 80% to 94%.

GCSS-A is a single, integrated, web-based enterprise logistics system that supports field and installation-level supply, maintenance, property accountability and tactical finance. The system allows the Army to manage supplies and costs in a consolidated picture.

Wave One deployment was a collaborative effort with Army and DFAS that resulted in eliminating interfaces with Funds Control Module and replaced the legacy Standard Army Retail Supply System and the associated financial management systems. With the elimination of 265 SARSS stand-alone systems at 140 locations around the world, GCSS-A provides single source near real-time visibility of stock inventory and related financial data.

335,300 Empowered customers

DFAS Customer Operations improved self-service by producing video tutorials for tax season questions, resulting in 335,300 views by customers with information at their fingertips.

MyPay, DFAS' payroll self-service portal, allows our military, civilian, and retirement pay customers to view their pay and tax statements, set tax withholdings and allotments, and even update their banking information.

Web-based videos are easily accessible from the myPay homepage.

Training modules created include:

- Change myPay password
- Change email address in myPay
- Establish or change self-service PIN
- Set up a new myPay account
- Start an allotment in myPay
- Update banking information in myPay.

The use of the videos resulted in decreasing the need for customers to contact our call center, reducing service costs, and wait times.

\$2.2 billion Coalition building

In January 2016, a tri-agency working group between DFAS, the Defense Contract Management Agency, and the Defense Contract Audit Agency was established to align canceling funds and contract closeout priorities. Contracts with canceled funds require use of current appropriations to pay outstanding balances, reducing the Department's overall resources.

DFAS provided DCAA and DCMA with a complete inventory of contracts in MOCAS with FY 2016 canceling balances. DCMA reviewed DCAA's upcoming schedule for those audits and discovered that many of them were not due to be completed until after the funds canceled.

DFAS coordinated with DCAA to reprioritize and reschedule its open contract closeout audits. Ensuring closeout audits were completed between February and September 2016, resulted in the FY 2016 and 2017 canceling balances in MOCAS being reduced by \$2.2 billion.

\$1 million One Pay improvements

One Pay implemented a system change request to improve the identification, reporting, and remediation of improper payments. This improvement reduced manual processing, and improved the overall traceability and auditability of Navy transactions with a projected savings of \$1 million by FY 2021.





TRAINED AND READY TO MEET CUSTOMER AUDIT READINESS GOALS

AUDIT READINESS

The phrase “audit readiness” borrows a concept from the military itself, that you are trained and ready to meet any challenge. DFAS leaned forward with proactive and aggressive approaches to ensure that each step of the way, there is a proper accountability for how funds come into the organization, how they are managed, and how they are disbursed. DFAS personnel work with customers to ensure its business processes are compliant prior to audit scrutiny.

DFAS conducted detailed examinations and reviews of internal processes and systems to ensure the services provided by DFAS are “Audit Ready Every Day.” Some of the ways that DFAS demonstrates its audit readiness include:

- \$363 billion of DoD resources successfully passed through controls deemed reliable by independent audit as part of DFAS SSAE 16 Reporting on Controls of a Service Organization.
- Conducting self-reviews and system reviews in accordance with Office of the Secretary of Defense Financial Improvement and Audit Readiness Guidance and the Government Accountability Office Financial Information System Controls Audit Manual.
- Sustaining an effective MICP to ensure processes are documented, controls are tested for effectiveness, and corrective actions are fully remediated in support of our customers’ audits.
- Implementing an enterprise-wide tool that supports our customers’ audits and DFAS examinations by providing a standardized infrastructure to respond to auditor requests.

DFAS is engaged to ensure that there are strong and transparent links in the chain for the processes and procedures of the entire transaction lifecycle.

AUDIT READY EVERY DAY

In order to support the DoD’s strategic initiative to have the entire Defense Department prepared for financial statement auditability by Independent Public Auditors, DFAS established an Office of Audit Readiness.

The Office of AuR is responsible for coordinating and managing the corporate service provider strategy and coordinating actions needed to become audit ready. All DFAS offices support audit readiness as part of the mission to our customers.

The Audit Readiness Senior Steering Committee serves as the Agency’s primary, executive-level decision making body for AuR and projects needed to execute the Agency’s Audit Readiness Strategic Plan.

As a service provider with multiple customers, systems, and processes, DFAS efficiently and effectively supports the Defense Department’s audit readiness goals by using a systematic approach made up of three major elements: SSAE 16s, self-reviews, and systems reviews.

- SSAE 16s: DFAS uses SSAE 16 examinations when there are three or more customers relying on a standard DFAS service.
- Self-reviews: As part of the Agency’s MICP, DFAS documents processes and tests key controls for business services outside the SSAE 16 scopes.
- System reviews: The final pieces to the DFAS Audit Readiness strategy consists of tests of the Agency’s critical systems controls. These tests validate the systems’ general and application controls using methodology based on the Federal Information System Controls Audit Manual.

UNMODIFIED OPINIONS

In FY 2016, DFAS successfully asserted and sustained unmodified opinions on Civilian Pay, Disbursing, and Contract Pay SSAE 16s, which equates to a total of \$363 billion of DoD resources that passed through controls deemed reliable by an independent auditor.

The unmodified opinions provided in the SSAE 16 reports directly contribute to attaining DoD Audit Readiness goals because they are available to all DoD reporting entity customers undergoing their own financial statement audits.

Both Financial Reporting and Military Pay SSAE 16s received modified opinions, meaning a limited number of notable deficiencies were documented. To ensure we are best positioned to support our customers' audits, DFAS is proactively working to correct all identified deficiencies.

EFFECTIVE MICP ACCOMPLISHED

For processes and systems that are not part of an SSAE 16 examination, DFAS conducts self-reviews and system reviews in accordance with FIAR and FISCAM.

DFAS sustains an effective MICP to ensure processes are documented, controls are effectively tested, and corrective actions are fully remediated in support of the Agency's customers' audits. These outcomes are measured with two goals for Audit Readiness in the Agency's Annual Business Plan. Through the year ended FY 2016:

- DFAS achieved 97.5% of business processes documented, tested and corrected, which exceeds the Agency goal of 90% for Audit Readiness Goal 1.
- For Goal 2, DFAS achieved and sustained 97.5% of FISCAM controls maintained for targeted systems.



AUDIT MANAGEMENT TOOL

DFAS implemented an enterprise-wide tool that supports our customers' audits and DFAS examinations by providing a standardized infrastructure to respond to external auditor requests. AMT simplifies cross site support of single audits, resulting in an FY 2016 savings of \$1.8 million.

In FY 2016, the AMT has supported 17 audits and 4,857 audit requests, resulting in the transmission of 12,785 documents to auditors. This transmission is accomplished through a sequence of workflows, which originate with document upload, require a quality control checkpoint, and ultimately flow to a folder for auditors to view. As documents are accepted and rejected through various check points, auditors and DFAS personnel are able to provide comments to one another. A variety of status reports are available to monitor documents and requests as they flow through the process.

AUDIT MANAGEMENT OFFICE FORMED

Our Defense Agency customers play an important role within the DoD. As their service provider, DFAS supports them in achieving audit readiness and supports them throughout their audit process.

In partnership with the OUSD (C), DFAS established a formal project management office with special focus on audit readiness initiatives in support of Treasury Index 97, which is comprised of \$233 billion in budgetary resources. The APMO ensures planning, oversight, risk management, and communications are effectively carried out.

As part of this effort, DFAS partnered with the DoD Deputy Chief Financial Officer to implement solutions for seven audit deficiencies in the fund balance with treasury reconciliation and reporting processes. For example, a repeatable process was established for researching, resolving, and routinely reviewing FBWT variances.



TARGETED BUSINESS SYSTEMS ENVIRONMENT

If the heart of the organization is its people, then the veins and arteries are the systems that allow needed information to flow to and from the heart. DFAS had worked to remove blockages caused by older, outdated systems and to develop better flow between internal and external partners. Examples of DFAS enhancements include:

- Worked with partners to strengthen the Defense Agency customers' financial management environment through increased interoperability, compliancy, and auditability by converting several agencies to the Defense Agencies Initiative System.
- Retired Intra-governmental Payments and Collections Wizard, eliminating 37 Microsoft Access databases and saving \$1.4 million.

99.7%

Reduction in overaged intransits

MIGRATING TO AN ERP STANDARDIZES ACCOUNTING BUSINESS LINES, RULES

For example, DoDEA's overaged intransits were drastically reduced from \$88 million to \$300,000. Furthermore, customers have provided DFAS with positive feedback regarding the increased efficiency of the federal reimbursable process within the DAI ERP compared to the previous legacy accounting systems.

NEWER, AUDITABLE SYSTEM CONVERSION

DFAS successfully converted a number of Defense Agencies from legacy systems to the DAI ERP in October 2015.

Directorates at DFAS worked jointly with Defense Agency customers to improve financial management capabilities by enhancing their current systems and processes, increasing their compliance, and preparing them for audits. Defense Agency customers were:

- Defense Acquisition University
- Department of Defense Education Activity
- Defense Contract Management Agency
- Defense Microelectronics Activity

DAI provides better assurance of the accuracy and completeness of data flow from entitlement to accounting and, ultimately, reporting systems. This positions both agencies to have more accurate accounting data and reporting for their upcoming financial statement audits.

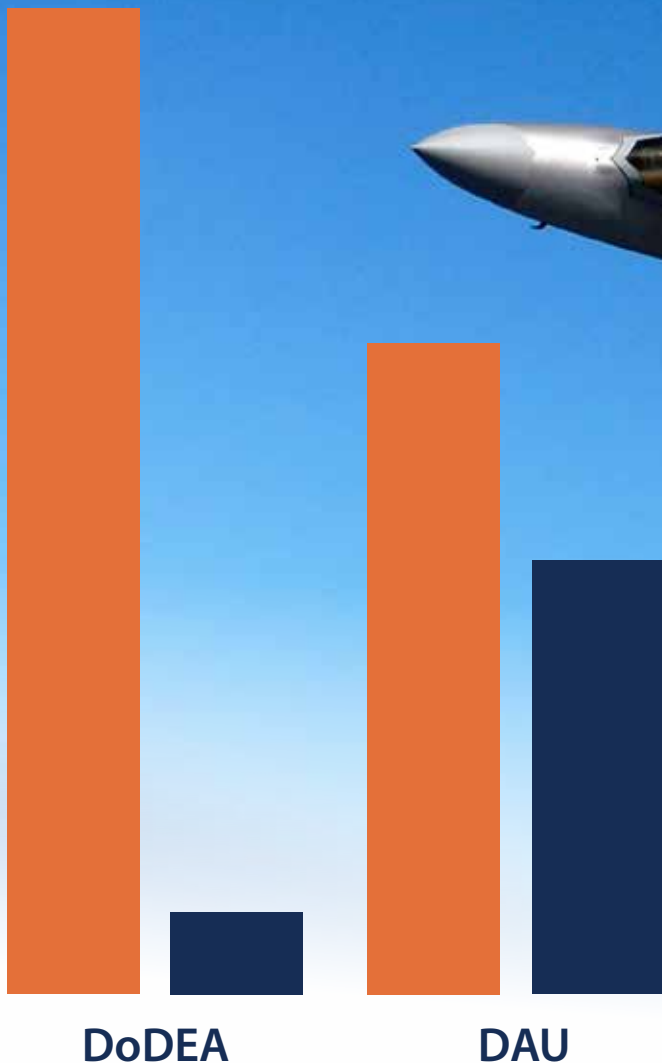
Examples of reinforcements include entitlement and accounting in one system, trial balance submission in Standard Financial Information Structure format, and tying general ledger balance to subsidiary ledger details. DAI includes two software increments.

Increment 1 established the business processes for operational functionality and future sustainment and was used for financial reporting at 12 Defense Agencies. Increment 2 further built on the business processes and included additional capabilities through four software releases.

As part of DAI Increment 2, Enterprise Solutions and Standards DAI PMO also supported the successful Oracle Release upgrade by providing user training and fielding critical support. This upgrade provided our customers enhanced functionality as well as compliance in the following processes:

- Procure-to-Pay
- Order-to-Cash
- Budget-to-Report

Percent reduction in out-of-balance contract lines



Reducing out-of-balance contract lines

Conversion efforts enabled DFAS to significantly reduce the out-of-balance contract lines in the entitlement systems. Out-of-balance contract lines reduced from 4,009 to 348 and 352 to 197 for DoDEA and DAU, respectively.

Finally, DAI PMO provided improved audit compliancy by completing key DoD requirements and delivering all TI-97 transactions to the universe of transactions repository via DAI's quantitative drill down. This action provided the means for the Office of AuR to perform key reconciliations:

- Entitlement System (Feeder File) to Accounting System of Record
- Accounting System of Record to Status of Budgetary Resources.

CUTTING DATABASES DOWN TO SIZE

Enterprise Solutions and Standards coordinated extensively across the enterprise of DFAS to deploy the new Automated Disbursing System IPAC Wizard. This successfully eliminated the use of all 37 Central

Disbursing Wizards and Field Site Wizards.

As the functionality of each additional program was built into the Oracle platform, stress and strategic testing was performed to make certain the integrity of the new system was maintained. Conflicting functionality and uniqueness of each program often caused programming challenges, which had to be vetted and reconciled among over 30 stakeholders.

Overall, the effort affected 723 IPAC users for about one million transactions totaling \$114 billion annually. The system is being used by all military services and DFAS sites. As a result of this effort, the organization will recognize an increase in controls and efficiencies, process standardization, and a total project savings of \$1.4 million over nine years.



EFFICIENCIES OVERVIEW

DFAS is constantly looking for ways to work better, produce less waste, and increase return on investment of time and resources. When it comes to efficiencies, DFAS employees worked across directorate lines to ensure that customer needs were being met by streamlining automated processes, providing better ways to communicate with customers, and standardizing procedures to reduce errors and minimize rework.

93.0%

Decrease in out-of-balances



59.4%

Reduction in wait time



\$1 billion+

Unmatched FBwT corrected



ROME OPERATIONS TACKLES GFEBs

The standard General Fund Enterprise Business System budgetary to proprietary cash reconciliation equation was not in line with the newly established and validated standard DoD equations from the Deputy Chief Management Officer.

This issue, coupled with significant increases in out-of-balances accounts, led the team to initiate a deep dive into the equation review.

DFAS accounting directorates collaboratively compared GFEBs equations to DoD equations and made recommendations for proper General Ledger Account Code inclusion by modifying over 65 individual GLACs to appropriately reflect the budgetary to proprietary cash balances.

IMPROVING TELEPHONE CARE FOR CUSTOMERS

DFAS redesigned the Customer Care Center process to support the 2015 tax season surge, which resulted in a 46% decrease in overall call volume from the 2014 tax season.

Expanding self-service by implementing the "AskDFAS W-2/1099" reissue tool for retirees and annuitants resulted in more than 60,000 individuals using the web-based tool as opposed to calling Customer Care Centers.

The call routing process was shortened by 70%. Customers now only press 1-3 options before speaking directly to a customer service representative instead of the prior 8-10. This resulted in 83% fewer misrouted calls and a 59.4% reduction in customer wait time.

ADAPT BUSINESS MODEL FOR THE NAVY

In order to better support the Navy, DFAS centralized the workload for the Standard Accounting and Reporting Systems - Headquarters Claimant Module system at the Cleveland site.

The consolidation increased workload efficiency for both the Navy and DFAS, and standardized business processes while increasing customer relations by providing an electronic customer request system for viewing and tracking submitted customer requests. By standardizing business processes, DFAS was able to identify and correct over \$1 billion of the Navy's unmatched FBwT reconciliation balance.

This will provide better support to the Navy when integrating the STARS-HCM workload to Navy ERP in the future.



MANAGEMENT ASSURANCE

Note: The assurances stated on pages 28-29 are to be read in conjunction with this memorandum.

Note: The Material Weakness referenced on the adjacent page for Accounts Payable, as with prior years' certifications, refers to DFAS in the service provider capacity to the Services and Defense Agencies. The MW does not affect DFAS WCF.

Note: The MW referenced in the adjacent page for Financial Reporting, included DFAS, WCF within its population but the resulting failures were related to DFAS in the service provider capacity to the Services and Defense Agencies. DFAS, WCF has mitigating controls for the weaknesses identified.



DEFENSE FINANCE AND ACCOUNTING SERVICE

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4800 MARK CENTER DRIVE, ALEXANDRIA, VA 22250-3000

MEMORANDUM FOR THE SECRETARY OF DEFENSE

THROUGH: Michael McCord, Under Secretary of Defense (Comptroller)

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act (FMFIA) for Fiscal Year (FY) 2016

As the Director of the Defense Finance and Accounting Service (DFAS), I recognize DFAS Management is responsible for establishing and maintaining effective internal controls to meet the objectives of the FMFIA. DFAS' Statement of Assurance provides specific information on how DFAS conducted the assessment of internal controls, in accordance with Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, and provides a summary of the significant accomplishments and actions taken to improve DFAS' internal control during the past year.

DFAS conducted its assessment of the effectiveness of internal controls over non-financial operation (ICONO) in accordance with the FFMIA and Department of Defense Instruction (DoDI) 5010.40. Based on the results, I am able to provide a *modified statement of assurance* that ICONO, as of August 16, 2016, are operating effectively with the exception of two material weaknesses for Accounts Payable and Financial Reporting service provider controls.

DFAS conducted its assessment of the effectiveness of internal controls over financial reporting (ICOFR) in accordance with OMB A-123, Appendix A. Based on this assessment, I am able to provide an *unmodified statement of assurance* that ICOFR, as of June 30, 2016, were operating effectively.

DFAS also conducted an internal review of the effectiveness of the internal controls over financial management systems (ICOFS) in accordance with the FFMIA and DoDI 5010.40. Based on the results of this assessment, I am able to provide an *unmodified statement of assurance* that as of August 16, 2016, ICOFS are in compliance with the FFMIA and OMB Circular A-123, Appendix D.

For the remainder of the FY 2016 reporting period, DFAS will continue to monitor and test internal controls. As applicable, any deficiencies classified as a material weakness and which warrant reporting outside of the Agency, will be communicated to the Director, Financial Improvement and Audit Readiness Office.

Teresa A. McKay
Director

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

DFAS management is responsible for compliance with existing laws and regulations related to financial reporting. DFAS did not identify any instances of non-compliance during FY 2016. The following describes specific compliance assertions and efforts taken by DFAS management to maintain compliance applicable to DFAS Financial Reporting.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996

DFAS conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems. Based on the results of this assessment, as of June 30, 2016, the internal controls over the integrated financial management systems utilized in the compilation of the DFAS financial statements, were in compliance with OMB Circular A-123, Appendix D, Compliance With the Federal Financial Management Improvement Act of 1996.

PAY AND ALLOWANCE SYSTEM FOR CIVILIAN EMPLOYEES

In FY 2016, KPMG, an independent public accounting firm, conducted an examination of the DFAS Federal Civilian Pay Service's payroll processing system. This was done on behalf of user entities throughout the period of October 1, 2015, to June 30, 2016. This examination included suitability of the design and the operating effectiveness of controls to achieve the related objectives stated in the description in accordance with the SSAE 16.

Noted in the Federal Civilian Pay Service's assertion:

- The description fairly presents the system supporting payroll processing services that were designed and implemented throughout the period of October 1, 2015, to June 30, 2016;
- The controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period of



October 1, 2015, to June 30, 2016, and user entities applied the complementary user entity controls contemplated in the design of the DFAS Civilian Pay Service's controls throughout the period of October 1, 2015 to June 30, 2016; and

- The controls tested, which together with the complementary user entity controls referred to in the scope of the SSAE 16 report, if operating effectively, were necessary to provide reasonable assurance that the control objectives stated in the description in Section IV of the SSAE 16 report were achieved and, operated effectively throughout the period of October 1, 2015, to June 30, 2016.

DATA TRANSPARENCY AND ACCOUNTABILITY ACT

The Data Transparency and Accountability Act of 2014 (codified, as amended, at 31 U.S.C. 6101 note) establishes a Government-wide standard for financial data and disclosure to USASPENDING.gov. This enables taxpayers and policy makers to track federal spending more effectively. Currently, DFAS is on track to meet our assigned tasks in support of DoD's implementation date of May 2018.

ANTI-DEFICIENCY ACT

Section 1341, Title 31, United States Code (31 U.S.C. 1341 [1990]) limits DFAS and its agents to making or authorizing only expenditures

or obligations that do not exceed the available appropriations or funds. Additionally, DFAS and its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law.

As stated in 31 U.S.C. 1517 (2004), DFAS and its agents are prohibited from making or authorizing expenditures or obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. 1351 (2004), if an officer or employee of an executive agency violates the ADA, the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken.

The DFAS 7040.1-I, DFAS Financial Management Instruction, Enclosure 14, provides agency policy for investigating and reporting ADA violations. During FY 2016, DFAS has no ADA violations to report.

DEBT COLLECTION IMPROVEMENT ACT OF 1996

Public Law 104-134 contains the Debt Collection Improvement Act of 1996. The legislation provides an opportunity for the federal government to move toward its goal of increased electronic commerce and improved cash and debt collection management. The Act enhances debt collection government-wide, and mandates the use of electronic funds transfer for federal payments, allows Federal Reserve Bank Treasury Check Offset, and provides funding for the Check Forgery Insurance Fund.

The law provides that any non-tax debt or claim owed to the United States that has been delinquent for a period of 120 days shall be turned over to the Secretary of the Treasury for appropriate action to collect or terminate collection actions on the debt or claim. Debt that is in litigation or foreclosure, with a collection agency or a designated federal debt collection center, or that will be disposed of under an asset sales program, is exempt from transfer to the Secretary of the Treasury.

DFAS implemented debt management controls to meet the requirements of the DCIA, OMB Circular No. A-129, Policies For Federal Credit Programs and Non-Taxable Receivables and other laws as applicable, including:

- Treasury Offset Program Referral of debts more than 120 days delinquent;
- Write-offs of delinquent debt older than two years;

- 1099-C Reporting when closing out debts; and
- Credit Bureau Reporting of delinquent non-tax, out-of-service debts.

GOVERNMENT CHARGE CARD ABUSE PREVENTION ACT

The Government Charge Card Abuse Prevention Act (Public Law 112-194) requires all federal agencies to establish safeguards and internal controls for government charge card programs and establish penalties for violations. DFAS is in compliance with the current requirements of PL 112-194 for both the Government Purchase Card and Government Travel Charge Card Programs.

PROMPT PAYMENT ACT

The Prompt Payment Act (codified as amended in 31 U.S.C. 3901-3907) ensures federal agencies pay vendors in a timely manner. Prompt Payment ((5 Code of Federal Regulation [CFR] 1315), formerly OMB Circular A-125, Prompt Payment) requires DFAS to pay commercial obligations within certain periods and to pay interest penalties when payments are late. In compliance with the Statute, DFAS paid \$197,917 of Prompt Payment Interest penalties during FY 2016.

IMPROPER PAYMENTS ELIMINATION AND RECOVERY IMPROVEMENT ACT OF 2012

The Improper Payments Elimination and Recovery Improvement Act of 2012 (31 U.S.C 3321 note) requires federal agencies to review spending to identify, prevent, and report improper payments to reduce error, waste, fraud, and abuse within federal spending. This requirement is done not by DFAS WCF but by DFAS, the service provider. DFAS, the service provider handles reporting DoD-wide for all components to include DFAS WCF.

AUDIT DISCLOSURES

During FY 2016, auditor-identified findings were classified as control deficiencies and did not have a material impact to the DFAS WCF.

FINANCIAL DISCUSSION AND ANALYSIS

DFAS continues to provide financial and accounting services at the lowest cost possible. The Agency plans its revenue and expenses based primarily on the estimated amount of services our customers will require in the future. In order to assist the DoD in its budgeting process, the Agency’s budgeted rates are established two fiscal years in advance.

Due to forecasting future budgeted rates, fluctuations in customer demand for services have a direct and significant effect on DFAS’ financial performance because of a predominantly labor-based expense structure.

SIGNIFICANT EVENTS

In previous fiscal years, the DFAS WCF would transfer the ending FBwT cash to the consolidated, component level. Beginning in FY 2016, updated guidance issued by OUSD(C) required each DWCF to manage their portion of the DWCF FBwT. Due to the change in guidance, the Agency transferred-in the cumulative FBwT since inception for \$147.5 million.

In order to prevent a negative cash position, DFAS has increased billing rates in FY 2015, 2016, and 2017 to incrementally restore its operating cash corpus for future operations. The Agency also received approval to reclassify the FY ended 2015 Accumulated Operating Results position from recoverable to non-recoverable AOR to further protect this cash corpus. As planned, DFAS will make a similar request to reclassify FY ended 2016 Net Operating Results during FY 2017.

FINANCIAL STATEMENT ANALYSIS

DFAS WCF continues a thorough monthly review process and robust execution reporting to senior leadership in order to outline the status of its financial position and available budgetary resources.

Consequently, DFAS leadership is armed with proprietary and budgetary information to make informed business decisions throughout the year in order to manage the DFAS WCF unobligated balance.

The OUSD(C) and the OMB are updated quarterly during budget execution reviews. As a result, DFAS stakeholders are provided timely information regarding the current and anticipated DFAS status of budgetary resources in order to evaluate the performance of the organization.

BALANCE SHEET

The WCF Balance Sheet, reflects DFAS’ financial position as of September 30, 2016, reports amounts available to provide future economic benefits (assets), owned or available for use by DFAS, compared to the amounts owed (liabilities), requiring the use of available assets, and the difference between them (net position). The net position measures the Agency’s health since inception. The table below summarizes the fluctuations in the balance sheets from FY 2015 to FY 2016.

As of September 30	2016	2015	Increase (Decrease)	% Change
Assets	\$ 467,163,371	\$ 255,063,075	\$ 212,100,296	83.2%
Liabilities	173,086,317	176,426,754	(3,340,437)	(1.9%)
Net Position	294,077,054	78,636,321	215,440,733	274%

Total WCF Assets of \$467.2 million on September 30, 2016 consisted primarily of \$229.8 million in FBwT, and \$215.0 million in General Property, Plant, and Equipment (PP&E). FBwT increased by \$229.8 million (100%) due to the change in management of FBwT implemented by OUSD (C) in FY 2016. The increase is the combination of the \$147.5 million from prior years balances

transferred to DFAS and \$82.3 million for current year result of operations. General PP&E, net, decreased by \$13.1 million (6%). This is primarily due to the reduction in capital purchases/acquisitions for minor construction, equipment, and software development. The total value of assets has declined through FY 2016 as assets become fully depreciated.

Composition of Assets



Total WCF Liabilities of \$173.1 million on September 30, 2016, consisted primarily of \$104.4 million in Other Liabilities, Accounts Payable of \$35.9 million, Other Federal Employment Benefits of \$32.6 million, and \$260 thousand for Environmental Liabilities on

September 30, 2016. Other Liabilities predominantly consists of \$87.5 million Accrued Funded Payroll and Benefits and Accrued Unfunded Annual Leave, \$9.4 million for Employer Payroll Taxes Payable, and \$7.3 million FECA payments to the Department of Labor.

Composition of Liabilities



STATEMENT OF BUDGETARY RESOURCES

The WCF Statement of Budgetary Resources presents the total budgetary resources available to DFAS for use in FY 2016, their status at the end of the year, and the relationship between the budgetary resources and the outlays made against them. It is the only financial statement exclusively derived from the budgetary general ledger in accordance with budgetary accounting rules. As part of the Defense-wide WCF, DFAS' budgetary resources are generated by collecting funds from customers in exchange for providing accounting and financial services.

Gross outlays increased by \$56.9 million (5%). As a result of hiring

activity there was a \$33.5 million increase in related employment costs and benefits expense. In addition, the increase in gross outlays was impacted by a \$7.9 million purchase of laptops as part of the technical refresh. The allowance for \$12.9 million, referenced in the Statement of Net Cost below, also caused an increase in gross outlays.

Offsetting collections increased by \$44.7 million (3%) primarily due to the increase in customer orders compared to the prior fiscal year. Earned revenue increased by \$51.2 million, but was offset by a decrease in receivables, which prevented collection of approximately \$7.9 million. The increase in earned revenue was due to increases in direct billable hours.

Fiscal Years Ended September 30	2016	2015	Increase (Decrease)	% Change
Gross Outlays	\$ 1,319,010,262	\$ 1,262,135,055	\$ 56,875,207	4.5%
Actual Offsetting Collections	(1,401,289,050)	(1,356,628,218)	(44,660,832)	(3.3%)
Net Outlays	\$ (82,278,788)	\$ (94,493,163)	\$ 12,214,375	12.9%

STATEMENT OF CHANGES IN NET POSITION

The Statement of Changes in Net Position presents the cumulative results of operations since inception. The statement focuses on how the net cost of operations is financed; as well as, other items financing the Agency's operations. The resulting financial position represents

the difference between assets and liabilities as shown on the balance sheet. Various financing sources can increase the net position, including transfers of cash, property, and imputed financing from costs absorbed by other federal agencies on DFAS's behalf. Ending Cumulative Results of Operations increased by \$215.4 million (274%) primarily due to the FBwT transfer in during the year, and not transferring out DFAS' ending cash position at the end of the year as in years past.

Fiscal Years Ended September 30	2016	2015	Increase (Decrease)	% Change
Beginning Balance	\$ 78,636,321	\$ 87,256,942	\$ (8,620,621)	(9.9%)
Total Financing Sources	212,310,256	(13,377,958)	225,688,214	1,687.0%
Net Cost of Operations	(3,130,477)	(4,757,337)	(1,626,860)	(34.2%)
Cumulative Results of Operations	\$ 294,077,054	\$ 78,636,321	\$ 215,440,733	274.0%

STATEMENT OF NET COST

The WCF Statement of Net Cost presents the annual cost of operations for DFAS' programs. The net cost of DFAS' operations

equals the program's gross cost less revenue earned from external sources for services provided to the Military Services and other Defense Agencies. The table below illustrates the changes in costs and revenues.

Fiscal Years Ended September 30	2016	2015	Increase (Decrease)	% Change
Gross Cost	\$ 1,396,765,657	\$ 1,344,020,113	\$ 52,745,544	3.9%
Earned Revenue	(1,399,896,134)	(1,348,777,450)	(51,118,684)	(3.8%)
Net Cost of Operations	\$ (3,130,477)	\$ (4,757,337)	\$ (1,626,860)	(34.2%)

During FY 2016, DFAS determined an allowance for 100% of a receivable was recorded due to unlikely collection. The amount of the receivable recorded in bad debt expense was \$12.9 million.

Other Expenses consisted primarily of the recording of an Environmental Liability for asbestos clean-up costs for DFAS Rome and a Contingent Liability.

Gross Costs by Category	2016	2015	Increase (Decrease)	% Change
Payroll Expense	\$ 714,887,496	\$ 696,594,500	\$ 18,292,996	2.6%
Contractor Services	251,948,792	258,979,025	(7,030,233)	(2.7%)
Employee Benefits Expense	246,543,563	229,206,530	17,337,033	7.6%
Imputed Costs Funded by OPM	64,693,610	60,993,688	3,699,922	6.1%
Lease and Office Expenses	45,794,762	43,200,416	2,594,346	6.0%
Depreciation and Amortization	24,936,932	28,908,149	(3,971,217)	(13.7%)
Non-Recov. Depr. / Amort.	13,249,412	15,309,805	(2,060,393)	(13.5%)
Equipment Expense	11,377,079	3,499,740	7,877,339	225.1%
Bad Debts	12,879,183	7,688	12,871,495	167,423.2%
Travel Expense	5,211,366	4,614,753	596,613	12.9%
Losses on Disposition of Assets	2,809,804	1,025,639	1,784,165	174.0%
Misc. Supplies and Materials	1,908,907	1,624,188	284,719	17.5%
Other Expenses	326,834	17,383	309,451	1,780.2%
PPA Interest Expense	197,917	38,609	159,308	412.6%
Total	\$ 1,396,765,657	\$ 1,344,020,113	\$ 52,745,544	3.9%

FINANCIAL STATEMENT PREFACE

Based upon timely information and a proactive approach, DFAS produces accurate and timely financial statements. These statements have been prepared to report the overall financial position and results of operations of the Agency pursuant to the requirements of Title 31, United States Code, Section 3515 (b), to include :

- Balance Sheets
- Statements of Budgetary Resources
- Statements of Net Cost
- Statements of Changes in Net Position

The financial statements and notes are prepared in accordance with federal accounting standards using generally accepted accounting principles and audited by the independent accounting firm of Williams, Adley & Company-DC, LLP.



COMMITTED TO EXCELLENCE IN BEING A **RECOGNIZED LEADER** IN DOD FINANCIAL MANAGEMENT

CHIEF FINANCIAL OFFICER'S MESSAGE

I am pleased to present the DFAS WCF FY 2016 financial statements. The financial statements provide information on the fiscal performance of DFAS, demonstrating our commitment to excellence in being a recognized leader in DoD financial management. Through continued sound financial reporting and documented internal controls, DFAS sustains a favorable unmodified audit opinion in accordance with the generally accepted auditing standards.

One of DFAS' highest priorities is the continued maturation of our MICP, established to continually assess and improve our internal controls. The DFAS Director has placed special emphasis on the MICP and charged senior management, program managers, and system managers with effective oversight of the program. In order to continue mission-essential functions and sustain critical systems, we are committed to the following: identifying and assessing all program risks, comprehensively documenting and testing internal controls, appropriately documenting and categorizing any deficiencies, and remediating deficiencies using comprehensive corrective action plans.

The Agency is proud to celebrate its 25th anniversary this year. DFAS set out with a mission to consolidate, standardize,

and eliminate redundancy for finance and accounting across the Department. Today, we provide more, higher-quality service at half the cost of 25 years ago. This achievement comes from the service and innovation of our dedicated professionals. All of us believe in the sound management of the resources under our stewardship. As we celebrate this milestone, we look forward to the challenges of the next quarter-century, always striving for excellence. Additionally, we will continue to work as a financial management leader within the Department to sustain and support our customers as they continue to achieve audit successes.

We remain steadfast in our efforts towards greater financial management improvements in FY 2017. Ultimately, our endeavors will result in setting the highest achievable standard of excellence in managing taxpayers' dollars in support of the Department.



G. Paul Gass

Chief Financial Officer



BALANCE SHEETS

As of September 30, 2016, and 2015	2016	2015
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 229,807,933	\$ 0
Accounts Receivable (Note 3)	16,591,669	8,680,813
Other Assets (Note 4)	307,731	773,354
Total Intragovernmental Assets	\$ 246,707,333	\$ 9,454,167
Accounts Receivable, Net (Note 3)	\$ 986,315	\$ 13,729,833
General Property, Plant and Equipment, Net (Note 5)	215,046,941	228,172,179
Other Assets (Note 4)	4,422,782	3,706,896
Total Assets	\$ 467,163,371	\$ 255,063,075
Liabilities (Note 6)		
Intragovernmental		
Accounts Payable	\$ 15,172,378	\$ 23,003,473
Other Liabilities (Notes 8 and 9)	13,737,680	12,531,201
Total Intragovernmental Liabilities	\$ 28,910,058	\$ 35,534,674
Accounts Payable	\$ 20,694,143	\$ 24,633,643
Other Federal Employment Benefits (Note 10)	32,580,531	33,389,833
Environmental and Disposal Liabilities (Note 7)	260,000	0
Other Liabilities (Notes 8 and 9)	90,641,585	82,868,604
Total Liabilities	\$ 173,086,317	\$ 176,426,754
Net Position		
Cumulative Result of Operations	\$ 294,077,054	\$ 78,636,321
Total Net Position	\$ 294,077,054	\$ 78,636,321
Total Liabilities and Net Position	\$ 467,163,371	\$ 255,063,075

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF NET COST

Fiscal Years Ended September 30, 2016, and 2015	2016	2015
Program Cost		
Gross Cost	\$ 1,396,765,657	\$ 1,344,020,113
Less: Earned Revenue	(1,399,896,134)	(1,348,777,450)
Net Cost of Operations (Note 11)	\$ (3,130,477)	\$ (4,757,337)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CHANGES IN NET POSITION

Fiscal Years Ended September 30, 2016, and 2015	2016	2015
Cumulative Results of Operations		
Beginning Balances	\$ 78,636,321	\$ 87,256,942
Other Financing Sources		
Transfers In/(Out) without Reimbursement	\$ 147,616,646	\$ (74,371,646)
Imputed Financing Sources	64,693,610	60,993,688
Total Financing Sources	\$ 212,310,256	\$ (13,377,958)
Net Cost of Operations (Note 11)	\$ (3,130,477)	\$ (4,757,337)
Net Change	\$ 215,440,733	\$ (8,620,621)
Total Net Position	\$ 294,077,054	\$ 78,636,321

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF BUDGETARY RESOURCES

Fiscal Years Ended September 30, 2016, and 2015	2016	2015
Budgetary Resources		
Unobligated Balance Beginning of Period	\$ 92,392,390	\$ 17,337,486
Recoveries of Prior Year Unpaid Obligations	25,362,107	27,608,465
Other Changes in Unobligated Balance	2,858,184	0
Net Unobligated Balance from Prior Year Budget Authority	\$ 120,612,681	\$ 44,945,951
Contract Authority	\$ 34,049,544	\$ 20,748,446
Spending Authority from Offsetting Collections	1,382,319,381	1,316,965,843
Total Budgetary Resources (Note 12)	\$ 1,536,981,606	\$ 1,382,660,240
Status of Budgetary Resources:		
Obligations Incurred	\$ 1,341,221,039	\$ 1,290,267,850
Unobligated Balance - Apportioned	195,760,567	92,392,390
Total Budgetary Resources (Note 12)	\$ 1,536,981,606	\$ 1,382,660,240
Change in Obligated Balance		
Unpaid Obligations		
Unpaid Obligations, Beginning of Period	\$ 214,118,566	\$ 213,594,236
Obligations Incurred	1,341,221,039	1,290,267,850
Less: Gross Outlays	(1,319,010,262)	(1,262,135,055)
Less: Recoveries of Prior Year Unpaid Obligations	(25,362,107)	(27,608,465)
Unpaid Obligations, End of Period	\$ 210,967,236	\$ 214,118,566
Uncollected Payments		
Uncollected Payments, Federal Sourced, Beginning of Period	\$ (38,842,375)	\$ (48,610,638)
Change in Uncollected Payments, Federal Sources	(11,614,575)	9,768,263
Uncollected Payments, Federal Sources, End of Period	\$ (50,456,950)	\$ (38,842,375)
Memorandum Entries		
Obligated Balance, Beginning of Period	\$ 175,276,191	\$ 164,983,598
Obligated Balance, End of Period	\$ 160,510,286	\$ 175,276,191
Net Budget Authority and Outlays		
Gross Budget Authority	\$ 1,416,368,925	\$ 1,337,714,289
Less: Actual Offsetting Collections	(1,401,289,050)	(1,356,628,218)
Change in Uncollected Customer Payments from Federal Sources	(11,614,575)	9,768,263
Recoveries of Prior Year Paid Obligations	2,858,184	0
Net Budget Authority	\$ 6,323,484	\$ (9,145,666)
Gross Outlays	\$ 1,319,010,262	\$ 1,262,135,055
Less: Actual Offsetting Collections	(1,401,289,050)	(1,356,628,218)
Net Agency Outlays	\$ (82,278,788)	\$ (94,493,163)

The accompanying notes are an integral part of these financial statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

1.A. MISSION OF THE REPORTING ENTITY

The Defense Finance and Accounting Service, a component of the DoD, was established in 1991 by the Secretary of Defense to reduce the cost of DoD financial and accounting operations, and to reform financial management throughout DoD. The mission of DFAS is to lead the DoD in finance and accounting by ensuring the delivery of efficient and exceptional quality pay and financial information.

Operating as a WCF, DFAS functions similarly to a private corporation by obtaining revenue through charging customers fixed prices for its services. DFAS sets its rates annually, two years in advance, based on anticipated workload and estimated costs calculated to offset any prior year gains or losses. Unlike the private sector, DFAS has little flexibility to adjust prices in the year of execution unless coordinated with the Office of the Under Secretary of Defense (Comptroller). DFAS operations are subject to DoD, Executive Branch, and Legislative Branch oversight. The DFAS programs and initiatives are guided by the Under Secretary of Defense Comptroller and DFAS' Chief Financial Officer.

DFAS also manages the operations and the execution of funds for both a General Fund and Base Realignment and Closure Fund. The accompanying financial statements do not include the activities of those operations as they are not currently under audit. The accompanying financial statements represent only the WCF activities of DFAS and all remaining references to DFAS throughout these notes to the financial statements relates to WCF accounting activity.

1.B. BASIS OF PRESENTATION

These financial statements have been prepared to report the financial position and results of operations of the DFAS WCF, as required by the Chief Financial Officers Act of 1990, expanded by the Government Management Reform Act of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the DFAS WCF in accordance with, and to the extent possible, U.S. generally accepted accounting principles promulgated by the Federal Accounting Standards Advisory Board; the Office of Management and Budget Circular No. A-136, "Financial Reporting Requirements"; and the DODFMR. The Federal Accounting

Standards Advisory Board is the official accounting standards-setting body of the Federal Government. The accompanying financial statements account for all resources for which the DFAS WCF is responsible unless otherwise noted.

1.C. BASIS OF ACCOUNTING

The financial management systems DFAS uses meet full accrual accounting requirements. Transactions are recorded in the field accounting system on an accrual and a budgetary basis of accounting, using the U.S. Standard General Ledger. Under the accrual basis, revenues are recorded when earned, and expenses are recorded when incurred, regardless of when cash is exchanged. Under the budgetary basis, however, funds availability is recorded based upon legal considerations and constraints.

1.D. APPROPRIATIONS AND FUNDS

The DFAS WCF does not receive appropriations and funds as general, trust, special, or deposit funds, as it is only a working capital (revolving) fund. The DFAS WCF uses these funds to execute its missions and subsequently report on resource usage.

Working capital funds receive funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. Each WCF obtains the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

1.E. REVENUES AND OTHER FINANCING SOURCES

Revenue is recognized when earned and services have been rendered. Revenue is generated by sales of accounting and finance services to the DFAS customers through a reimbursable order process.

The majority of services rendered by DFAS are provided to the Military Departments and other DoD Agencies.

The goal of a WCF organization is to breakeven over an extended period of time. In accordance with the DoD FMR, Volume 3, Chapter 19, the Accumulated Operating Results and Net Operating Results serve as the primary points of reference for determining the need to adjust billing rates. Working Capital Fund organizations adjust future billing rates to counter the effects the fluctuations have on the AOR. The positive and negative adjustments are normal business practices occurring when the net cost of operations is not zero. Because of the nature of a WCF, the unanticipated impacts on workload and cost fluctuations will result in profits or losses during any given year. Accumulated Operating Results is tracked from inception and requires constant routine monitoring to account for the fluctuating costs of conducting business.

1.F. RECOGNITION OF EXPENSES

For financial reporting purposes, DoD policy requires the recognition of operating expenses in the period incurred.

1.G. ACCOUNTING FOR INTRAGOVERNMENTAL ACTIVITIES

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal government. Costs and revenues with the public represent transactions made between the reporting entity and a nonfederal entity. The classification of revenue or cost as “intragovernmental” or “public” transactions is defined in the DoD FMR Volume 4, Chapter 1.

The Treasury Financial Manual Part 2 – Chapter 4700, “Agency Reporting Requirements for the Financial Report of the United States Government,” provides guidance for reporting and reconciling intragovernmental balances. The Defense Finance and Accounting Service is able to fully reconcile intragovernmental transactions with all federal agencies including Federal Employees’ Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

Intra-entity costs and revenue represent transactions DFAS conducted with itself in the normal course of business. All intra-entity transactions have been removed, so the financial statements and footnotes present fairly not including transactions with interrelated

parties.

Imputed financing represents the cost paid on behalf of DFAS by another Federal entity. The Defense Finance and Accounting Service recognizes imputed costs for (1) employee pension, post-retirement health, and life insurance benefits; (2) post-employment benefits for terminated and inactive employees to include unemployment and workers compensation under the Federal Employees’ Compensation Act; (3) and losses in litigation proceedings.

1.H. FUNDS WITH THE U.S. TREASURY

The DFAS WCF monetary financial resources are maintained in U.S. Treasury (Treasury) accounts. The disbursing offices of DFAS process the majority of the DFAS’ cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS submits reports to the Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The Treasury records these transactions to the applicable FBWT account. The Treasury maintains and reports the Defense Working Capital Fund balances at the Treasury Index appropriation sub-numbered level. Defense Agencies, to include DFAS, are included at the TI 97 DWCF appropriation sub-numbered level, an aggregate level that does not provide identification of the separate Defense Agencies by Treasury.

1.I. ACCOUNTS RECEIVABLE

Accounts receivable represents transactions occurring in the normal course of business by providing financial services to our customers. Accounts receivable from other federal entities or the public include accounts receivable, claims receivable, and refunds receivable. Claims receivable are transactions where DFAS has a right to cash (debt) from an outstanding customer account. Refunds receivable occur when DFAS receives a refund for a previous paid expense.

On an annual basis, DFAS reviews all outstanding nonfederal customer accounts over 360 days to estimate the allowance for uncollectible accounts. In addition, significant accounts receivable balances may be reviewed individually, regardless of age.

DFAS does not recognize an allowance for estimated uncollectible amounts from other federal agencies as receivables from other

federal agencies are considered to be inherently collectible. Claims for accounts receivable from other federal agencies are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the Treasury Financial Manual.

1.J. GENERAL PROPERTY, PLANT AND EQUIPMENT (PP&E)

The WCFs capitalizes all PP&E used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.

General PP&E is carried at historical acquisition cost plus capitalized improvements. The capitalization threshold was revised as of October 1, 2013. Beginning in Fiscal Year 2014, General PP&E, including real property, are capitalized at cost if the acquisition is \$250,000 or more. The asset must also have a useful life of two or more years. All General PP&E is depreciated based on the historical cost using the straight-line method over the estimated useful lives of the assets, which range from 2 to 40 years. Normal repairs and maintenance are charged to expense as incurred.

Title 10, United States Code, prohibits DoD Agencies from owning real property (i.e. buildings). Therefore, DoD has implemented the recognition criteria of Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant and Equipment," to report the financial position of its member agencies. As implemented by DoD regulations, ownership of real property is not a prerequisite to asset recognition. DoD FMR Volume 4, Chapter 6, states that legal ownership usually, but not always, is the determinant factor when determining which DoD component recognizes a particular General PP&E asset for accounting and reporting purposes in financial statements. Asset recognition may also be based on the "Preponderance of Use" principle. This concept recognizes the DoD Agency gains the most benefit by virtue of space usage should capitalize the asset as General PP&E on their Balance Sheet.

1.K. LEASES

Lease payments for the rental of equipment and operating facilities are classified as operating leases. An operating lease does not substantially transfer all the benefits and risk of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by DFAS are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.L. OTHER ASSETS

Other assets include advances and prepayments permitted by law, legislative action, or presidential authorization as mandated by Title 31, United States Code. The Department of Defense has implemented the recognition criteria of SFFAS No. 1, "Accounting for Selected Assets and Liabilities," to report advances and prepayments. As implemented by DoD FMR Volume 4, Chapter 5, payments made in advance of the receipt of goods and services should be reported as an asset. They are shown on the Balance Sheet as Other Assets. Components of advance and prepayments include travel and labor advances, tuition assistance, subscriptions, postage; as well as, approved contractual and intragovernmental prepay agreements. The Defense Finance and Accounting Service policy is to expense and/or properly classify assets when the related goods and services are received.

When advances are permitted by law, legislative action, or presidential authorization, DoD's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The DoD's policy is to expense and/or properly classify assets when the related goods and services are received.

1.M. CONTINGENCIES AND OTHER LIABILITIES

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government", as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation", defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Defense Finance and Accounting Service recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least

a reasonable possibility of incurring a loss or additional losses. The Defense Finance and Accounting Service's risk of loss and resultant contingent liabilities arise from various administrative proceedings, legal actions, and potential claims.

1.N. ACCRUED LEAVE

The Defense Finance and Accounting Service reports liabilities for accrued compensatory and annual leave for civilians. Civilian leave is accrued as earned, and the accrued amounts are increased and decreased for actual leave taken and earned. The balances for accrued leave are adjusted monthly to reflect changes. The balances for civilian leave at the end of the fiscal year reflect current pay rates for the leave earned but not taken. Sick and other types of non-vested leave are expensed as taken. To the extent budget resources are not available to fund annual leave earned but not taken; funding will be obtained from future financing sources.

1.O. NET POSITION

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

1.P. UNDISTRIBUTED DISBURSEMENTS AND COLLECTIONS

Treasury Financial Manual Volume I, Part 2, Chapter 5100, requires that agencies reconcile their FBwT accounts on a regular and recurring basis to assure the integrity and accuracy of their financial reporting data. The DFAS WCF does not have a separate FBwT account. Instead, the Treasury maintains for DFAS an account for its collections and disbursements activities.

On a monthly basis, DFAS' collections and disbursements are adjusted with undistributed collections and disbursements to agree with the Treasury. Undistributed collections and disbursements represent the difference between disbursements and collections matched at the transaction level to a specific obligation, payable, or receivable in the source system and those reported by the Treasury.

The current year collections, disbursements, and cash transfers

applicable to DFAS' operations are recorded in DFAS' financial records during the fiscal year.

1.Q. PENSIONS, OTHER RETIREMENT BENEFITS, AND OTHER POST-EMPLOYMENT BENEFITS

Each employing federal agency is required to recognize its share of the cost and imputed financing of providing pension and post-retirement health benefits and life insurance to its employees, as stated in the SFFAS No. 5, "Accounting for Liabilities of the Federal Government." Factors used in calculation of these pension and post-retirement health and life insurance benefit expenses were provided by the Office of Personnel Management financial management letters regarding cost factors for pension and other retirement benefits expense.

The cost factor for computing the Federal Employees Health Benefits Program imputed cost is \$6,266, and for Federal Employees' Group Life Insurance Program the cost factor is .02%. The cost factor for employees covered by Civil Service Retirement System is 33.5%, and 15.1% for the Federal Employees Retirement System.

DFAS civilian employees participate in the Civil Service Retirement System and Federal Employees Retirement System, while military personnel are covered by the Military Retirement System. Employees and personnel covered by FERS and MRS also have varying coverage under Social Security. DFAS funds a portion of the civilian and military pensions. The funded actuarial liability and unfunded actuarial liability for the military personnel are reported in the DoD Military Retirement Fund. The actuarial liability for the military retirement health benefits is recognized in the DoD Agency-wide statements.

For employees participating in FERS, FERS-RAE, and FERS-FRAE, DFAS contributes an amount equal to 1% of the employee's basic pay to the tax deferred Thrift Savings Plan, and matches employee contributions up to an additional 4% of pay. DFAS contributions to the TSP for FY 2016 and 2015 were \$27.0 million and \$25.7 million. Employees participating in CSRS receive no matching contributions from DFAS.

1.R. INTEREST ON LATE PAYMENTS

DFAS, on occasion, incurs interest penalties on late payments. All such interest penalties are paid to the respective vendor in accordance

with the guidelines mandated by the Prompt Payment Act, Public Law, 97-177, as amended.

1.S. USE OF ESTIMATES

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities, at the date of the financial statements, and the amount of revenues and costs reported during the period. Actual results could differ from those estimates. Significant estimates and assumptions in these comparative financial statements require the exercise of judgment and are used for, but not limited to, allowance for doubtful accounts, environmental liabilities, pension and other postretirement benefit expenses, and the Federal Employee Compensation Act Liability.

1.T. CONTRACT AUTHORITY

As a WCF, DFAS must recover from customers, through revenue earned, all expenses necessary to operate. DFAS purchases assets using contract authority granted by the OUSD(C) and then recovers the cost over the useful life of the asset through depreciation expense built into the billing rates. DoD FMR, Volume 11B, Chapter 3, Budgetary Resources, defines contract authority as the amount available for obligation and remains available through the end of the fiscal year. At year-end, this amount is reduced to match the amount of executed dollars through the normal year-end closing processes.

1.U. CONTRACT AUDIT BACKLOG

Most DFAS contracts are subject to review by the Defense Contract Audit Agency to include those contracts at the Defense Contract Management Agency. To that end, DCMA and DFAS contracting offices are not able to render decisions on the deobligation of contracts and closure until the DCAA contract audit is completed. DCAA has experienced a severe backlog in contracts to be audited since the early 1980's.

DCAA, while serving the public interest as its primary customer, performs all necessary contract audits for the DoD and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. The services provided by DCAA include negotiation, administration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. The Agency is experiencing a backlog largely attributed to the low staff and other various reasons. To aide in rectifying the backlog situation, Class Deviation 2012-00013 - DCAA Policy and Procedure for Sampling Low-Risk Incurred Cost Proposals was issued on July 24, 2012. The intent of the proposal was to incorporate more effective oversight efforts without increasing risk to the Government. In addition, the proposal serves as a means for decreasing the backlog of incurred cost audits at DCAA. The realization of these efforts will assist with more timely cost adjustments. The extensive reviews potentially affect DFAS' financial position because of related cost adjustments from vendors.

NOTE 2: FUND BALANCE WITH TREASURY

As of September 30	2016	2015
Fund Balances		
Revolving Funds	\$ 229,807,933	\$ 0
Total Fund Balances	\$ 229,807,933	\$ 0
Fund Balance Per Treasury Versus Agency		
Fund Balance per Treasury	\$ 0	\$ 0
Fund Balance per DFAS	229,807,933	0
Reconciling Amount	\$ (229,807,933)	\$ 0

FBWT for the DWCFs used to be managed at the consolidated DWCF level for all WCF Defense Agencies. Therefore, each agency would transfer the ending cash balance from the agency level to the Department level at the end of the fiscal year. Effective 3rd Quarter FY 2016, all DWCFs

were directed to begin managing their FBWT at the agency level, not at the Department Level. In order to comply with the DoD FMR, Volume 4, Chapter 2, DFAS transferred in their portion of the consolidated. FBWT, \$147.5 million, and will not transfer out these balances moving forward.

STATUS OF FUND BALANCE WITH TREASURY

As of September 30	2016		2015	
Unobligated Balance - Available	\$	195,760,568	\$	92,392,390
Obligated Balance Not Yet Disbursed		210,967,236		214,118,567
Non-FBwT Budgetary Accounts		(176,919,871)		(158,981,812)
Total	\$	229,807,933	\$	147,529,145

The Status of FBWT reflects the budgetary resources to support FBWT, and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursement against current or future obligations.

Unobligated Balance is classified as available and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations.

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

Non-budgetary FBWT includes the amount of Contract Authority DFAS has not liquidated to date, and the uncollected portion of service agreements with other federal agencies. Contract Authority is a specific statutory authority permitting DFAS to incur obligations in advance of receiving cash to make outlays to liquidate the obligations. Non-Budgetary FBwT Accounts reduces the Status of FBWT.

NOTE 3: ACCOUNTS RECEIVABLE, NET

As of September 30	2016		
	Gross Amount Due	Allowance	Net Accounts Receivable
Intragovernmental	\$ 16,591,669	\$ 0	\$ 16,591,669
Nonfederal (With the Public)	14,007,417	(13,021,102)	986,315
Total Accounts Receivable	\$ 30,599,086	\$ (13,021,102)	\$ 17,577,984

As of September 30	2015		
	Gross Amount Due	Allowance	Net Accounts Receivable
Intragovernmental	\$ 8,680,813	\$ 0	\$ 8,680,813
Nonfederal (With the Public)	13,871,752	(141,919)	13,729,833
Total Accounts Receivable	\$ 22,552,565	\$ (141,919)	\$ 22,410,646

Accounts receivable represent DFAS's claim for payment from other entities. DFAS only recognizes an allowance for uncollectible amounts from the public. Claims with other federal agencies are resolved in accordance with the Intragovernmental Business Rules.

An allowance for the full amount of an outstanding receivable was recognized during FY 2016. This portion of the AR balance has been referred to the Department of Justice for collection. The amount of the outstanding receivable balance due is \$12.9 million. The Agency is not allowed to write-off the debt until the DoJ provides instruction to the collectability of the receivable to the Federal Government.

OTHER DISCLOSURES

NOTE 4: OTHER ASSETS

As of September 30	2016		2015	
Intragovernmental Other Assets				
Advances and Prepayments	\$	307,731	\$	773,354
Total Intragovernmental Other Assets	\$	307,731	\$	773,354
Nonfederal Other Assets				
Advances and Prepayments	\$	4,422,782	\$	3,706,896
Total Nonfederal Other Assets	\$	4,422,782	\$	3,706,896
Total Other Assets	\$	4,730,513	\$	4,480,250

NOTE 5: GENERAL PP&E, NET

As of September 30	2016				
	Depreciation/ Amortization Method	Service Life	Acquisition	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures and Facilities	Straight Line	20 or 40	\$ 122,812,710	\$ (62,840,684)	\$ 59,972,026
Leasehold Improvements	Straight Line	Lease Term	137,292,220	(83,670,923)	53,621,297
Software	Straight Line	2-5 or 10	560,901,484	(496,308,509)	64,592,975
General Equipment	Straight Line	Various	250,834,735	(215,574,798)	35,259,937
Construction-in-Progress	Not Applicable	Not Applicable	1,600,706	0	1,600,706
Other			0	0	0
Total General PP&E			\$ 1,073,441,855	\$ (858,394,914)	\$ 215,046,941

As of September 30	2015				
	Depreciation/ Amortization Method	Service Life	Acquisition	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures and Facilities	Straight Line	20 or 40	\$ 122,812,711	\$ (58,971,596)	\$ 63,841,115
Leasehold Improvements	Straight Line	Lease Term	136,549,720	(76,721,484)	59,828,236
Software	Straight Line	2-5 or 10	1,335,636,974	(1,266,435,074)	69,201,900
General Equipment	Straight Line	Various	327,539,921	(293,963,950)	33,575,971
Construction-in-Progress	Not Applicable	Not Applicable	1,724,957	0	1,724,957
Other			1,212,450	(1,212,450)	0
Total General PP&E			\$ 1,925,476,733	\$ (1,697,304,554)	\$ 228,172,179

NOTE 6: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30	2016	2015
Intragovernmental Liabilities		
Other	\$ 7,265,411	\$ 7,764,202
Total Intragovernmental Liabilities	\$ 7,265,411	\$ 7,764,202
Nonfederal Liabilities		
Other Federal Employment Benefits	\$ 32,580,531	\$ 33,389,833
Environmental and Disposal Liabilities	260,000	0
Other Liabilities	3,093,463	2,789,174
Total Nonfederal Liabilities	\$ 35,933,994	\$ 36,179,007
Total Liabilities Not Covered by Budgetary Resources	\$ 43,199,405	\$ 43,943,209
Total Liabilities Covered by Budgetary Resources	129,886,912	132,483,545
Total Liabilities	\$ 173,086,317	\$ 176,426,754

Intragovernmental Other Liabilities are the unfunded liabilities for Federal Employees' Compensation Act. The FECA liability represents the billed and unbilled amount owed to the DoL related to employee compensation for wages lost due to a job-related injury.

Other Federal Employment Benefits consists of various employee

actuarial liabilities not due and payable during the current fiscal year. Refer to Note 7, Environmental and Disposal Liabilities, for additional details and disclosures. Nonfederal Other Liabilities consists of unfunded compensatory and credit annual leave liability. Refer to Note 10, Other Federal Employment Benefits, for additional details.

NOTE 7: ENVIRONMENTAL AND DISPOSAL LIABILITIES

As of September 30	2016	2015
Environmental Liabilities -- Nonfederal		
Other Accrued Environmental Liabilities		
-- Non-BRAC		
Asbestos	\$ 260,000	\$ 0
Total Environmental Liabilities	\$ 260,000	\$ 0

APPLICABLE LAWS AND REGULATIONS FOR CLEANUP REQUIREMENTS

Clean up of contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk is required of DFAS. This effort is accomplished by DFAS in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. Recognition of closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations is also required of DFAS.

To clean up contamination, DFAS follows the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, Public Law 96-510), Superfund Amendments and Reauthorization Act of 1986 (SARA, Public Law 99-499), Resource Conservation and Recovery Act (RCRA, Public Law 94-580) or other applicable federal or state laws. The CERCLA and RCRA require DFAS to clean up contamination in coordination with regulatory agencies, current owners of property damaged by DFAS, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts DFAS at risk of incurring fines and penalties.

UNCERTAINTY REGARDING THE ACCOUNTING ESTIMATES USED TO CALCULATE THE REPORTED ENVIRONMENTAL LIABILITIES

Accounting estimates for environmental liabilities use reasonable

judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

METHODS FOR ASSIGNING TOTAL CLEANUP COSTS TO CURRENT OPERATING PERIODS

Engineering estimates and independently validated models are used by DFAS to project environmental costs. The models include the Remedial Action Cost Engineering Requirements application and the Normalization of Data System.

The models are validated by DFAS in accordance with DoD Instruction 5000.61, DoD Modeling and Simulation Verification, Validation, and Accreditation, and estimates liabilities based on data received during preliminary assessment and site investigation. Engineering estimates are primarily used by DFAS after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, DFAS complies with accounting standards to charge costs to current operating periods.

Cleanup costs are expensed by DFAS for General PP&E placed into service prior to October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, DFAS expenses cleanup costs associated with the asset life that has passed since the General

PP&E was placed into service. The remaining cost over the life of the assets are systematically recognized by DFAS.

For General PP&E placed into service after September 30, 1997, DFAS expenses associated environmental costs using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The full cost to clean up contamination is expensed by DFAS for Stewardship PP&E when the asset is placed into service.

In accordance with reporting requirements for asbestos, DFAS reports liabilities for buildings and facilities containing both friable and non-friable asbestos. At this time DFAS is unable to reasonably estimate

an amount of the total cleanup costs related to friable and nonfriable asbestos. Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

Estimates revised by DFAS result from overlooked or previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope.

Although DFAS is unaware of pending changes, environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology.

NOTE 8: OTHER LIABILITIES

As of September 30	2016		
	Current	Noncurrent	Total
Intragovernmental			
Advances from Others Judgement Fund	\$ 22,657	\$ 0	\$ 22,657
Liabilities	2,500	0	2,500
FECA Reimbursement to the Department of Labor Employer Contribution and Payroll Taxes Payable	3,314,825	3,948,086	7,262,911
	6,449,612	0	6,449,612
Total Other Intragovernmental Liabilities	\$ 9,789,594	\$ 3,948,086	\$ 13,737,680
Nonfederal			
Accrued Funded Payroll and Benefits	\$ 84,559,106	\$ 0	\$ 84,559,106
Accrued Unfunded Annual Leave	2,893,464	0	2,893,464
Employer Contribution and Payroll Taxes Payable	2,989,015	0	2,989,015
Contingent Liabilities	200,000	0	200,000
Total Nonfederal Other Liabilities	\$ 90,641,585	\$ 0	\$ 90,641,585
Total Other Liabilities	\$ 100,431,179	\$ 3,948,086	\$ 104,379,265

As of September 30	2015		
	Current	Noncurrent	Total
Intragovernmental			
Advances from Others Judgement Fund	\$ 1,656	\$ 0	\$ 1,656
Liabilities	0	0	0
FECA Reimbursement to the Department of Labor Employer Contribution and Payroll Taxes Payable	3,495,440	4,268,762	7,764,202
	4,765,343	0	4,765,343
Total Other Intragovernmental Liabilities			
	\$ 8,262,439	\$ 4,268,762	\$ 12,531,201
Nonfederal			
Accrued Funded Payroll and Benefits	\$ 77,759,126	\$ 0	\$ 77,759,126
Accrued Unfunded Annual Leave Employer Contribution and Payroll Taxes Payable	2,789,174	0	2,789,174
	2,320,304	0	2,320,304
Contingent Liabilities	0	0	0
Total Nonfederal Other Liabilities			
	\$ 82,868,604	\$ 0	\$ 82,868,604
Total Other Liabilities	\$ 91,131,043	\$ 4,268,762	\$ 95,399,805

NOTE 9: COMMITMENTS AND CONTINGENCIES

The Defense Finance and Accounting Services has accrued contingent liabilities for legal actions where the Office of General Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund. The Defense Finance and Accounting Services records contingent liabilities in Note 8,

Other Liabilities.

The Defense Finance and Accounting Services reports 2 legal actions with individual claims greater than the FY 2016 materiality threshold of \$125 thousand. These actions total approximately \$400 thousand. Of this amount, the OGC classified claims totaling approximately \$200 thousand as "probable," \$200 thousand as "reasonably possible."

NOTE 10: OTHER FEDERAL EMPLOYMENT BENEFITS

The Department of Labor annually determines the liability for future workers' compensation benefits, or better known as Federal Employees' Compensation Act. This includes the expected liability for death, disability, medical, and other miscellaneous costs estimated using historical benefit payment patterns to predict the future costs after being discounted to present value using the OMB economic assumptions for 10-year U.S. Treasury notes and bonds. The DoL provides an estimated actuarial liability for future workers'

compensation benefits at the Department level (DoD) only, and DFAS' reported FECA liability is based on the DoD Agency-wide allocation method using an average based on the last three annual chargeback bills for actual claims submitted and approved by the DoL.

The allocated portion of the actuarial liability for future workers' compensation benefits for DFAS at September 30, 2016, is \$32,580,531 and \$33,389,833 in FY 2015.

NOTE 11: GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Fiscal Years Ended September 30	2016	2015
Operations, Readiness & Support		
Gross Cost		
Intragovernmental Cost	\$ 417,877,776	\$ 410,836,297
Nonfederal Cost	978,887,881	933,183,816
Total Cost	\$ 1,396,765,657	\$ 1,344,020,113
Earned Revenue		
Intragovernmental Revenue	\$ (1,399,576,109)	\$ (1,348,499,657)
Nonfederal Revenue	(320,025)	(277,793)
Total Revenue	\$ (1,399,896,134)	\$ (1,348,777,450)
Total Net Cost	\$ (3,130,477)	\$ (4,757,337)

The Statement of Net Cost represents the net cost of programs and organizations of the Federal Government supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Defense Finance and Accounting Services' current processes and systems do capture and report accumulated costs for major programs as required by the Government Performance and Results Act. Additionally, DFAS has

fully implemented unit cost reporting and reports these costs by responsibility segment on a monthly basis as required by the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," as amended by SFFAS No. 30, "Inter-entity Cost Implementation."

Intragovernmental costs and revenue represent transactions made between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions made between the reporting entity and a nonfederal entity.

NOTE 12: DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Fiscal Years Ended September 30	2016	2015
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 85,864,912	\$ 86,085,409

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget." Category A relates to appropriations for a specific period of time (e.g., Military Personnel appropriation), and category B relates to appropriations for a specific project (e.g., Military Construction appropriation). The total amount of DFAS' obligations incurred, \$1,341,221,038 is classified as Reimbursable Apportionment Category B.

RECONCILIATION DIFFERENCES

Under OMB Circular A-11, federal agencies are to report budgetary information in the Statement of Budgetary Resources (SBR) based on

budget terminology, definitions, and guidance issued. OMB Circular A-11 also states that the information on the SBR should be consistent with budget execution information reported in the President's Budget.

Additionally, per SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," agencies are to provide financial statement footnote disclosure to explain significant differences between amounts presented in the SBR and amounts described as actuals in the President's Budget. However, since DFAS is a component of the DoD rather than a separate federal agency as envisioned by OMB requirements, an analysis of information reported in both the SBR and the Report on Budget Execution (SF-133) at September 30, 2016 is performed. There are no differences between the SBR and the Standard Form 133, Report on Budget Execution and Budgetary Resources & Budget Program and Financing Schedule.

NOTE 13: RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget reconciles the cost reflected on the Statement of Net Cost to the budgetary information on the Statement of Budgetary Resources by aligning budgetary obligations and non-budgetary resources available with the cost of the operations.

Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations, Other primarily consists of transferring in DFAS' beginning FBwT from the consolidated DWCF to the component level for cash management purposes. Previously these amounts were managed at the consolidated DWCF level for cash management;

however, guidance published in January 2016 from the OUSD(C) requires every DWCF component to manage their portion of FBwT. The remaining amount is from the transfer of capitalized assets when placed into service.

Components Requiring or Generating Resources, Other consists of recording a contingent liability for a probable loss, and judgement fund liabilities with the Department of the Treasury for the settlement of actual or imminent lawsuits against the government. Components not Requiring or Generating Resources, Other consists of recording bad debt expense to increase the allowance for doubtful accounts to include an aging public receivable.

Fiscal Years Ended September 30	2016	2015
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Resources Used to Finance Activities

Budgetary Resources Obligated:

Obligations Incurred	\$ 1,341,221,039	\$ 1,290,267,850
Less: Spending Authority from Offsetting Collections and Recoveries	(1,438,265,732)	(1,374,468,420)
Obligations Net of Recoveries	\$ (97,044,695)	\$ (84,200,570)

Other Resources:

Transfers In/(Out) without Reimbursement	\$ 147,616,646	\$ (74,371,646)
Imputed Financing from Costs Absorbed by Others	64,693,610	60,993,688
Net Other Resources Used to Finance Activities	\$ 212,310,256	\$ (13,377,958)

Total Resources Used to Finance Activities	\$ 115,265,561	\$ (97,578,528)
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Resources Used to Finance Items not Part of the Net Cost of Operations

Change in Budgetary Resources Obligated for Goods, Services and Benefits

Ordered but not yet Provided:

Undelivered Orders	\$ 220,498	\$ 689,843
Unfilled Customer Orders	3,787,656	(7,245,512)
Resources that Fund Expenses Recognized in Prior Periods	(1,310,593)	(4,141,664)
Resources that Finance the Acquisition of Assets	(21,421,760)	(16,378,724)
Other Resources or Adjustments to Net Obligated Resources that do Not Affect Net Cost of Operations - Other	(147,616,646)	74,371,646

Total Resources Used to Finance Items Not Part of the Net Cost of Operations	\$ (166,340,845)	\$ 47,295,589
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Total Resources Used to Finance the Net Cost of Operations	\$ (51,075,284)	\$ (50,282,939)
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Components of the Net Cost of Operations that will Not Require or Generate Resources in the Current Period:
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Components Requiring or Generating Resources in Future Period:

Increase in Annual Leave Liability	\$ 104,290	\$ 212,519
Increase in Environmental and Disposal Liability	260,000	0
Other	202,500	0

Total Components of Net Cost of Operations that will Require or

Generate Resources in Future Periods	\$ 566,790	\$ 212,519
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Components Not Requiring or Generating Resources:

Depreciation and Amortization	\$ 38,186,344	\$ 44,217,955
Revaluation of Assets or Liabilities	2,809,804	1,025,639
Other	6,381,869	69,489

Total Components of Net Cost of Operations that will Not Require or

Generate Resources	\$ 47,378,017	\$ 45,313,083
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Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	\$ 47,944,807	\$ 45,525,602
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Net Cost of Operations	\$ (3,130,477)	\$ (4,757,337)
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NOTE 14: OTHER DISCLOSURES

As of September 30	2016		
	Land and Buildings	Equipment	Total
Entity as Lessee - Operating Leases			
Future Payments Due Fiscal Year			
2017	\$ 26,905,926	\$ 3,564,920	\$ 30,470,846
2018	19,820,198	3,599,362	23,419,560
2019	17,582,025	3,635,355	21,217,380
2020	17,366,137	3,671,709	21,037,846
2021	16,052,700	3,708,426	19,761,126
After 5 Years	1,352,440	3,745,510	5,097,950
Total Future Lease Payments Due	\$ 99,079,426	\$ 21,925,282	\$ 121,004,708

The Defense Finance and Accounting Services does not have any capitalized leases. All DFAS leases are operating leases for rent or equipment, where DFAS is the lessee. In order to estimate the future years' payments due, DFAS used the current Consumer Price Index

rate of 1.0%.

While a portion of DFAS' leases are cancellable, at this time all of the amounts under commitment are reasonably expected to be future expenses, and are therefore included in the above schedule.





Independent Auditor's Report

Director, Defense Finance and Accounting Service
Principal Deputy Director, Defense Finance and Accounting Service
Chair, Defense Finance and Accounting Service Audit Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the Working Capital Fund (WCF) of the Defense Finance and Accounting Service (DFAS), component of the United States Department of Defense (DoD), which comprise the Balance Sheet as of September 30, 2016, and the related Statements of Net Cost, Changes in Net Position, and Budgetary Resources for the year then ended, and the related notes to the financial statements (hereinafter referred to as the financial statements).

Management's Responsibility for the Financial Statements

DFAS management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to the DFAS' preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DFAS' internal controls. Accordingly, we express no such opinion. An audit also includes evaluating

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the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Defense Finance and Accounting Service Working Capital Fund as of September 30, 2016, and its net cost, changes in net position, and budgetary resources for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the DFAS WCF as of September 30, 2015 were audited by other auditors who issued an unmodified opinion dated November 12, 2015.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis, Financial Discussion and Analysis, and Other Accompanying Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the DFAS WCF financial statements as a whole. The messages from the DFAS Director and Chief Financial Officer, the performance measures, and the Management Assurance, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 31, 2016, based on our consideration of the DFAS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. 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 the internal control over financial reporting nor on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered DFAS WCF's 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 DFAS WCF's internal control. Accordingly, we do not express an opinion on the effectiveness of DFAS WCF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Although not considered to be material weaknesses or significant deficiencies, we noted other matters that were communicated to management in a separate letter.

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

Report on Compliance and Other Matters

The management of DFAS is responsible for complying with laws and regulations that are applicable to DFAS. As part of obtaining reasonable assurance about whether DFAS financial statements are free of material misstatement, we performed tests of DFAS compliance with certain provisions of laws and regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in the Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*, including provisions referred to in Section 803 (a) of the *Federal Financial Management Improvement Act of 1996 (FFMIA)*. We limited our tests of compliance to

the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to DFAS. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance described in the preceding paragraph of this report disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 15-02.

The purpose of this report is solely to describe the scope of our testing of compliance with applicable laws and regulations and the result of that testing, and not to provide an opinion on the effectiveness of DFAS WCF's compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering DFAS WCF's compliance. Accordingly, this communication is not suitable for any other purpose.

Williams, Adley & Company - DC, LLP

Washington, District of Columbia
October 31, 2016



DEFENSE FINANCE AND ACCOUNTING SERVICE

8899 EAST 56TH STREET, INDIANAPOLIS, IN 46249-0100
4800 MARK CENTER DRIVE, ALEXANDRIA, VA 22350-3000

November 7, 2016

Mr. Kola Isiaq, Engagement Partner
Williams, Adley, and Company, LLP-DC
1030 15th Street N.W., Suite 350 West
Washington, DC 20005

Dear Mr. Isiaq:

I have reviewed the draft Independent Auditor's Report dated October 31, 2016, on the Fiscal Year 2016 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. We concur to the report as written with no comments. DFAS values the independent and detailed review by your team.

DFAS continues to focus on the audit readiness of the Agency and its customers, and we have put steps in place to ensure this objective is met. This audit opinion shows we have executed our processes and controls properly in order to obtain optimal results. We will review the audit findings to ensure continued success is achieved.

DFAS thanks you and your staff for the hard work and professionalism extended during the audit period. Your efforts are appreciated.

The staff of the Chief Financial Officer's office will respond to any additional requirements as you complete your audit. My action officer, Mr. Jason Monday, can be reached at (317) 212-2674 or james.j.monday.civ@mail.mil.

Sincerely,


Teresa A. McKay
Director



DEPARTMENT OF THE ARMY
U.S. ARMY AUDIT AGENCY
OFFICE OF THE PRINCIPAL DEPUTY AUDITOR GENERAL
6000 6TH STREET, BUILDING 1464
FORT BELVOIR, VA 22060-5609

7 November 2016

Mr. Kola Isiaq
Engagement Partner
Williams, Adley, and Company, LLP-DC
1030 15th Street NW Suite 350 West
Washington, DC 20005

Dear Mr. Isiaq:

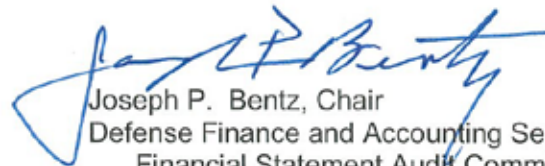
I have received a copy of the draft Audit Report of the Fiscal Year 2016 Defense Finance and Accounting Service (DFAS) Working Capital Fund financial statements. On behalf of the Audit Committee, I want to thank you for the independent and comprehensive review performed by Williams, Adley and Company.

I believe the results of this audit and the sustained performance of DFAS represent a strong system of controls and accounting processes in place. The management of DFAS continually displays a consistent strategy to improve its control environment.

It is my understanding that communication between you and DFAS was open and forthcoming, and the DFAS staff promptly provided full access to any documentation requested. DFAS management informed me your staff was professional and courteous in their interactions with employees from DFAS.

Thank you for your support and courtesy during the audit engagement.

Sincerely,

A handwritten signature in blue ink, reading "Joseph P. Bentz", is positioned above the typed name and title.

Joseph P. Bentz, Chair
Defense Finance and Accounting Service
Financial Statement Audit Committee

NOTES



**DEFENSE FINANCE AND
ACCOUNTING SERVICE**
Working Capital Fund

STAY IN TOUCH

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