UNITED STATES MARINE CORPS

FISCAL YEAR 2018 AGENCY FINANCIAL REPORT

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MESSAGE FROM THE COMMANDANT OF THE MARINE CORPS

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

November 2018

On behalf of the Nation's Naval Expeditionary Force-in-Readiness, I present the United States Marine Corps' Fiscal Year 2018 Agency Financial Report (AFR). This report is designed to show the American public how our warfighters are serving this Nation and how the Marine Corps is committed to being disciplined and transparent stewards of taxpayer dollars.

As set forth by the 82nd Congress and reaffirmed by the 114th, the purpose of our Corps is to provide maritime expeditionary combined arms task forces that are "most ready, when the Nation is least ready." Our Fiscal Year 2018 budget focused on modernization, manpower and readiness to meet the three key objectives of the National Defense Strategy: increasing lethality through investment in modernization and improved readiness; strengthening alliances and attracting new partners; and reforming business processes to promote effective resource management and a culture of rapid and meaningful innovation. Delivering on these priorities depends upon effective resource stewardship and disciplined budget management.

The Marine Corps is committed to the accountability and reform required to make audit readiness a critical enabler of warfighter readiness. Our Agency Financial Report is our principal publication to the President, Congress and the American people to communicate the state of our financial management and stewardship of the public funds with which we have been entrusted. Fiscal Year 2018 was the second year for the Marine Corps under Full Financial Statement Audit. The auditor's report in this AFR tells us what we already knew; we have a lot of work to do. For the areas needing improvement, we are making progress. Many of the solutions are complex and require changes to systems or improvements to processes that involve our other partners in the Department of Defense. Additionally, many problems require us to improve in fundamental skills for information technology, financial management, personnel and pay management, and the management of plant, property and equipment. We will continue to work to improve our accountability while we improve our risk management, internal controls and corrective action plans to fix the problem areas that will provide the greatest return on the taxpayer investment in the Marine Corps.

Thank you for the resources that support your Marines. We will continue to attack business reform issues as we advance towards a clean financial opinion in the future.

Robert B. Neller
General, U. S. Marine Corps
Commandant of the Marine Corps

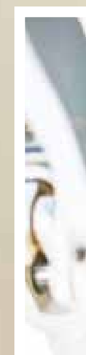
"Now we are everywhere...The
many of us are being opened,
women chose to challenge the

100 Years

United States Marine Corps Women's Centennial

AUGUST 1918: Opha May Johnson was the first woman known to have enlisted in the U. S. Marine Corps.

NOVEMBER 1948: The first eight women enlisted into the regular Marine Corps.



1918

At Their Core, one of three of Marine Corps Recruiting Command's statues unveiled at the National Marine Corps Museum in Triangle, VA. (U.S. Marine Corps photo by Pfc. Mitchell Collyer) opportunities for just because some standards.”

— 1st Sgt. Diana Bacolod

2018

JUNE 1948: Women's Armed Service Integration Act

NOVEMBER 1918: “Lady Hell Cats”

SUMMER 1949: The first African-American female Marines enlist.

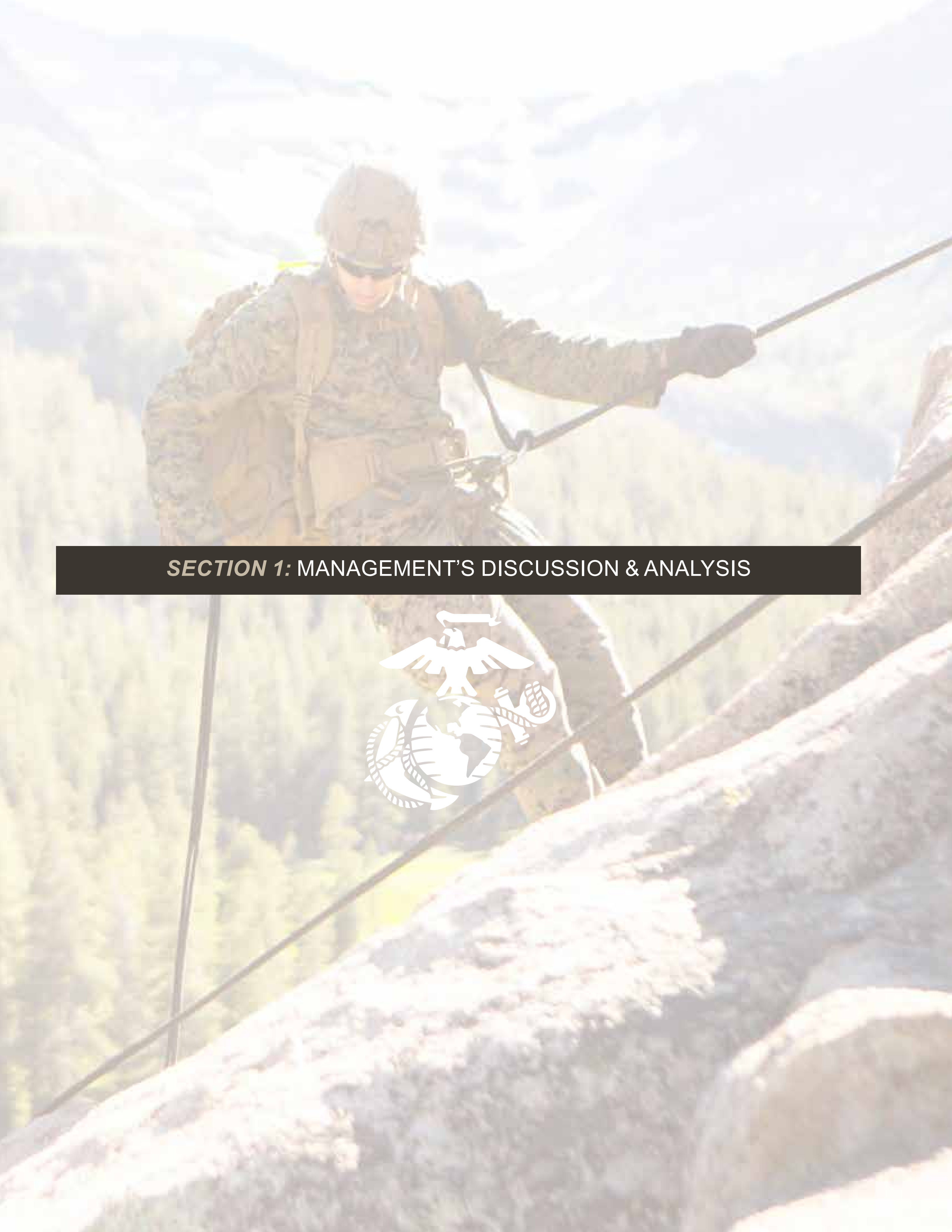
NOVEMBER 1918: By the end of World War I, there were more than 300 women enlisted.

SEPTEMBER 2018: Marine Corps Lt. Marina A. Hierl is the first woman to lead an infantry platoon.

“They don't have a nickname, and they don't need one. They get their basic training in a Marine atmosphere at a Marine post. They inherit the tradition of Marines. They are Marines.”

— Commandant General Thomas A. Holcomb, March 27, 1944

Source: usmcmuseum.com/women-marines-100th-anniversary and marines.mil



SECTION 1: MANAGEMENT'S DISCUSSION & ANALYSIS

Marines buddy carry their wounded off of the battlefield during exercise. (U.S. Marine Corps photo by Lance Cpl. Preston McDonald)

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

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

Mission and Organizational Structure

Mission

10 U.S.C. § 5063, *United States Marine Corps: composition; functions, the National Security Act of 1947*, and Department of Defense Directive 5100.01, *Functions of the Department of Defense and Its Major Components*, codifies the roles and missions of the USMC, which include:

- Seize and defend advanced naval bases or lodgment to facilitate subsequent joint operations;
- Provide close air support for ground forces;
- Conduct land and air operations essential to the prosecution of a naval campaign as directed;
- Conduct complex expeditionary operations in the urban littorals and other challenging environments;
- Conduct amphibious operations, including engagement, crisis response, and power projection operation to assure access—the Marine Corps has the primary responsibility for the development of amphibious doctrine, tactics, techniques, and equipment;
- Conduct security and stability operations and assist with the initial establishment of a military government pending transfer of this responsibility to other authority;

- Provide security detachments and units for service on armed vessels of the Navy, provide protection of naval property at naval stations and bases, provide security at designated U.S. embassies and consulates, and perform other such duties as the President or the Secretary of the Defense may direct—these additional duties may not detract or interfere with the operations for which the Marine Corps is primarily organized.

Organizational Structure

Figure 1. USMC Organizational Structure

The USMC is a component reporting entity of the U.S. Department of the Navy (DON), led by the Commandant of the Marine Corps (CMC) and, ultimately, the Secretary of the Navy (SECNAV). The USMC is divided into Headquarters, U.S. Marine Corps (HQMC) and Supporting Activities, the Operating Forces, and the Supporting Establishment.

Headquarters, U.S. Marine Corps

HQMC consists of the CMC and those staff agencies that advise and assist in discharging the Commandant's responsibilities as prescribed by law and higher authority. Under the authority, direction, and control of the SECNAV through the CMC, HQMC coordinates recruiting, organizing, supplying, equipping (including research and development), training, servicing, mobilizing, demobilizing, administering, and maintaining the USMC, and assists in the execution of any power, duty, or function of the SECNAV or the CMC. HQMC is spread throughout the Washington, D.C. metro area, including locations at the Pentagon, Marine Barracks Washington, D.C., Marine Corps Base (MCB) Quantico, and the Washington Navy Yard. The Deputy Commandants (DCs) and selected supporting activities that report directly to the CMC included in the HQMC Organizational Structure chart in Figure 2 are further described on the following pages.

Marines and Sailors conduct helocast insertion training. (U.S. Marine Corps photo by Lance Cpl. Haley McMenamin

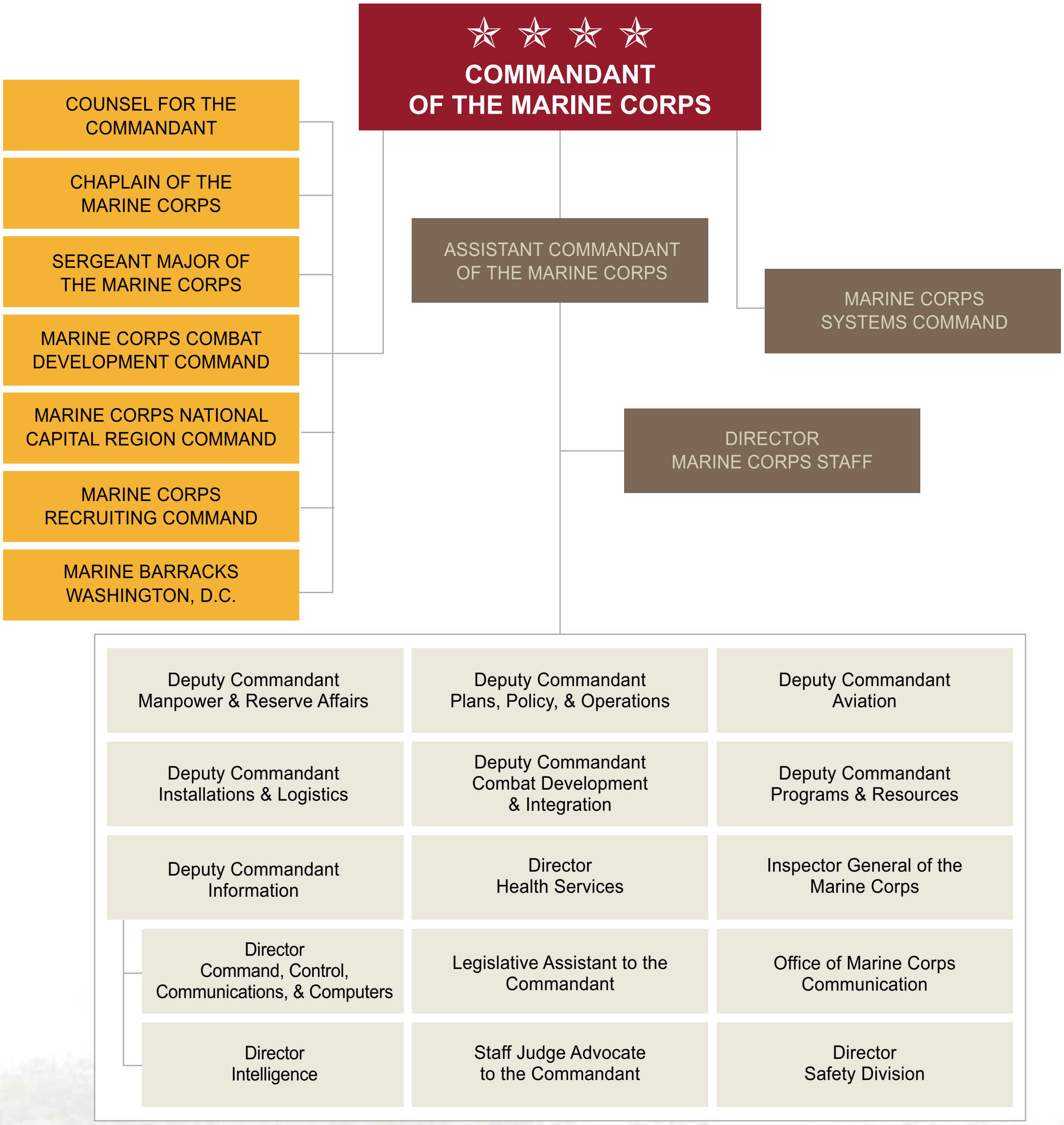
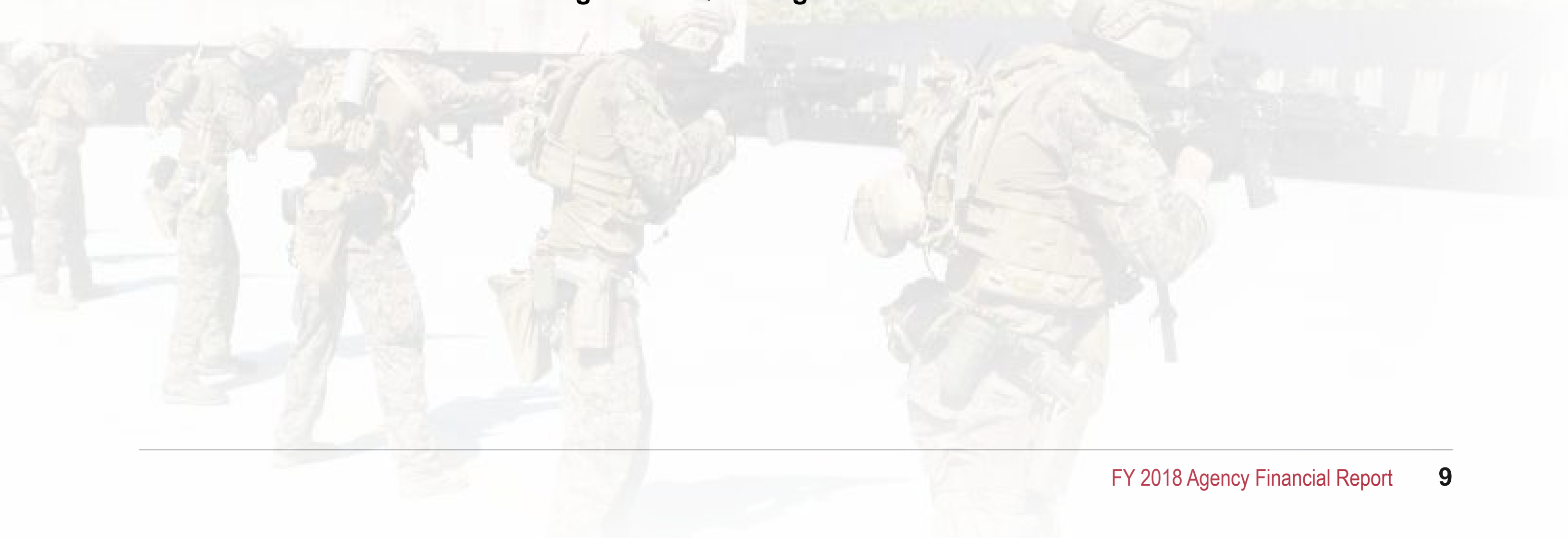


Figure 2. HQMC Organizational Structure



Deputy Commandant, Manpower and Reserve Affairs

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

Deputy Commandant, Plans, Policy, and Operations

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

Deputy Commandant, Aviation

The mission of the DC for Aviation is to develop, integrate, and supervise plans, policies, and the budget for all aviation assets and aviation expeditionary enablers (aviation command and control, aviation ground support, and unmanned aircraft systems) in support of Marine Air Ground Task Forces (MAGTFs). In support of the CMC's responsibilities under the United States Code (U.S.C.) Title 10, the DC for Aviation serves as the principal advisor on all aviation matters and as spokesperson for Marine Corps aviation programs, requirements, and strategy throughout the DON and the Department of Defense (DoD). With the exception of unmanned aircraft, all aircraft used by the USMC is reported by the DON.

Deputy Commandant, Installations and Logistics

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

Deputy Commandant, Combat Development and Integration

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

Deputy Commandant, Programs and Resources

The mission of the DC for Programs and Resources (P&R) is to act as the principal staff agency responsible for developing, defending and overseeing Marine Corps financial requirements, policies and programs in order to support them in executing U.S.C. Title 10 responsibilities as a Service chief. DC P&R serves as the principal advisor to the CMC on all financial matters and serves as CMC's principal spokesperson on USMC program and budget matters throughout the DON and the DoD.

Deputy Commandant, Information

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

Marine Corps Systems Command

Headquartered at MCB Quantico, VA, the Marine Corps Systems Command (MCSC) serves as the DON's agent for Marine Corps ground weapon and information technology (IT) system programs in order to equip and sustain Marine Forces with full-spectrum, current and future expeditionary and crisis-response capabilities. The command outfits Marines with literally everything they drive, shoot, and wear. MCSC is the only systems command in the USMC, and serves as the Head of Contracting Authority.

Marine Corps Recruiting Command

Headquartered at MCB Quantico, VA, the Marine Corps Recruiting Command (MCRC) is responsible for the procurement of qualified individuals, in sufficient numbers to meet the established personnel strength levels, officer and enlisted, of the Marine Corps active and reserve forces. The primary objective is the perpetuation of the USMC and the standards of preparedness and military vigor that Marines have upheld since 1775. The immediate impact that recruiting has on the USMC requires that standards for enlistment be strictly set to ensure that future Marines will maintain the Marine Corps' tradition of excellence. Accordingly, the mission of MCRC is to "Make Marines, Win Battles, and Return Quality Citizens" to their communities.

Marine Corps Combat Development Command

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

Operating Forces

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

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

U.S. Marine Corps Forces, Command

Located in Norfolk, Virginia, MARFORCOM is tasked with commanding the Active Component Operating Forces; executing force sourcing and synchronization to provide joint commanders with the Marine Corps forces they require; directing deployment planning and execution in support of combatant commander and service requirements; serving as Commanding General, Fleet Marine Forces Atlantic, and commanding embarked Marine Corp forces; coordinating USMC-Navy integration of operational initiatives and advising the Commander, U.S. Fleet Forces Command, on Navy support to Marine Corps forces assigned to naval ships, bases, and installations.

U.S. Marine Corps Forces, Pacific

MARFORPAC has three command roles and responsibilities. The command serves as the USMC component to U.S. Pacific Command (USPACOM), USFK, and Fleet Marine Forces, Pacific. In addition to its service component responsibilities, MARFORPAC could be tasked to act as a joint task force command element. With its headquarters located at Camp H. M. Smith, Hawaii, MARFORPAC is the largest field command in the Marine Corps, having control over two-thirds of USMC operational forces. Commander, MARFORPAC commands all USMC forces assigned to USPACOM operating in a diverse geographic area stretching from Yuma, Arizona to Goa, India. The Commander, MARFORPAC supports national and theater strategic objectives, and exercises USMC component responsibilities in support of operational and concept plans, theater security cooperation, foreign humanitarian assistance, homeland defense, and force posture.

U.S. Marine Corps Forces, Special Operations Command

MARSOC is the USMC service component of U.S. Special Operations Command (USSOCOM). Its mission is to recruit, organize, train, equip, and, when directed by the Commander, USSOCOM, deploy task-organized, scalable and responsive Marine special operations forces (MARSOF) worldwide in support of combatant commanders and other agencies. MARSOC conducts foreign internal defense, special reconnaissance, and direct action.

U.S. Marine Corps Forces, Reserve

Headquartered in New Orleans, Louisiana, MARFORRES is responsible for providing trained units and qualified Marines readily activatable for duty and service in times of war, national emergency, or in support of contingency operations. USMC force expansion is made possible by activation of the Marine Corps Reserve. As an operational reserve, MARFORRES provides personnel and operational tempo relief for active component forces during times of peace. Like the active component, MARFORRES is a combined-arms force with balanced ground, aviation, and logistics combat support units. MARFORRES capabilities are managed through MARFORCOM as part of its global force management responsibilities for the CMC. MARFORRES has units located all over the United States and in Puerto Rico.

U.S. Marine Corps Forces, Northern Command

Co-located with MARFORRES in New Orleans, Louisiana, U.S. Marine Corps Forces, Northern Command (MARFORNORTH) executes anti-terrorism program and force protection responsibilities; plans for the use of Marine forces and advises on the proper employment of USMC forces; coordinates with and supports USMC forces in order to conduct homeland defense operations and provide defense support to civil authorities.

U.S. Marine Corps Forces, Central Command

U.S. Marine Corps Forces, Central Command (MARCENT) is located on MacDill Air Force Base, Florida and is designated as the USMC service component for USCENTCOM. MARCENT is responsible for all Marine forces in the USCENTCOM area of responsibility. MARCENT provides Marine Expeditionary Forces (MEFs) capable of conducting a wide range of operations, offering the command a responsive and unique set of capabilities. Marines deployed in support of ongoing operations, as well as embarked aboard U.S. Navy amphibious ships provide a potent mix of capabilities that can project combat power rapidly to any location in the region.

U.S. Marine Corps Forces, Southern Command

U.S. Marine Corps Forces, Southern Command (MARFORSOUTH), located in Miami, Florida, is the USMC service component for USSOUTHCOM. The mission of MARFORSOUTH is to plan, coordinate, and, when directed, conduct exercises and other theater engagements involving Marine forces attached to USSOUTHCOM. MARFORSOUTH commands all USMC forces assigned to USSOUTHCOM and advises the Commander, USSOUTHCOM on the proper employment and support of Marine forces; conducts deployment and redeployment planning and execution of assigned and attached Marine forces; and accomplishes other operational missions as assigned.

U.S. Marine Corps Forces, Europe and U.S. Marine Corps Forces, Africa
Headquartered in Stuttgart, Germany, U.S. Marine Corps Forces, Europe (MARFOREUR) and U.S. Marine Corps Forces, Africa (MARFORAF) provide support to USMC deployed rotational units and the USEUCOM and USAFRICOM commanders across all warfighting functions. Planning efforts from this headquarters translate strategic objectives into operational objectives through operations using such forces as Special Purpose MAGTF Crisis Response-Africa and the Black Sea Rotational Force.

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

U.S. Marine Corps Forces, Cyberspace Command
U.S. Marine Corps Forces, Cyberspace Command (MARFORCYBER), located at Fort Meade, Maryland, is the USMC service component for USCYBERCOM. MARFORCYBER enables full spectrum cyberspace operations, to include the planning and direction of Marine Corps enterprise network operations, defensive cyberspace operations in support of USMC, Joint and Coalition Forces, and the planning and, when authorized, direction of offensive cyberspace operations in support of Joint and Coalition Forces, in order to enable freedom of action across all warfighting domains and deny the same to adversarial forces.

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

Supporting Establishment

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

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

Marine Corps Installations Command

Marine Corps Installations Command (MCICOM) is the single authority for all installation matters. MCICOM consists of a headquarters and four subordinate commands: Marine Corps Installations Pacific, Marine Corps Installations West, Marine Corps Installations East, and Marine Corps Installations National Capital Region. The forces assigned to MCICOM provide timely support to the Marines, Sailors, and families from the Operating Forces and maintenance depots. They are essential components in the foundation of national defense as they are the force projection platforms that support training, sustainment, mobilization, deployment, embarkation, redeployment, reconstitution, and force protection.

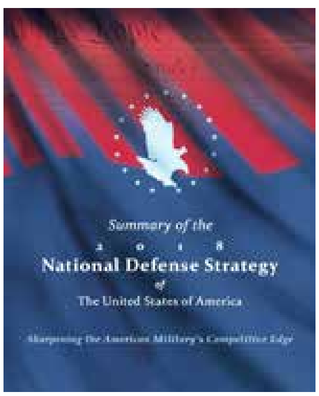
Marine Corps Logistics Command

Headquartered in Albany, Georgia, Marine Corps Logistics Command (MARCORLOGCOM) provides worldwide, integrated logistics, supply chain, and distribution management; maintenance management; and strategic prepositioning capability in support of the Operating Forces and other supported units. The services and support provided by MARCORLOGCOM maximize supported unit readiness, synchronize distribution processes, and support USMC enterprise and program-level total lifecycle management.

A hospital corpsman holds position during a hike during a mountain training exercise. (U.S. Marine Corps photo by Cpl. Adam Dublinske)

Analysis of Performance Goals, Objectives, and Results

The 2018 NDS clearly articulates the DoD's mission to compete, deter, and win in an increasingly complex security environment while executing objectives in the most efficient and effective manner throughout the enterprise. The NDS drives our agenda. Our performance goals, objectives, and the quantitative and qualitative results achieved in Fiscal Year (FY) 2018 are directly tied to the three NDS lines of effort, specifically to (1) restore readiness and build a more lethal force; (2) strengthen existing alliances while building new partnerships; and (3) reform and modernize the DoD for greater performance, accountability, and affordability. Foundational to our vision of success in this area is the establishment of a culture of performance and productivity on an enduring, institutionalized basis. We are putting in place a management system where leadership can harness opportunities and ensure effective stewardship of taxpayer resources. We have a responsibility to gain full value from every taxpayer dollar spent on defense, thereby earning the trust of Congress and the American people.



Line of Effort 1: Rebuild readiness as we build a more lethal force. We are committed to improving the readiness of the Marine Corps by implementing modern business practices, while integrating the most promising emerging technology. We will take full advantage of our greatest asset – the ingenuity of our high-quality people – by continually experimenting with new concepts and fostering a culture of innovation. An unparalleled naval expeditionary force in readiness, operating forward, and with the world's best trained and educated warfighters, provides the Nation with an unrivaled deterrent capability modeled after the tenet "peace through strength" that has served America so well throughout our history.

Line of Effort 2: Strengthen our alliances and attract new partners. The Marine Corps maintains robust partnerships. The expeditionary nature of our mission provides us with the opportunity to interact and strengthen bonds regularly with our partners and allies. Mutually beneficial alliances and partnerships are crucial to our strategy, providing a durable, asymmetric strategic advantage that no competitor or rival can match. This approach has served the United States well, in peace and war. Every day, our allies and partners join us in defending freedom, deterring war, and maintaining the rules which underwrite a free and open international order. Further, we will design and implement processes for managing and expanding these relationships that improve cooperation and interoperability.

Line of Effort 3: Reform the Department's business practices for greater performance and affordability. Outdated business practices and systems are a drain on scarce resources and impede our ability to anticipate and adapt. Therefore, improving accountability and management functions are not "nice to haves"— they are operational imperatives. Measuring performance and risk are sound management practices and must be fully incorporated into the Marine Corps' daily decision making cycle. We are entrusted by the American taxpayer to be good stewards of their hard-earned dollars – they rightly rely upon us to eliminate inefficiencies and maximize their investment in naval capabilities for their continued security and prosperity. Our management principles stress the following: implementing good management practices results in improved operational readiness; executing agile processes ensures we can adapt to changes in our external environment; measuring performance and risk allows us to make better decisions; reducing unnecessary overhead and eliminating non-value added practices frees up resources; and always scanning the horizon for new technologies and ways to do our business better will lead to greater agility to meet emerging threats.

Quantitative and Qualitative Successes

As a result of focusing on the goals and objectives contained within the NDS, the Marine Corps has been able to increase the number and quality of our people, increase the number and capabilities of our weapons systems, improve the readiness of the Operating Forces, achieve cost savings through improved business operations and continue to meet global operational demands. Some of the quantitative and qualitative successes achieved in FY 2018 are exemplified in the focus areas below.

Focus Area #1: Readiness Recovery

- Improved aviation readiness by 10%.
- Increased ground equipment readiness of select shoot, move, and communicate platforms by 32%.
- Increased readiness of the Marine Corps Ground Combat Element and Logistics Combat Element to meet operational plan requirements.

Focus Area #2: Increased Lethality

- Increased modernization investments by $2.5 billion, or 23%.
- Accelerated the transition from legacy airframes with the DON, on behalf of the USMC, funding the procurement of (72) F-35 aircraft.
- Increased the close combat lethality of Marine infantry, including 330% increase in combat optics, 63% increase in infantry weapons, and 919% increase in assault rockets.
- Established a Rapid Capability Office to accelerate transition of next generation technologies to the Operating Forces.

A U.S. Marine Corps F-35B Lightning II. (U.S. Marinee Corps phot by Sgt. Aaron Patterson)

Focus Area #3: Modernization and Innovation

- Built a new 1100-person force for offensive and defensive cyber operations.
- Established an information department, MEF information groups, and cyber occupational field.
- Established additive manufacturing/three dimensional (3-D) printing throughout the USMC as a funded program of record. This technology will flatten the supply chain and increase readiness. The USMC is the first service to use 3-D printers in combat with conventional forces.
- Partnered with Australia, the United Kingdom, and Japan to streamline cyber talent management and accelerate deployment of new technology to directly influence conditions in the Indo-Pacific Region.

Explaining the functions of a 3-D printer aboard an amphibious assault ship. (U.S. Marine Corps photo by Cpl. Stormy Mendez)

Focus Area #4: Operations

- Fulfilled combatant commander requirements in Syria, Iraq, Afghanistan, and throughout the Pacific.
- Deployed one-third of our Operating Forces (35K Marines).
- Completed first forward deployment of F-35Bs (Joint Strike Fighter) with the 31st Marine Expeditionary Unit in the Western Pacific in the spring of 2018.
- Supported Operation INHERENT RESOLVE in Iraq, Kuwait, Jordan, Syria, and Turkey countering violent extremist organizations and deployed to Afghanistan to confront Taliban fighters in Helmand Province.
- Bolstered the North Atlantic Treaty Organization's (NATO) presence along Europe's Northern Flank and resumed cold weather training by partnering with Norwegian forces.
- Conducted over 120 joint, bilateral and multinational exercises, fostering alliances and partnerships.
- Deployed over 30 Marine Security Guard Security Augmentation Units to embassies around the globe to enhance diplomatic security during periods of instability or increased threats.

AAV-P7/A1 assault amphibious vehicles unload service members during a RIMPAC exercise. (U.S. Marine Corps photo by Sgt. Aaron S. Patterson)

Focus Area #5: Business Reform and Savings

- Initiated 22 reform priorities. Anticipating returning $3.6 billion to reinvest in increased lethality and resiliency of the force (Future Year Defense Program 19-23).
- Established a Business Reform Board to better enable oversight of business practices and drive reform efforts throughout the organization.
- Became first military service to complete a full financial statement audit in November 2017.

Performance and Accountability

The Marine Corps recognizes that accurate performance measurement is critical to driving and supporting successful transformation objectives nested within the NDS. To truly transform our business operations will require the Marine Corps to go beyond reporting statistics from lagging indicators, and instead aggressively search for leading indicators that enable process changes that could facilitate desirable outcomes. An immediate priority for the organization is for solutions that address specific objectives to develop and report the status of both leading and lagging indicators for those objectives.

The leading indicators shall be based on specific activities, while the lagging indicators will be based on specific, measurable results. For example, one leading indicator for Marine Corps Aviation Readiness would be based on the activity, "Establish clear and accountable maintenance and readiness roles and authorities," while a lagging indicator could be the percent increase in the number of mission capable aircraft. Performance measures, specific milestones and targets, and their results will continue to help Marine Corps leadership assess progress towards strategic goals and objectives.

A Marine with a combat logistics battalion watches a CH-53E Super Stallion carry away M777 Howitzer. (U.S. Marine Corps photo by Pfc. William Chockey)

A U.S. Navy Corpsman provides security during a tactical recovery of aircraft and personnel exercise. (U.S. Marine Corps photo by Teagan Fredericks)

Analysis of Financial Statements and Stewardship Information

The USMC management is responsible for the integrity and objectivity presented in the balances and amounts in the financial statements. The below analysis of fluctuations in financial statement line items, and the discussion regarding significant balances, supports the USMC management's goal of demonstrating objectivity and transparency to the American taxpayer regarding the use of the financial resources they have provided.

Balance Sheet

The significant asset line items on the USMC's Balance Sheet include Fund Balance with Treasury (FBWT), Inventory and Related Property, and General Property, Plant, and Equipment (GPP&E).

The significant liability line items to USMC include Accounts Payable (non-federal), Environmental and Disposal Liabilities, and Other Liabilities (non-federal).

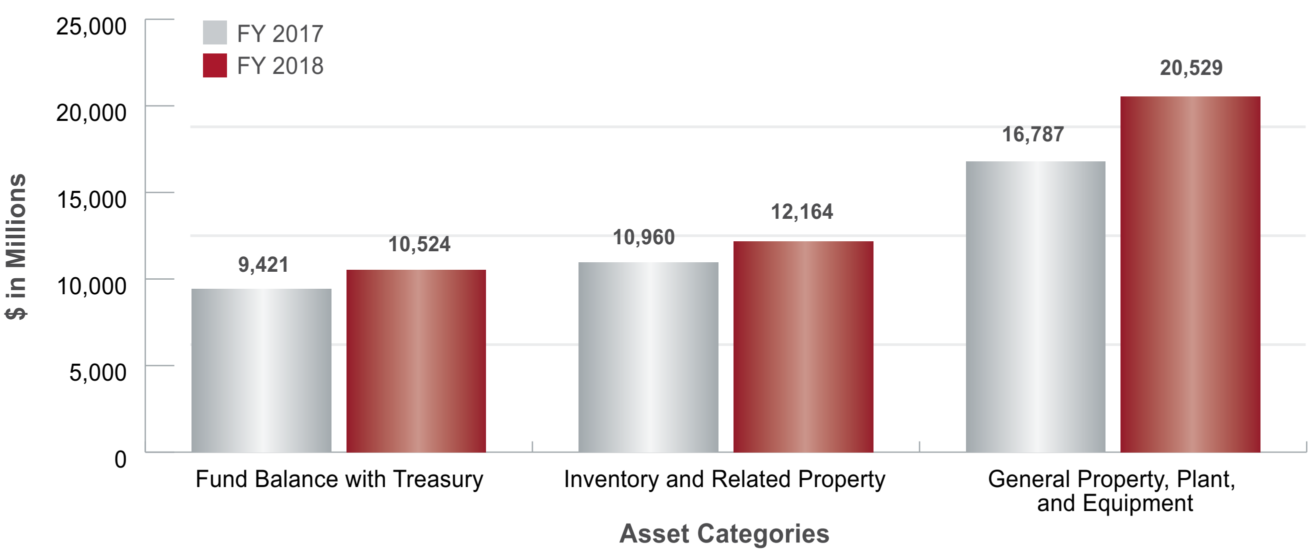


Figure 3: Balance Changes in Significant Asset Line Items

With few exceptions, FBWT operates like a typical checking account, the balance of which represents the USMC's available cash that can be used to pay existing liabilities, fund its operations, and make new asset purchases. FBWT on the balance sheet increased by 11.71% compared to the prior fiscal year. This fluctuation is due to the USMC payroll cycle at the end of the fiscal year being accrued for but not paid until after the fiscal year ended. Payroll in FY 2017 was disbursed in FY 2017, and therefore, the USMC FBWT at the end of FY 2017 was significantly less. In addition, the balance sheet line item Other Liabilities – Non-Federal, consists of accrued employee payroll and the USMC's portion of payroll taxes that are currently outstanding. The change in this balance from FY 2017 was impacted by this same business event driving the increase in FBWT.

GPP&E and Operating Materiel and Supplies (OM&S) collectively increased by approximately $5 billion in FY 2018. This increase was almost entirely due to audit remediation efforts whereby the USMC is working towards identifying its overall population of GPP&E and OM&S, and establishing supportable beginning balances in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment* and SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, respectively. At the end of FY 2018, OM&S Ammunition, OM&S Non-Ammunition, Military Equipment and Real Property valuations were re-baselined based on the newest information currently available.

Other Assets decreased $30 million (37%) year over year, which is entirely attributable to the USMC adjusting the way in which it accounts for accrued contract progress payments by recording the values in GPP&E Construction in Progress (CIP) as opposed to its Other Assets account.

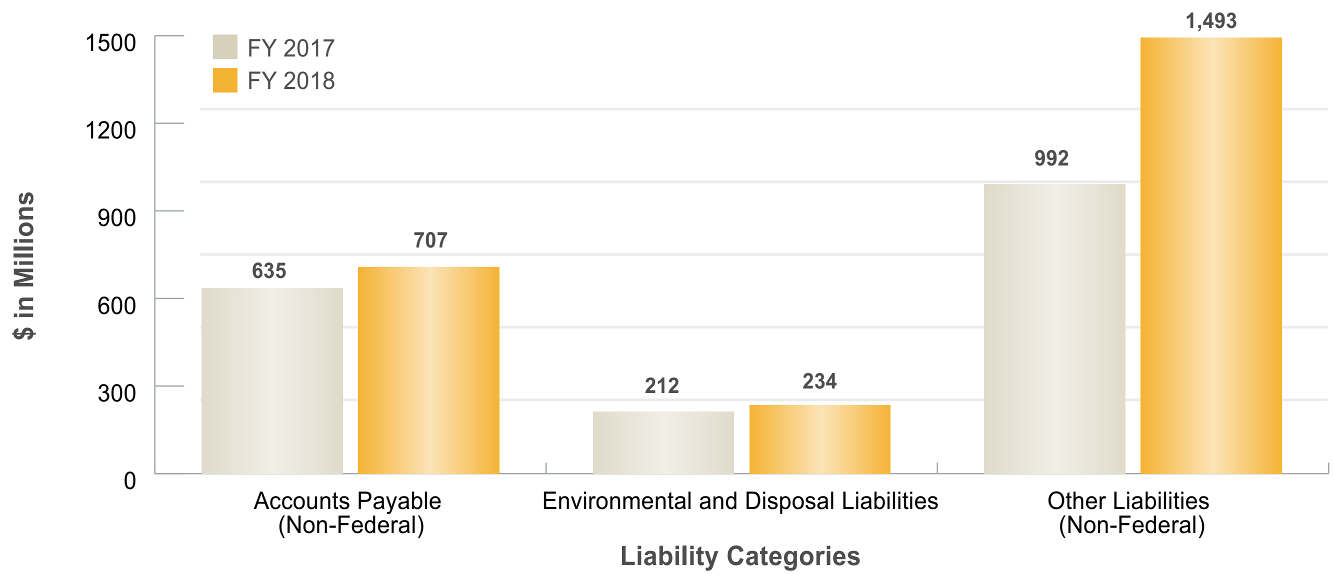


Figure 4: Balance Changes in Significant Liability Line Items

Accounts Payable (Non-Federal), increased $72 million (11%) year over year. This variance is driven by the same progress payments reclassification discussion pertaining to Other Assets, above. When GPP&E related CIP or expense is recorded, an accounts payable is also recorded.

Environmental and Disposal Liabilities increased $22 million (10%) year over year. This increase is due to additional assets that are being assessed as having a corresponding environmental and disposal liability. In addition, routine adjustments to existing environmental liability estimates contributed to the increase. This increase is partially offset by a decrease in certain asbestos units determined to belong to the Navy, not the Marine Corps.

Statement of Changes in Net Position

Other Financing Sources – Other increased by $7.7 billion (309%) due to gains/losses recognized as a result of the GPP&E and OM&S audit remediation efforts previously discussed, above. In FY 2017, there was a decrease to GPP&E and OM&S, totaling $2.4 billion. The increase in the current year was approximately $5 billion.

Similarly, there was a $243 million (176%) increase in the Other Financing Sources – Transfer In/Out with Reimbursement line item compared to last year. This variance is also attributable to GPP&E audit remediation activities, specifically as it relates to Real Property asset cleanup efforts that are being transferred over to the USMC from the DON.

The increase of $30 million (or 48%) to the line item Other Financing Sources (Non Exchange) – Imputed Financing from Costs Absorbed by Others represents, in general, an increase in health and retirement benefits (e.g., Federal Employees' Group Life Insurance, Federal Employees Health Benefits, etc.) paid for by the Office of Personnel Management on the USMC's behalf.

Combined Statement of Budgetary Resources

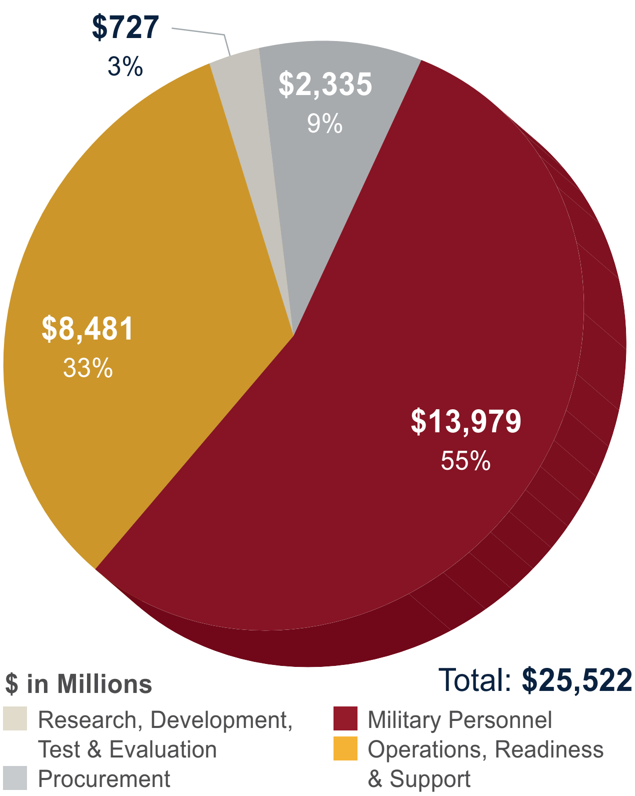


Figure 5: Appropriations

The increase of $1.4 billion in appropriations represents funding increases from Congress for the Marine Corps for two primary reasons – increasing the near-term readiness of the operating forces and to account for various rate increases due to inflation. Specifically, funding increased in a number of areas to enhance warfighting readiness in support of the Marine Corps overall theme of "Fixing Readiness for Today and Tomorrow." Force readiness efforts include sustainment, critical safety and service life extensions; investments in select ground readiness activities; munitions investments made to mitigate operational and training shortfalls; upgrades of protected, amphibious and ground maneuvering capabilities; increases in the number of intel, cyber, information operations, and MARSOC trained Marines; support for rebalancing to the Pacific; rapid crisis response operations; training exercises; extension upgrades for equipment, depot maintenance and spare parts; military construction to support new platforms and weapons; as well as recapitalization of deteriorated facilities to improve safety, security and environmental compliance.

Regarding rate increases, funding went up to account for inflation of military pay and an increase in work years to support the authorization of an additional 1,000 Marines to the USMC. The increase to Program Costs on the Statement of Net Cost correlates to this increase in funding.

A field artillery fire control Marine provides security during embassy reinforcement training. (U.S. Marine Corps photo by Lance Cpl. Kealiiholokaikeikiokalani De Los Santos)

Analysis of Systems, Controls, and Legal Compliance

Promoting accountability and managing program risks are key to USMC demonstrating sound stewardship of the public resources entrusted to it. USMC management is responsible for implementing systems, processes, and controls across the enterprise to identify and effectively manage risks, while ensuring compliance with the *Federal Manager's Financial Integrity Act* (FMFIA), *Federal Financial Management Improvement Act* (FFMIA), and related Office of Management and Budget (OMB) circulars and authoritative guidance. The USMC Managers' Internal Control Program (MICP) is the means by which the USMC adheres to these requirements. The MICP requires USMC organizations to self-report via certification statements on the operating effectiveness of internal controls in providing reasonable assurance that operations are efficiently and effectively executed, internal and external financial reports are reliable, financial management systems comply with requirements, safeguards are established to prevent against fraud, waste, and abuse, and the USMC is complying with laws and regulations.

Management Assurances

OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, provides specific requirements for conducting management's assessment of Internal Control Over Financial Reporting (ICOFR), Internal Control Over Financial Systems (ICOFS), and Internal Controls Over Non-financial Operations (ICONO). The FMFIA requires the agency head to provide an assurance statement on the effectiveness of controls. The FMFIA assurance statement provides an assessment of the effectiveness of the USMC's internal controls to support effective and efficient programmatic operations, reliable financial reporting, compliance with applicable laws and regulations, and whether financial management systems conform to financial systems requirements. The USMC is still in the early stages of implementing a comprehensive Enterprise Risk Management capability coordinated with the strategic planning and strategic review process established by the Government Performance and Results Modernization Act, the internal control processes required by FMFIA, and the Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* (i.e., Green Book).

FMFIA Assurance Statements

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

IN REPLY REFER TO
5200
ACMC
JUN 2 7 2018

MEMORANDUM FOR THE SECRETARY OF THE NAVY

Subj: UNITED STATES MARINE CORPS ANNUAL CERTIFICATION STATEMENT UNDER THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT FOR FISCAL INTEGRITY ACT FOR FISCAL YEAR 2018 (FY18)

Ref: (a) Federal Managers' Financial Integrity Act of 1982
(b) SECNAV INSTRUCTION 5200.35F of July 2014, Department of the Navy (DON) Managers' Internal Control (MIC) Program

Encl: (1) Risk Assessment
(2) Internal Control Evaluation Summary
(3) Material Weakness and Significant Deficiencies Corrective Action Plans (CAPs)
(4) Significant MICP Accomplishments

1. As Assistant Commandant of the Marine Corps, I recognize the Marine Corps is responsible for managing risks and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and applicable end-to-end business processes within the Marine Corps. In accordance with SECNAVINST 5200.35F, the Marine Corps evaluated the system of internal controls in effect during the Internal Controls over Operations reporting period from 1 July 2017 through 30 June 2018.

2. This Certification Statement captures information pertaining to the Marine Corps Managers' Internal Control Program (MICP) from 1 July 2017 to 30 June 2018 with the understanding that any significant information identified from 1 July 2018 to 30 September 2018 will be included as an amendment after submission or may be included in the following year's Certification Statement. This Certification Statement includes the following: details from a risk assessment template identifying key operational internal controls and risks that are part of the Marine Corps primary business operations (Encl 1), an internal control evaluation template that assesses the effectiveness of internal controls (Encl 2), a material weakness and significant deficiency CAPs template detailing developed, implemented, and completed corrective actions taken to remediate identified Marine Corps-level operational deficiencies (Encl 3), and a MICP accomplishments template summarizing Marine Corps fiscal year 2018 MICP achievements and progress (Encl 4).

Level	Verbiage
Unmodified certification statement with no material weaknesses noted.	*As of the date of this memorandum, I am able to provide an unmodified certification statement that Marine Corps operational internal controls meet the objectives of FMFIA.*

3. Information to support this Certification Statement was derived from knowledge extracted via daily operations of programs and functions, subordinate certification statements, internal control testing, independent audits, and other management information.

4. For questions regarding this Certification Statement, please contact Ms. Nadereh Naderi, at (703) 692-6797, nadereh.naderi@usmc.mil.

G. M. WALTERS
Assistant Commandant
of the Marine Corps

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

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MEMORANDUM FOR THE SECRETARY OF THE NAVY

Subj: UNITED STATES MARINE CORPS ANNUAL CERTIFICATION STATEMENT UNDER THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT FOR FISCAL YEAR 2018 (FY18)

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(2) Internal Control Evaluation Summary
(3) Material Weakness and Significant Deficiencies Corrective Action Plans (CAPs)
(4) Significant MICP Accomplishments

1. As Assistant Commandant of the Marine Corps, I recognize the Marine Corps is responsible for managing risks and maintaining effective internal controls to meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and applicable end-to-end business processes within the Marine Corps. In accordance with SECNAVINST 5200.35F, the Marine Corps evaluated the system of internal controls in effect during the Internal Control over Financial Reporting and Internal Controls over Financial Systems reporting period from 1 July 2017 through 30 June 2018.

2. This Certification Statement captures information pertaining to the Marine Corps Managers' Internal Control Program (MICP) from 1 July 2017 to 30 June 2018 with the understanding that any significant information identified from 1 July 2018 to 30 September 2018 will be included as an amendment after submission or may be included in the following year's Certification Statement. This Certification Statement includes the following: details from a risk assessment template identifying key operational internal controls and risks that are part of the Marine Corps primary business operations (Encl 1), an internal control evaluation template that assesses the effectiveness of internal controls (Encl 2), a material weakness and significant deficiency CAPs template detailing developed, implemented, and completed corrective actions taken to remediate identified Marine Corps level operational deficiencies (Encl 3), and a MICP accomplishments template summarizing Marine Corps fiscal year 2018 MICP achievements and progress (Encl 4).

Level	Verbiage
Modified certification statement with (9) material weaknesses deficiencies noted.	*As of the date of this memorandum, I am able to provide a modified certification statement that Marine Corps operational internal controls meet the objectives of FMFIA with the exception of 9 unresolved material weaknesses. These material weaknesses were found in the internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations. Other than those mentioned, the internal controls were operating effectively.*

3. Information to support this Certification Statement was derived from knowledge extracted via daily operations of programs and functions, subordinate certification statements, internal control testing, independent audits, and other management information.

4. For questions regarding this Certification Statement, please contact Ms. Nadereh Naderi, at (703) 692-6797, nadereh.naderi@usmc.mil.

G. M. WALTERS
Assistant Commandant
of the Marine Corps

The USMC is working to resolve material weaknesses identified during the FY 2017 Full Financial Statement audit. The status of USMC unresolved material weaknesses related to prior year audits are as follows:

Material Weakness	Summary Description	Corrective Actions and Status
1. Entity Level Controls	The material weakness identified that USMC has not fully implemented processes to evaluate its entity level controls. This includes documenting and assessing its control environment and financial reporting objectives.	USMC has performed a gap analysis of the current system of internal control to the GAO Green Book and identified principles and/or attributes that are missing or require improvement. The Marine Corps utilized the guidance within OMB Circular No. A-123 to implement effective entity level controls that are relevant to the preparation of its financial statements that are free of material misstatements. Corrective actions are still in progress.
2. Ability to Provide Complete, Timely and Sufficient Evidence	The material weakness identified that USMC business processes, associated internal controls and dependencies on legacy information systems and service providers contributed to its inabilities to timely and sufficiently evidence controls and record transactions.	USMC will develop various audit repositories across the enterprise functional areas to store supporting documentation for easy and timely retrieval. The documentation will include an audit support summary and a written audit process. Audit support teams will also be established both at the Headquarters and Command Levels to ensure roles and responsibilities and deadlines are understood. Corrective actions are estimated to be completed by 4th quarter 2021.
3. Financial Reporting and Analysis	The material weakness identified that USMC has not implemented internal controls to accurately define its financial reporting entity and to enable the production of complete financial statements and related disclosures in accordance with U.S. generally accepted accounting principles (GAAP) and OMB reporting requirements.	USMC completed its analysis of its reporting entity for completeness and compliance with GAAP reporting requirements. Two appropriations continue to be excluded from the USMC's financial statements but are expected to be included and reported in FY 2019.
4. Integrated Financial Management Systems	The material weakness identified deficiencies noted in three related areas: – Standard Accounting Budgeting and Reporting System (SABRS) Interface Controls – Feeder systems to SABRS reconciliations – Integration between Accountable Property Systems of Record (APSRs) and SABRS.	USMC will develop policies, procedures, and the process narratives, as applicable, to outline the sequential file reconciliations process and establish purpose, scope, roles, responsibilities, management commitment, and coordination among organizational entities. Corrective actions are estimated to be completed by 4th quarter 2021.
5. Accounting for Property, Plant, and Equipment	The material weakness identified that USMC inaccurately reports assets within the APSR and does not retain the appropriate level of supporting documentation.	USMC will continue efforts to strengthen the operational effectiveness of inventory management controls to improve the overall accountability of Property, Plant, and Equipment (PP&E) and the accuracy of property data within APSRs used for financial reporting purposes.

Material Weakness	Summary Description	Corrective Actions and Status
6. Accounting for Operating Materiel and Supplies	The material weakness identified that, due to ineffective business processes, internal controls, and information systems in place, USMC is unable to accurately value OM&S in accordance with SFFAS No. 3, *Accounting for Inventory and Related Property*.	USMC will formalize quarterly transactional reconciliation procedures for ammunition receipts, issues, transfers, and disposals within the Ordinance Information System –Marine Corps to variances between quarterly reported ammunition quantities from ammunition custodians, including third-party custodians. Corrective actions are estimated to be completed by 4th quarter 2019.
7. Fund Balance with Treasury Controls	The material weakness identified that the combination of internal control deficiencies involving the accounting for the FBWT, resulted in concerns related to existence and completeness of collections and disbursements to FBWT.	USMC is coordinating with the Defense Finance and Accounting Service (DFAS) to develop and implement corrective actions to remediate deficiencies in the Statement of Differences, suspense accounts, DCAS reporting, and cross-disbursement reconciliations. Corrective actions are estimated to be completed by 4th quarter 2021.
8. Business Process Controls	The material weakness identified lack of sufficient documentation to evidence the operating effectiveness of key controls related to multiple business processes.	USMC will evaluate internal control deficiencies and determine the underlying causes of controls that are not operating effectively. Corrective actions are estimated to be completed by 4th quarter 2020.
9. Information Systems	The material weakness identified that USMC has several deficiencies in key tier and third party systems.	USMC will ensure the Risk Management Framework (RMF) is being practiced throughout the organization and business process levels. Supplemental cybersecurity guidance, updates, or revisions will be provided through enterprise cybersecurity manuals, Marine Administration messages, and Marine Corps Bulletins on an annual basis. Corrective actions are estimated to be completed by 4th quarter 2023.

FFMIA Compliance Assessment

The FFMIA of 1996 was designed to strengthen the financial management, accountability, and reporting requirements outlined within the Chief Financial Officers Act of 1990, as amended. Specifically FFMIA requires agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements as clarified in OMB Circular No. A-123, Appendix D, applicable federal accounting standards promulgated by the Federal Accounting Standards Advisory Board, and the U.S. Standard General Ledger (USSGL) at the transaction level. Financial management systems include both financial and financially related (or mixed) systems.

The USMC's financial systems did not fully comply with federal financial management system requirements, federal accounting standards, and application of the USSGL at the transaction level as of 30 September 2018. These conditions are caused by the complexity of the USMC and DFAS financial reporting processes, current system configurations and integration with the core general ledger system, and insufficient financial management and information systems controls. The FY 2017 financial statement audit identified specific areas on which the USMC, its IT partners, and service providers must focus to strengthen compliance with FFMIA.

Compliance with Other Key Legal and Regulatory Requirements

As of 30 September 2018, the USMC is in the early stages of developing and implementing a program to perform a comprehensive assessment of USMC's compliance with other key legal and regulatory financial requirements. As USMC expands upon its compliance assessment efforts, the results will be provided in future Agency Financial Reports.

Digital Accountability and Transparency Act (DATA)

The USMC is currently working towards enhancing its core general ledger system to ensure it meets DATA Act reporting requirements. Specific system change requests are under development to capture and transmit essential data elements to the Defense Departmental Reporting System, the DoD financial reporting system. The USMC is also working with DFAS to ensure it can accurately report its spending data in compliance with the Act.

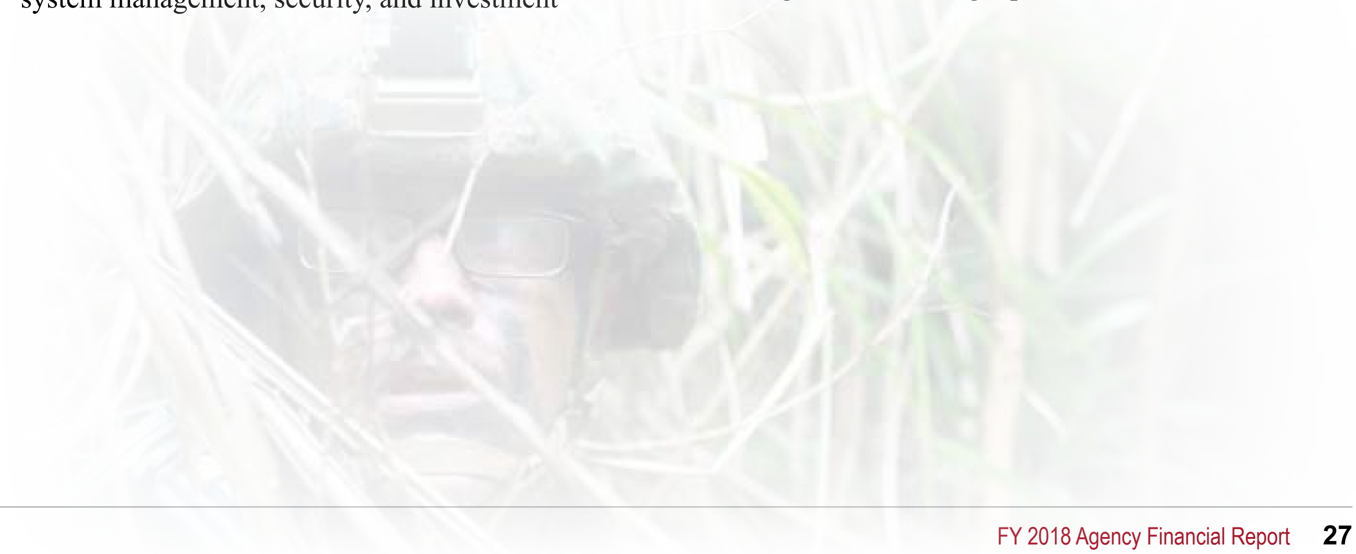
Federal Information Security Modernization Act and the Risk Management Framework

In FY 2017, in conjunction with the financial statement audit, the Marine Corps identified issues with the enterprise-wide implementation of RMF or various information systems management domains, such as access control, audit logging, and configuration management. To comply with the Federal Information Security Modernization Act (FISMA) requirements and mitigate these identified financial system risks, the Marine Corps System Strategy supports the implementation of the RMF requirements to monitor security controls continuously, determine the security impact of changes to the DoD Information Network and operational environment, and conduct remediation actions as described in the *Risk Management Framework for DoD Information Technology* instruction.

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

HQMC Command, Control, Communications, and Computers, and P&R support the CMC in his role as a member of the Joint Chiefs of Staff and represents the service financial systems matters. These departments have service staff responsible for the Marine Corps enterprise-wide business systems, governance, resourcing, capital planning and investment control, portfolio management, workforce, and enterprise architecture and develops and implements the synchronized strategy for the Marine Corps information environment. Collectively, they provide leadership and direction to make business system management, security, and investment decisions based on the Marine Corps unique mission requirements to ensure interoperability and operational effectiveness within the Marine Corps, naval, joint, and coalition information environments.

In addition, the USMC is currently assessing the results of its information systems tests of internal control (ICOFS testing), including entity level controls over financial systems, and assessments regarding its compliance with FISMA and the RMF, to identify systems compliance gaps and develop a systems strategy that will improve financial management and budget performance.



"The surest way to prevent war is to be prepared to win one. Building a more lethal force requires a competitive approach to force development and multi-year investment to restore warfighting readiness. We must recognize conflict's interactive nature, account for emerging technologies, identify and exploit asymmetries in our operational concepts, and validate our solutions through rigorous testing and experimentation. We must look forward to prevail in future competitions, inventing warfighting methods that will increase lethality, resilience, and operational surprise. Our aim is a ready Joint Force that possesses decisive advantages for key potential warfights, while remaining competent across the entire conflict spectrum."

– National Defense Strategy

U.S. Marines observe a beach after a simulated amphibious breach exercise.
(U.S. Marine Corps photo by Lance Cpl. Rhita Daniel/Released)

U.S. Marines patrol in a humvee during a field exercise. (U.S. Marine Corps photo by Lance Cpl. Dalton Swanbeck

Forward Looking Information

Today's Marine Corps faces many demanding challenges. We are entering a new era of great power competition, characterized by increased complexity, interdependence, and uncertainty. Meanwhile, an unprecedented rate of technological change, driven by artificial intelligence, robotics, autonomous systems, machine learning, and additive manufacturing are transforming societies, economies, and military capabilities across the globe. History has proven that new technologies and processes often create strategic inflection points that ultimately lead to changes in the character of warfare. We stand at another of those points today, and our capabilities – both human and technical – must evolve accordingly. To keep pace, our approach to business management must quickly evolve towards an urgent, laser-like focus on greater speed, agility, and efficiency in the face of a rapidly changing operating environment.

With this strategic context in mind, we have already begun laying the foundational business operations required to build the Next Generation Marine Corps. We have invested time, taxpayer money, and resources across Departmental and Service priorities. As we look forward to the future, we must continue this momentum by leveraging every resource, leading practice and efficiency we can find in order to think anew about our business operating model. The NDS, National Defense Business Operations Plan, and the DON Business Operations Plan, along with internal strategy documents such as the Marine Corps Operating Concept, will drive our future agenda and guide our Marine Corps by providing a vision for the future and charting a clear course for how to get there in order to provide the resources our Operating Forces need to face current and future threats to the Nation's security. While this is no easy task, the Marine Corps' 243 years of history unquestionably proves that when facing a challenge, we will always rise to the occasion. This will enable us to promote and execute new ways of thinking and organizing and provide substantially improved business management postures necessary for a higher state of operational readiness.

As the Marine Corps looks toward the future, it will seek to ensure continued alignment with the three NDS lines of effort and nine corresponding strategic objectives in the National Defense Business Operations Plan. Nested within the lines of effort (LOE), these strategic objectives include the following:

LOE # 1 - Rebuild Military Readiness as We Build a More Lethal Joint Force

1.1: Restore military readiness to build a more lethal force.

1.2: Lay the foundation for future readiness through recapitalization, innovation, and modernization.

1.3: Enhance IT and cybersecurity capabilities.

1.4: Ensure the best intelligence, counterintelligence, and security support for DoD operations.

1.5: Implement initiatives to recruit and retain the best total force to bolster capabilities and readiness.

LOE # 2 - Strengthen Our Alliances and Attract New Partners

2.1: Reform the security cooperation enterprise.

LOE # 3 - Reform the Department's Business Practices for Greater Performance and Affordability

3.1: Improve and strengthen business operations through a move to DoD-enterprise or shared services; Reduce administrative and regulatory burden.

3.2: Optimize organizational structures.

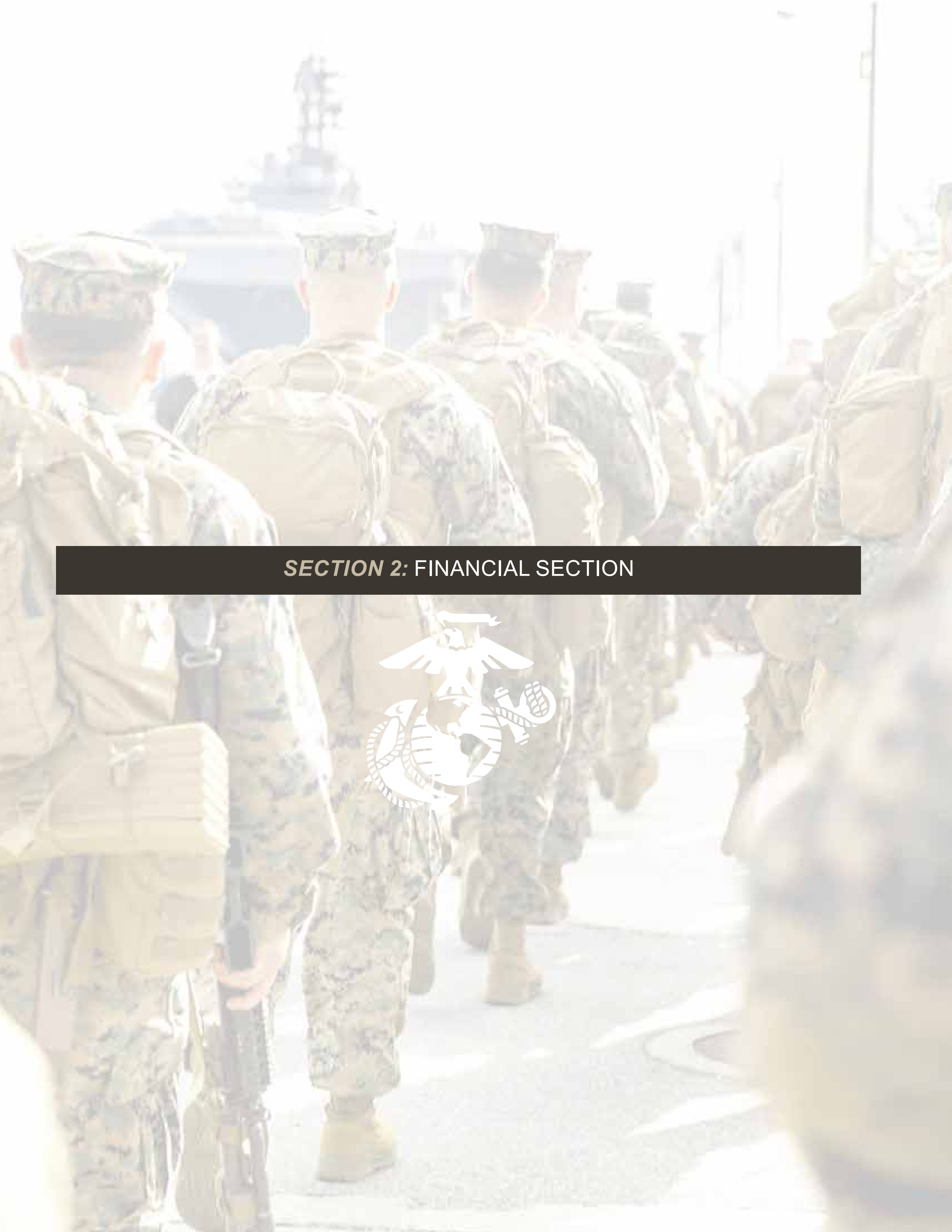
3.3: Undergo an audit, and improve the quality of budgetary and financial information that is most valuable in managing the DoD.

More than a decade and a half of wartime demands in the Middle East, together with normal high-tempo operations worldwide, taxed our capacity to maintain a ready force. Maintenance periods were either delayed or cancelled and infrastructure resources went to fund immediate readiness needs. Our depots were challenged to deliver ground and aviation assets on time, which impacted training time prior to deployment. These challenges were further aggravated by shortages of parts and availability of spares. Today, thanks to sustained support by Congress, we are on the path to recovery and rebuilding the Marine Corps for the 21st century. Our current and planned budgets deliberately prioritize improved readiness and wholeness of our force. Funding alone, however, is not the long-term answer. Marine Corps priorities within the DON's Business Operations Plan will seek to adjust our business processes and insert innovative, more efficient means to assess our progress, so that every taxpayer dollar possible goes to increased readiness and modernization of our forces. Recovering this lost readiness will take time, but our investments will be more properly balanced across all the dimensions of our Operating Forces and Supporting Establishment to consistently meet our national strategic objectives.

U.S. Marines prepare to transport an AN/TPS-80 G/ATOR radar system. (U.S. Marine Corps photo by Pfc. Cody Rowe)

Limitation of Financial Statements

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



SECTION 2: FINANCIAL SECTION

Office of Inspector General Transmittal

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

November 7, 2018

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

SUBJECT: Transmittal of the Independent Auditor's Report on the U.S. Marine Corps General Fund Financial Statements and Related Notes for FY 2018 and FY 2017 (Project No. D2018-D000FS-0088.000, Report No. DODIG-2019-011)

We contracted with the independent public accounting firm of Kearney & Company to audit the U.S. Marine Corps (USMC) FY 2018 and FY 2017 General Fund Financial Statements and related notes as of September 30, 2018, and 2017, and for the years then ended, and to provide a report on internal control over financial reporting and compliance with laws and regulations. The contract required Kearney & Company to conduct the audit in accordance with generally accepted government auditing standards (GAGAS); Office of Management and Budget audit guidance; and the Government Accountability Office/President's Council on Integrity and Efficiency, "Financial Audit Manual," July 2008.[1] Kearney & Company's Independent Auditor's Reports are attached.

Kearney & Company's audit resulted in a disclaimer of opinion. Kearney & Company could not obtain sufficient, appropriate audit evidence to support the reported amount within the USMC financial statements. As a result, Kearney & Company could not conclude whether the financial statements and related notes were fairly presented in accordance with Generally Accepted Accounting Principles. Accordingly, Kearney & Company did not express an opinion on the USMC FY 2018 and FY 2017 General Fund Financial Statements and related notes.

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[1] In June 2018, the Government Accountability Office issued an updated Financial Audit Manual. Kearney and Company updated its audit procedures to be in accordance with the updates issued in the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual," June 2018.

Kearney & Company's separate report on "Internal Control over Financial Reporting" discusses nine material weaknesses related to the USMC's internal controls over financial reporting. Specifically, Kearney & Company found material weaknesses including: Entity-Level Controls; Information Systems; Integrated Financial Management Systems; Ability to Provide Complete, Timely, and Sufficient Evidence; Business Process Controls; Fund Balance with Treasury; Inventory, specifically Operating, Materials, and Supplies; Property, Plant, and Equipment; and Financial Reporting and Analysis. Kearney & Company's additional report on "Compliance with Applicable Laws, Regulations, Contracts, and Grant Agreements" discusses four instances of noncompliance with applicable laws and regulations.

In connection with the contract, we reviewed Kearney & Company's report and related documentation and discussed the audit results with Kearney & Company representatives. Our review, as differentiated from an audit in accordance with GAGAS, was not intended to enable us to express, and we did not express, an opinion on the USMC's FY 2018 and FY 2017 General Fund Financial Statements and related notes, conclusions about the effectiveness of internal controls, conclusions on whether the USMC's financial systems substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on whether the USMC complied with laws and regulations.

Kearney & Company is responsible for the attached reports, dated November 7, 2018, and the conclusions expressed in these reports. However, our review disclosed no instances in which Kearney & Company did not comply, in all material respects, with GAGAS.

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

Lorin T. Venable

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

Attachments:
As stated

KEARNEY& COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We were engaged to audit the accompanying consolidated financial statements of the United States Marine Corps (Marine Corps), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, the related consolidated statements of net cost and changes in net position, and the combined statements of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted the audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Because of the matters described in the Basis for Disclaimer of Opinion section below; however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion that the financial statements are free from material misstatements when taken as a whole. The Marine Corps disclosed in Note 1, *Significant Accounting Policies*, instances where its current accounting and business practices represent departures from accounting principles generally accepted in the United States of America. As a result, the Marine Corps was unable to assert that the financial statements are presented fairly in accordance with accounting principles generally accepted in the United States of America. The Marine Corps asserted to the following departures from accounting principles generally accepted in the United States of America:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*
- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Reporting requirements associated with presenting the statements of net cost by major program per SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended
- Contingent legal liability requirements set forth in SFFAS No. 5 and SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Recognition and accounting requirements associated with capital and operating leases and environmental liabilities set forth in SFFAS No. 5 and SFFAS No. 6
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Accumulation and capitalization of internal use software in accordance with SFFAS No. 10, *Accounting for Internal Use Software*
- Accounting and reporting requirements associated with restatements per SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, and OMB Circular A-136, *Financial Reporting Requirements*
- Reporting and valuation requirements set forth in SFFAS No. 29, *Heritage Assets and Stewardship Land*, and disclosure requirements set forth in SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards No. 6, No. 14, No. 29, and No. 32*
- Incomplete reporting entity in accordance with SFFAS No. 47, *Reporting Entity*.

Additionally, the Marine Corps was unable to produce financial statements and disclosures in accordance with OMB Circular A-136.

We were unable to obtain sufficient appropriate evidential matter as to the completeness of the reporting entity. As disclosed in Note 1, the Marine Corps has not reported the balances and transactions as of and for the periods ended September 30, 2018 and 2017 for the Medicare-Eligible Retiree Health Care Fund (MERHCF) Contributions for Marines and Marine Corps Reserves personnel. Additionally, we were unable to obtain sufficient appropriate audit evidence as to the completeness of the Fund Balance with Treasury (FBWT), environmental liabilities, and contingent legal liabilities balances on the balance sheet as of September 30, 2018 and 2017. As of September 30, 2018, the Marine Corps reported $10.5 billion of FBWT and $234 million of environmental liabilities on its balance sheet. As of September 30, 2018, the Marine Corps did not report a contingent legal liabilities balance on its balance sheet.

We were unable to obtain transactional data necessary to reconcile Inventory and related property, net, composed of operating materials and supplies (OM&S), quantities observed as of a point in time to opening balances and ending balances for the fiscal year (FY). The Marine

Corps was unable to provide data for certain OM&S asset classes to allow audit procedures to be conducted or the data available from Marine Corps systems did not provide sufficient information by which to test for the existence, completeness, and valuation of the reported balances. As of September 30, 2018, the Marine Corps reported $12.2 billion of net OM&S within the Inventory and Related Property line item of the balance sheet.

We were unable to obtain sufficient appropriate evidential matter to enable us to perform audit procedures to determine whether Property, Plant, and Equipment (PP&E) opening balances as of September 30, 2018 were free of material misstatements. Our work identified issues related to existence, completeness, valuation, and accuracy of real property, general equipment, software-in-development, and leases. As of September 30, 2018, the Marine Corps reported $20.5 billion in net PP&E on its balance sheet.

We were unable to obtain sufficient appropriate evidential matter to support the existence and accuracy of Unobligated balance from prior-year budget authority, net. As of September 30, 2018, the Marine Corps reported $2.2 billion of Unobligated balance from prior-year budget authority, net on its statement of budgetary resources. In addition, we were unable to obtain sufficient appropriate evidential matter to support the existence and accuracy of obligations incurred and upward adjustments, specifically those arising from transactions other than payroll and the occurrence and accuracy of gross outlays. The Marine Corps' obligations incurred and upward adjustments for non-payroll are reported as part of the New obligations and upward adjustments balance on the statement of budgetary resources for the period ended September 30, 2018. The Marine Corps' gross outlays are reported as part of the Outlays, net balance on the statement of budgetary resources for the period ended September 30, 2018.

We were unable to obtain sufficient appropriate evidential matter to support the Marine Corps' adjustments to agree its intra-departmental expense and accounts payable balances to the amounts reported by its trading partners.

As disclosed in Note 1, the Marine Corps' financial statements for FY 2018 include amounts related to opening balance adjustments, which have been recorded as current-year activity. Such adjustments, totaling approximately $5.4 billion, were not applied properly in accordance with SFFAS No. 21.

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

Disclaimer of Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Marine Corps' financial statements and disclosures do not include Working Capital Fund (WCF) balances as of September 30, 2018 and 2017, nor activities for the years then ended. We were not engaged to audit the WCF of the Marine Corps; our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, the Marine Corps' financial statements and disclosures are inclusive of the Marine Corps' balances as of September 30, 2018 and 2017, as well as activities for the years then ended from funds that are shared with the United States Navy (Navy), a separate component reporting entity of the Department of the Navy (DON). We were engaged to audit the portion of these funds allotted to the Marine Corps. We were not engaged to audit the Navy's portion of the shared funds; our opinion is not modified with respect to this matter.

Other Matters

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

The Marine Corps attempted implementation of SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*, and SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, for its FY 2018 opening balances. Effective for periods beginning after September 30, 2016, the Federal Accounting Standards Advisory Board (FASAB) released SFFAS No. 50 and SFFAS No. 48, which allow a reporting entity, under specific conditions, to apply alternative methods in establishing opening balances. We planned and performed our audit procedures over PP&E and OM&S opening balances accordingly. As of September 30, 2018, the Marine Corps' implementation of SFFAS No. 50 and SFFAS No. 48 remains in process.

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01, we have also issued reports, dated November 7, 2018, on our consideration of the Marine Corps' internal control over financial reporting and on our tests of the Marine Corps' compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2018. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 7, 2018

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the United States Marine Corps (Marine Corps) as of and for the year ended September 30, 2018, and we have issued our report thereon dated November 7, 2018. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The Marine Corps also asserted to departures from generally accepted accounting principles.

Internal Control over Financial Reporting

In connection with our engagement to audit the financial statements, we considered the Marine Corps' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marine Corps' internal control. Accordingly, we do not express an opinion on the effectiveness of the Marine Corps' internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings to be material weaknesses.

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

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

The Marine Corps' Response to Findings

The Marine Corps' response to the findings identified in our engagement is described in a separate memorandum attached to this report in Section 2, *Financial Section*, of the Agency Financial Report. The Marine Corps' response was not subjected to the auditing procedures applied in our engagement of the financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the Marine Corps' internal control. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 7, 2018

Schedule of Findings

Material Weaknesses

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

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

Agencies implement these requirements by considering the guidance provided by Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control.* Accordingly, the United States Marine Corps (Marine Corps) uses the Managers' Internal Control Program (MICP) to support its responses to these requirements.

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

Condition: The Marine Corps has not demonstrated that its system of internal control, including entity-level internal controls, is designed to achieve financial reporting objectives that are relevant to the preparation of financial statements that are free of material misstatement. Specifically, the Marine Corps has not finalized the identification and documentation of its financial reporting objectives, performed a comprehensive financial reporting risk assessment, evaluated its control environment, centrally designed internal control activities, communicated standard internal control directives to all stakeholders, or finalized the implementation of monitoring procedures to ensure internal controls remain effective over time.

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

With regard to the information technology (IT) environment, the Marine Corps is in the process of implementing a Risk Management Framework (RMF) for its information system environment on a system-by-system basis. Although the Marine Corps published related guidance concerning its assessment and authorization process, it has not fully implemented comprehensive risk management for the IT control environment for all Marine Corps systems. Specifically, the guidance does not clearly address the requirement to consider and document, as part of an initial risk assessment, the threats, vulnerabilities, likelihood, and impact to organizational operations and assets, individuals, other organizations, and the nation, as required by the National Institute of Standards and Technology (NIST).

The Marine Corps does not maintain complete documentation of appropriate points of contact (POC), locations of system program management offices, parties responsible for administering and operating systems, and locations of the hosting facilities and enclaves for many of the Marine Corps and third-party systems.

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

With respect to prior-year audit findings, the Marine Corps' Corrective Action Plans (CAP) are evolving. In certain cases, CAPs were insufficient, in that they were not always designed to address prior-year causes of findings and the related recommendations. Further, the Marine Corps did not assess and prioritize prior-year findings, in the aggregate, prior to developing its CAPs. Instead, the Marine Corps developed CAPs for individual findings without an assessment of related findings with common root causes.

Cause: While the Marine Corps maintains a MICP, it does not adequately address internal controls or consider all FMFIA and Green Book requirements in the design and implementation of entity-level controls, including those controls necessary in the information system environment. The Marine Corps' MICP has not fully assessed or implemented all principles of internal control in accordance with FMFIA. Further, because the Marine Corps is a global enterprise and utilizes a multi-tier command structure, internal control directives have not yet been sufficiently communicated across the enterprise or cascaded to all levels within the command structure. The Marine Corps has not completely documented its entity-level controls to demonstrate that the controls achieve all control objectives and are operating in an integrated manner.

The Marine Corps has not fully implemented comprehensive risk management for the IT control environment at the organization level, including consideration of non-Marine Corps systems and documentation of all the sources and stakeholders for its systems that may affect financial reporting and operations. The Marine Corps' IT environment is characterized by a centralized strategy, policy, governance, and oversight arm and a decentralized execution and operations arm. IT operations and compliance responsibilities are delegated to the command and system owners. However, the Marine Corps does not include clear guidance on the implementation of the risk assessment process in accordance with NIST Special Publication (SP) 800-30, Revision (Rev.) 1, *Guide for Conducting Risk Assessments*. Furthermore, the Marine Corps has not documented a process to monitor SOC 1 report controls or the deviations noted in the SOC 1 reports or sufficiently considered whether the Marine Corps' internal control activities address CUECs.

The Marine Corps lacks a comprehensive understanding of the requirements for developing effective CAPs to remediate internal control deficiencies, and Marine Corps stakeholders have not sufficiently managed the development of CAPs or the implementation of corrective actions to remediate prior-year control deficiencies in support of the MICP process.

Effect: Absent entity-level controls and a comprehensive understanding of the IT environment, the Marine Corps faces an increased risk of not identifying and properly responding to relevant financial reporting risks, including information system risks and threats, in an effective manner (e.g., failing to develop the controls necessary to mitigate those risks). Incomplete internal control documentation impedes the Marine Corps' ability to monitor the design, implementation, and operating effectiveness of its entity-level controls over time. Insufficient entity-level controls affect the Marine Corps' entire system of internal control because transactional controls depend on entity-level controls' effective design and implementation. Without ongoing monitoring of third-party service organizations, including consideration of whether internal control activities address CUECs, performance and control issues may go unnoticed, affecting the design and operating effectiveness of the Marine Corps' control environment. Finally, without effective or comprehensive CAPs, the Marine Corps may not effectively remediate its deficiencies in internal control in a timely manner or may expend additional resources in remediating related causes through multiple CAPs.

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

1. Finalize the development of a gap analysis between the current system of internal control and the Green Book to identify principles and/or attributes that are missing or require improvement. The Marine Corps should use the guidance within OMB Circular A-123 to implement effective entity-level controls that are relevant to the preparation of its financial statements.
2. Develop and document a formalized entity-wide process to identify and document financial reporting objectives and any corresponding financial reporting risks compliant with OMB Circular A-123 requirements, including consideration of financial systems. This process should serve as the foundation for the Marine Corps' subsequent risk

responses (i.e., avoidance, acceptance, sharing), including the design, implementation, and maintenance of internal controls and related systems.

3. Develop and routinely maintain documentation of entity-level controls to demonstrate that controls are operating in an integrated manner and that all principles and attributes of internal control have been adequately designed and effectively implemented.
4. Establish a mechanism to provide for adequate review of business process narratives to finalize them, in addition to helping ensure stakeholders document business processes completely and identify internal control activities accurately.
5. Provide stakeholders with training to enable them to properly identify internal control activities and differentiate them from process steps and informational statements.
6. Develop a comprehensive guide of all Marine Corps and third-party systems that affect the financial statements, to include:
   a. System POCs, including those responsible for monitoring third-party systems.
   b. Locations of system program management offices.
   c. Parties responsible for administering and operating the system.
   d. Locations of the hosting facilities and enclaves for the system. Review and update the comprehensive guide on a periodic basis (at least annually).
7. Complete the transition of all the Marine Corps' systems to the RMF propagated by NIST.
8. Assess the risk at the organization and mission/business process tiers, in addition to the current assessments at the information system tier, in accordance with NIST SP 800-30, including consideration of service organizations/external entities.
9. Implement security controls to address the risks identified by the risk assessments and in consideration of Marine Corps' risk tolerance.
10. Develop and implement policies and procedures for the monitoring of third-party service organization controls in accordance with NIST SPs 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, and 800-35, *Guide to Information Technology Security Services*, including routine meetings and follow-up for any control deviations noted in SOC 1 reports.
11. Perform timely assessments of all Marine Corps' control activities for addressing CUECs to determine their applicability to the Marine Corps' internal controls and retain related support in coordination with the risk assessments and the design of internal controls for its end-to-end processes.
12. Consider ongoing review of the Marine Corps' control activities for addressing CUECs to reasonably assure ongoing relevance.
13. For CUECs determined to be applicable:
    a. Map them to the Marine Corps' management control(s).
    b. Document the design and implementation of the control(s).
    c. Test the control(s) to determine whether it is operating as designed.
14. Develop a review process of the SOC 1 report to confirm that CUECs did not change and management's controls for addressing CUECs are still applicable.
15. Establish routine communications with the Marine Corps' service organization(s) to improve awareness of changes to CUECs and potential exceptions that may be reported in the SOC 1 report. This should enable the Marine Corps to timely mitigate risks to its financial reporting (i.e., deficiencies within its service organization's controls and related

processes). Develop methods to document these communications and the changes to the design and implementation of internal controls in response to service organization updates.

16. Perform a comprehensive assessment of prior-year audit findings individually and in the aggregate. The assessment should consider the root causes of the findings, and CAPs should be updated, as appropriate, to remediate the underlying causes of findings and management-identified issues and with consideration of internal management initiatives.
17. Update policies and procedures related to the management and oversight of the CAPs and remediation process.
18. Provide training and guidance to process owners/stakeholders regarding the requirements for developing effective CAPs.

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

Deficiencies in three related areas define this material weakness:

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

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

A. Timeliness of Business Process Documentation

Condition: Based on the analysis of requests made as of September 28, 2018, the Marine Corps provided documentation, other information, or data after the established due date more than 44 percent of the time.

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

In addition, the Marine Corps did not consistently make IT documentation requests to the correct stakeholders due to incomplete documentation of appropriate POCs, locations of system program management offices, parties responsible for administering and operating systems, and locations of the hosting facilities and enclaves for many of the Marine Corps and/or third-party systems.

Some systems did not have the capability to readily generate lists of system changes that tie back to change management tools.

Effect: Without readily available documentation or evidence, Marine Corps management may not be able to perform assessments to monitor the design and operating effectiveness of controls, nor assure itself of the material accuracy of its reported balances and activities.

Recommendations: In addition to Recommendation #6 in Section I, *Entity-Level Controls*, Kearney recommends that the Marine Corps:

1. Develop and implement a repository of documentation (e.g., reconciliations and user access listings) to ease the retrieval and response process.
2. Create or leverage existing centralized document retention systems to achieve centralized storage for maintaining documentation and evidencing the execution of key military pay control activities.
3. Reiterate requirements and provide training to personnel regarding documentation retention requirements.
4. Collaborate with service organizations to obtain all supporting documentation to support leases executed on behalf of the Marine Corps.

B. Transaction-Level Data Populations Supporting Account Balances

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

- **Accounts Receivable (AR), Accounts Payable (AP), and Obligations Incurred** – The Marine Corps has not been able to produce reports of open AR and AP balances by customer or vendor, respectively. Further, the Marine Corps was unable to produce reports for new obligations incurred and upward adjustments for a specified period
- **Operating Materials and Supplies (OM&S)** – The Marine Corps was unable to provide sufficient OM&S transactional data of its OM&S balances
- **Real Property Leases** – The Marine Corps has not adequately identified its universe of leased real property assets and related lease information to properly account for capital and operating leases
- **Environmental and Disposal Liabilities** – The Marine Corps was unable to provide a complete population of its Environmental and Disposal Liabilities financial statement line item balance as of September 30, 2018. Environmental liabilities' estimates related to military equipment were not reported in accordance with generally accepted accounting principles (GAAP). In addition, other non-military general equipment (e.g., garrison property and garrison mobile equipment) and real property were provided. However, the Marine Corps has not produced complete and reliable data that accurately and completely portrays these asset populations to support the environmental liabilities' estimates
- **System Changes** – The Marine Corps did not provide a system-generated list of changes to the production environment for the Standard Accounting, Budgeting, and Reporting System (SABRS) Management Analysis Retrieval Tools System (SMARTS), Marine

Corps Orders Resource System (MCORS), Marine On Line (MOL) Marine Integrated Personnel System (UDMIPS), and Standard Procurement System (SPS).

Cause: The cause is presented in Part A above.

Effect: The effect is presented in Part A above.

Recommendations: Kearney recommends that the Marine Corps:

1. Develop periodic compilation and review of open AR, AP, and new obligations incurred and upward adjustments reports. Update the accounting system of record and feeder systems to capture standardized data input for AR, AP, and new obligations incurred and upward adjustments activity to ensure consistency and completeness of data elements recorded.
2. Continue ongoing efforts to transition to OM&S ammunition and non-ammunition accountable property systems of record (APSR) that have the capability of providing transaction-level details, validating that all required and critical data fields have been accommodated by the system transitions and should be tested appropriately prior to the closure of the CAP.
3. Develop, document, and implement a process to obtain and review the leases/agreements, scoring sheets, or other documentation to verify and support the proper reporting treatment.
4. Establish guidelines and a methodology for an assessment of all Marine Corps asset classes to determine if environmental liability cost estimates should be developed and reported by the Marine Corps.
5. Implement a log management tool to reconcile changes to the production environment audit logs.
6. Document the process for reconciling changes, including procedures for handling changes that did not undergo the authorized change management process.

C. Complete and Timely Documentation Supporting Sampled Transactions

Condition: The Marine Corps' responses to requests for documentation supporting selected transactions were either incomplete, untimely, or not clearly associated with the transaction amounts or pertinent data elements. Supporting documentation was insufficient or not provided for more than 25 percent of the sampled transactions. These conditions occurred across various areas, including:

- Net unobligated balance from prior-year budget authority which relates to unpaid obligations brought forward and recoveries of unpaid prior-year obligations
- New obligations incurred and upward adjustments
- Property, Plant, and Equipment (PP&E)
- Fund Balance with Treasury (FBWT)
- Outlays.

Cause: The cause is presented in Part A above.

Effect: The effect is presented in Part A above.

Recommendations: Kearney recommends that the Marine Corps:

1. Reiterate requirements to personnel regarding documentation retention requirements.
2. Disseminate the PP&E audit testing results to all PP&E custodians to promote awareness of the impact that untimely, insufficient supporting documentation and ineffective inventory management controls can have on property accountability.
3. Establish and implement policies for retaining PP&E asset records, which support recorded PP&E transactions to ensure compliance with GAAP.

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

Deficiencies in three related areas define this material weakness:

A. Completeness of the Marine Corps' financial statements and disclosures
B. Financial management and oversight
C. Accounting for estimates.

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

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

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

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

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

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

Condition: The Marine Corps did not adequately define its reporting entity in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity*, for which financial statements are prepared. The Marine Corps excluded opening balances and current-year appropriations and activities for the funds provided for contributions to the Medicare-Eligible Retiree Health Care Fund (MERHCF) on behalf of Marines and Marine Reserve personnel.

Additionally, the Marine Corps did not produce timely an Agency Financial Report (AFR) compliant with GAAP and OMB Circular A-136. For example:

- The AFR did not contain a note for Legal Arrangements Affecting the Use of Unobligated Balances
- Certain amounts in the notes did not agree to the financial statements
- The notes did not fully disclose certain information to provide users of the report context for reviewing the financial statements given the absence of sufficient information on the:
  - Volume and dollar amount associated with aviation assets used by the Marine Corps but reported instead by the United States Navy (U.S. Navy)
  - Various economic benefits and related accounting treatments for the Marine Corps' agreements with foreign governments
- Deferred maintenance cost estimates for PP&E were not tracked and monitored
- Material weaknesses in the Summary Management Assurances in Other Information did not agree to those presented as part of Management's Discussion and Analysis.

Cause: The Marine Corps has not fully designed and implemented its process for the preparation, review, and approval of the AFR and the maintenance of sufficient supporting documentation evidencing the completeness, accuracy, validity, and review of the information reported therein. The Marine Corps did not perform a comprehensive analysis of the risks related to financial reporting. Additionally, the Marine Corps:

- Analyzed its reporting entity considering a recently issued accounting standard in coordination with the Department of the Navy (DON). However, the Marine Corps and DON intentionally omitted MERHCF-related Treasury Account Symbols (TAS) from the

Marine Corps' reporting entity definition, as these TASs initially were determined to be under the administrative control of the U.S. Navy. Nonetheless, the Marine Corps and DON determined these TASs should be included in the Marine Corps' reporting entity beginning in fiscal year (FY) 2019

- Did not specify the qualitative and quantitative information required by SFFAS No. 42, *Deferred Maintenance and Repairs*, in the quarterly data call process; thus, the required information has not been considered in the preparation of the Required Supplementary Information (RSI) section of the financial statements as of September 30, 2018.

Effect: Ineffectively designed, implemented, and/or operating controls increases the risks of material misstatement and noncompliance with financial reporting requirements. The absence of a formal AFR compliance review process resulted in an inaccurate and incomplete AFR. Overall, the Marine Corps' incomplete internal control and review documentation hinders its ability to comply with FMFIA and other relevant laws and regulations.

Specifically, the AFR, including financial statements and related disclosures, does not meet the minimum presentation and disclosure requirements established in GAAP and OMB Circular A-136 and is incomplete and misstated; however, the full amount of the misstatement could not be determined. Misstatements relate to TASs funded for approximately $984 million during FY 2018 being excluded from the financial statements, and the intervening business events and resulting accounting transactions are unknown.

Recommendations: Kearney recommends that the Marine Corps:

1. Develop, implement, and document the processes and controls for the accumulation and review of data prior to the development of the AFR, to include documenting support for disclosures and other analytical information reported in the AFR and a formal AFR compliance review.
2. Include MERHCF TASs within its reporting entity definition and its financial statements and related disclosures, as applicable.
3. Continue the regular review and analysis of its reporting entity in accordance with applicable accounting standards. The process should include an assessment of all organizations and related funding sources in which it has accountability. The process should also include the: a) review of Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) and DON guidance related to the definition of the Marine Corps' reporting entity and b) coordination of the reporting assessment completed for the U.S. Navy and the Department of Defense (DoD) as a whole.
4. Maintain documentation to evidence the completion of the review, including analysis performed, sources referenced, and conclusions reached. Maintain documentation to evidence supervisory review and approval.

B. Financial Management Analysis and Oversight

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

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

- SABRS does not accumulate or transmit complete and accurate attribute data to support financial reporting requirements
- SABRS does not currently transmit post-close data to DDRS-B. Instead, SABRS transmits current-year activity and certain pre-close transactions to DDRS-B, and DDRS-B then performs a closing process separate from the SABRS closing process. The Marine Corps has not implemented internal control activities to help ensure the FY-end closing process in SABRS and DDRS-B is consistent and compliant with the USSGL
- SABRS contains posting logic that is not consistently compliant with USSGL requirements
- SABRS general ledger account numbers (GLAN) do not align with the USSGL chart of accounts, requiring a crosswalk to convert SABRS GLANs to general ledger account codes (GLAC) in DDRS for reporting purposes. In some instances, SABRS GLANs may be incorrectly crosswalked to DDRS GLACs.

The Marine Corps has not designed sufficient financial management analysis over SABRS and DDRS data and balances in support of internal controls. For example:

- Monthly procedures are limited to budgetary analysis and do not sufficiently include proprietary monitoring or validation of proprietary to budgetary relationships
- Abnormal balance conditions within SABRS at the TAS trial balance and account levels are not monitored
- Fluctuation analysis criteria for identifying line items for analysis is limited to specific line items and notes, resulting in significant, unexplained fluctuations
- Where fluctuation analysis was performed, the documented results of the analysis typically identified the source of the variance; however, sufficient analysis to understand the underlying root causes of the variances was not completed and/or documented
- The fluctuation analysis is not performed at the TAS trial balance and account levels.

A third-party service organization performs financial reporting and GL maintenance support services for the Marine Corps. Internal controls embedded in these support services either are not designed effectively or are not operating effectively. For example:

- The service organization did not perform sufficient or documented reviews of SABRS balancing reports prior to transmitting the feeder file to DDRS-B
- Trial balance reports did not always have documented reviews

- The service organization's abnormal balance analysis does not include a discussion of what business events led to the abnormal conditions and resolution, and/or correction of abnormal balance conditions is not performed in the period in which they occur.

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

- Perform sufficient or documented reviews of the journal vouchers (JV) and JV logs prepared by its service organization
- Demonstrate review of the reconciliation of the SABRS feeder file to reports provided by the service organization in accordance with documented procedures. In certain cases, the Marine Corps' reviews occurred several months after the reconciliation occurred
- Document the review and approval of the FY 2018 opening balance validation package.

The Marine Corps did not provide consistent and accurate data to support its financial reporting process. For example, the Marine Corps is not able to produce a DDRS-B unadjusted trial balance that consists of SABRS data before adjustments are recorded in DDRS-B. In addition, related to the financial reporting compilation process:

- The DDRS-B unadjusted trial balance initially included material variances in several accounts. Upon inquiry, service organization personnel explained that the unadjusted trial balance was generated before the SABRS feeder file transmitted to DDRS-B
- The DDRS-B JV log was incomplete and missing JVs, causing variances when recalculating year-to-date balances.

Cause: The Marine Corps and its service organization possess complex financial reporting processes and systems configurations, which include the need for multiple data sources to recalculate or monitor financial reporting outputs and system limitations surrounding the process and production of documentation to support financial reporting. The GL system, SABRS, relies upon DDRS to accomplish year-end closing of period accounts and to crosswalk and supplement SABRS attributes which are not always provided by feeder systems; it does not fully comport with the USSGL. The Marine Corps has not thoroughly assessed its financial reporting risks, nor sufficiently designed, implemented, and validated the operating effectiveness of its internal controls, including oversight of its service organizations.

Effect: Without effectively designed controls that are implemented and operating effectively, the Marine Corps may not detect and correct material misstatements and associated root causes in a timely manner. In addition, the financial statements and other external reports and underlying data may be materially misstated. Such misstatements may not be detected in the normal course of business.

Finally, the financial statements or other reports are not compliant with applicable laws and regulations and the GL systems, and their configurations are not compliant with the Federal Financial Management Improvement Act of 1996 (FFMIA).

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COMPANY

Recommendations: Kearney recommends that the Marine Corps:

1. Research the root causes and correct the underlying business processes which result in abnormal balances. To the extent possible, correct the conditions in the reporting period in which they occurred. As needed, develop CAPs or Plans of Action and Milestones (POA&M) to address items that require longer or more resource-intensive remediation support.
2. Conduct a comprehensive analysis of the current financial management, financial reporting, and analysis processes and controls to determine their effectiveness and reliability for the timely identification of conditions or events that lead to incorrect accounting treatment or result in noncompliance with laws and regulations. As part of this analysis, consider those controls performed by the third-party service organization.
3. Define roles and responsibilities with the service organization through a service-level agreement (SLA) that is routinely updated, maintained, and considered within the overall financial reporting control environment, to include compensating controls performed by the Marine Corps.
4. Continue to refine the design, implementation, and documentation of internal control activities to monitor functions performed by service organizations on its behalf to prevent or detect misstatements to its financial statements. Develop a consistent process of reviewing the Marine Corps' financial reporting documentation accumulated by third-party service organizations in support of GL monitoring, financial reporting, and other financial management support services. Provide sufficient training over the Marine Corps' financial reporting process to identify and correct errors and misstatements in a timely manner.
5. Work with its service organizations to implement the recommendations provided below. If these changes affect other DoD components, work with leadership from those entities to identify and undertake broader remediation efforts, where appropriate. Specifically, the Marine Corps should:
    a. Perform the complete accounting period closing in the GL, SABRS, rather than the reporting system.
    b. Ensure that SABRS contains all attributes outlined in the TFM's USSGL Supplement, Section IV, *Account Attributes for USSGL Proprietary Account and Budgetary Account Reporting*.
    c. Implement periodic review and updates to all posting logic and closing account pairings, including all pre-closing and closing entries relevant to the Marine Corps. Document the compliance reviews to include evidence of a supervisory review and approval. Maintain a listing of SABRS changes and any related system testing results.
    d. Develop, implement, and document periodic reviews and updates of the SABRS to DDRS crosswalk to ensure SABRS GLANs match appropriate USSGL accounts. Eliminate or deactivate line items that are no longer used.

C. Accounting for Estimates

Condition: The Marine Corps does not maintain a comprehensive listing of the accounting estimates that affect the accounts and balances within its financial statements. In addition, the Marine Corps' deficiencies related to accounting for estimates concern the completeness and accuracy of estimates for AP and contingent legal liabilities. Specifically:

- The Marine Corps developed a new methodology for calculating an AP accrual estimate. Given the Marine Corps' change in methodology, it has not yet performed a validation of its accrual estimate to determine the validity of the accrual based on actual results. Therefore, the Marine Corps has not yet evidenced the sufficiency of its revised estimate and underlying methodology
- The Marine Corps' business processes related to the accumulation and reporting of estimated contingent legal liabilities have not been designed to achieve the necessary financial reporting objectives. Specifically, the Marine Corps:
  - Did not provide complete procedure documentation related to its use and analysis of the data within its case management system for the recording and reporting of contingent legal liabilities
  - Produced a report of the total number of cases and claimed amounts less than the value of the cases disclosed in its interim legal representation letter
  - Did not perform, or did not provide timely, its assessment of the case information arising from claims, litigation, assessments, or contingencies provided by legal counsel.

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

- The AP estimation process does not incorporate accumulation of all necessary data to allow management to perform a validity analysis of actual results versus the estimate. Further, the information that was accumulated to develop the estimate does not capture the necessary data elements to support the timing of expenses incurred, receipt of related invoices, and payments made
- The Marine Corps does not have sufficient policies and procedures in place over the coordination between, and roles and responsibilities of, the legal and accounting personnel and management's review and evaluation of litigation, claims, and assessments for recording and/or disclosure in the Marine Corps' financial statements as of key financial reporting dates. Management has not assessed the completeness of contingent liability information when compared to the cases being tracked by the General Counsel.

Effect: Without effectively designed, implemented, and/or operating controls, the Marine Corps has increased risk of material misstatement and noncompliance with laws and regulations, including FFMIA. Further:

- The Marine Corps' inability to demonstrate the validity of its accrual and dates of its expenses prevents it from demonstrating the fair presentation of its AP balances
- The Marine Corps lacks assurance that contingent legal liabilities recorded and disclosed in the financial statements and related notes are complete, accurate, and presented in accordance with GAAP.

Recommendations: Kearney recommends that the Marine Corps:

1. Conduct a comprehensive analysis to identify material accounting estimates affecting the accounts and balances within its financial statements and assess risks to financial reporting. Once material accounting estimates are identified, design and implement internal control activities to perform oversight of the validity and accuracy of the accounting estimates.
2. Continue development of the AP accrual methodology, which includes requirements to accumulate data necessary to validate inputs and assess overall estimate validity. Perform an analysis of the new methodology and identify other factors to be included in determining the validity of its AP accrual estimate, including specific consideration of the actual results for those amounts estimated.
3. Assess system limitations which hinder the availability of the data elements needed to support the timing of expenses incurred, receipt of related invoices, and payments made. Analyze source systems to determine data available and incorporate them into the AP accrual analysis.
4. Define roles and responsibilities for the evaluation of litigation, claims, and assessments for financial reporting purposes and work with the Office of General Counsel to develop sufficient reports or other support to aid management in completing its review of and conclusion on the contingent legal liability to be reported in the financial statements and note disclosures. Additionally, the Marine Corps should develop and implement policies and procedures for obtaining case information and performing assessments of the likelihood of unfavorable outcomes, to include probable, reasonably possible, and remote, along with estimates or ranges of estimates for financial reporting in accordance with GAAP.

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

Deficiencies in three related areas define this material weakness:

A. SABRS interface controls
B. Feeder systems to SABRS reconciliations
C. Integration between APSRs and SABRS.

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

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

The Marine Corps uses a wide array of feeder (i.e., source) systems to generate and capture financial transactions for recording in SABRS (e.g., core financial management system). SABRS receives and sends multiple interfaces from and to various partners. Each interface partner holds an Interconnection Security Agreement and/or Memorandum of Agreement (MOA), which defines how every system is processed and reconciled, as well as how interconnections are used. The system MOAs define the edits, validations, error corrections, and communication methods for each interface. Several DoD components maintain systems that interface with SABRS for processing, updating data, and retrieving reports. SABRS receives much of its data from source system (i.e., feeder system) interfaces that supply the raw data that SABRS processes. In addition, SABRS provides outbound interfaces with SMARTS to provide management with financial reports.

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

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

A. SABRS Interface Controls

Condition: The Marine Corps' interface process for SABRS is missing critical controls for interface receipt validation and routine error processing. In addition, the interface process does not adequately prevent or detect duplicate transactions from processing when submitted via input files. The Marine Corps does not have a record count reconciliation for files processed in

SMARTS that pass through SABRS from external sources on a non-routine basis (i.e., sequential files).

Cause: The Marine Corps' practice is to rely on interface partners sending the input files to identify and resolve interface errors without coordinating with interface partners to verify resolution. The Marine Corps does not configure SABRS to identify or prevent the processing of duplicate transactions when source systems send incomplete or inaccurate records. Currently, management's error controls (e.g., errors for unmatched records) within SABRS do not prevent duplicate transactions. Sequential files are not included in the daily record count reconciliation because they occur at random times (e.g., not daily).

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

Recommendations: Kearney recommends that the Marine Corps:

1. Continue to develop and implement the current system changes to facilitate the reconciliation of transaction counts for sequential files.
2. Develop policies, procedures, and process narratives, as applicable, to outline the sequential file reconciliation process and establish purpose, scope, roles, responsibilities, management commitment, and coordination among organizational entities.
3. Develop processes for addressing the following interface conditions and incorporate them into policies and procedures:
    a. Interface files that have not been received as expected.
    b. Resubmission and successful processing of failed batch input files.
    c. Tracking of errors for resolution.
    d. Enforcing the consistent use of a unique identifier (or a combination of unique identifiers) for interfaces. Reject the interface if the unique identifier is not included.

B. Feeder Systems to SABRS Reconciliations

Condition: The Marine Corps does not perform sufficient periodic reconciliations of non-payroll-related balances and/or activity between SABRS and the feeder systems or another mechanism to validate the completeness and accuracy of the interface data at a given point in time and over the course of the FY. In addition, Marine Corps commands independently monitor their own transactions, including point-of-sale transactions recorded through system interfaces (e.g., ServMart and fuel transactions) and those with open and/or error statuses on monitoring reports. However, the monitoring reports are not utilized by individual commands consistently and commands do not consistently document their review of these monitoring reports, the validation of the recorded transactions, or the performance of reconciliations of interfaced transactions to the corresponding approved purchase requests.

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

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

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

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

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

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

Recommendations: Kearney recommends that the Marine Corps:

1. Identify the military payroll and non-payroll SABRS feeder systems that are key to the Marine Corps' financial reporting objectives.
2. Develop and implement policies and procedures for periodic reconciliations of balances between key feeder systems and the SABRS GL. Consider opportunities to implement IT solutions to automate such procedures.
3. Update its existing policy for monitoring all command transactions. The policy update should include the frequency of the control, the items to be monitored, the individuals responsible, and control documentation requirements. The policy should also include reconciliation of interfaced transactions to the approved purchase requests, as well as ensure all valid transactions for the command interfaced appropriately.

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

C. Integration between APSR and SABRS

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

- Utilize a unique identifier to systematically identify capital expenses from non-capital expenses within SABRS. Accordingly, there is no way to accurately differentiate capital expenditures and non-capital expenses in the universe of transactions data
- Track and accumulate construction in process (CIP) expenditures for individual military equipment assets based on accumulated program costs
- Record in the real property APSR capital renovation and improvement projects related to real property funded using Operations and Maintenance (O&M) appropriations until the project is complete. In addition, these projects are not accumulated through the quarterly data call process for capitalization in the Marine Corps' financial statements
- Provide a supportable, complete, and reconciled listing for OM&S ammunition, temporary storage project, and set assembly balances or supportable, reconciled transactional information (e.g., issues, receipts, losses, gains) to the on-hand quantities generated from OM&S APSRs. See further details in Section VI, *Accounting for Operating Materials and Supplies*
- Track accumulated software-in-development (SID) expenditures by individual internal use software (IUS) assets in accordance with GAAP-compliant reporting
- Separate routine maintenance from its military equipment capital improvement balance. Further, the Marine Corps does not capture, track, and maintain military equipment capital improvements in Global Combat Support System – Marine Corps (GCSS-MC), its APSR.

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

- Adequate processes in place to identify expenditures which qualify for capitalization, nor business rules established within SABRS to allow for a posting model to accumulate capitalized expenditures in appropriate GL accounts
- A process in place to track the accumulation of CIP expenditures by individual military equipment assets in SABRS or an alternate system due to the lack of a unique identifier within the systems
- A process in place to apply its capitalization policy to reasonably ensure proper recording and reporting of CIP projects funded using O&M appropriations
- The reporting capability to provide supportable, complete, and reconciled listings for OM&S balances or supportable, reconciled transactional data
- A sufficiently designed process in place to identify SID costs and track the accumulation of SID expenditures by individual IUS asset. Specifically, GCSS-MC lacks the capabilities to track SID costs
- A formal process in place to track and maintain military equipment capital improvements and to separately identify routine maintenance expenses. Further, due to system limitations, the Marine Corps does not have adequate identifiers to distinguish the military equipment costs captured as capital improvements separately from routine maintenance expenses.

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

Without a process to formally accumulate CIP and SID expenditures by individual asset or asset program, the Marine Corps' expenses and property balances may be misstated. Consequently, CIP and SID may be valued at incorrect amounts and, upon completion of the finished asset, the transfer of costs between CIP/SID and finished goods may be recorded incorrectly.

Because CIP costs funded with O&M appropriations are not recorded as capital expenditures, the Marine Corps' PP&E balance is understated, and O&M expenses are overstated. In addition, these capital projects that have not been recorded will result in an understatement of the Marine Corps' real property asset balances as of September 30, 2018. The corresponding accumulated depreciation expense is also understated for completed projects that have not been capitalized.

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

Recommendations: Kearney recommends that the Marine Corps:

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

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

Deficiencies in two related areas define this material weakness:

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

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

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

In FY 2018, the Marine Corps withheld its unreserved assertion for the effective implementation of SFFAS No. 50, allowing the deemed cost method available under SFFAS No. 50 to continue in future periods until the Marine Corps' internal controls are in place to adequately account for PP&E going forward in accordance with SFFAS No. 6.

A. Existence and Completeness of PP&E

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

- The Marine Corps did not locate approximately three percent of the total assets tested for physical inspection or provide key supporting documentation to support that the asset should not have been included in the Marine Corps' asset records as of a specified point in time
- The Marine Corps did not provide sufficient appropriate evidence to support the existence of approximately 10 percent of the total assets tested, including asset photographs and/or other key supporting documentation
- The Marine Corps did not record approximately three percent of the total assets tested, which were selected while performing testwork at Marine Corps installations and bases (i.e., completeness of the Marine Corps assets)
- The Marine Corps did not provide sufficient appropriate evidence to allow us to conclude on the completeness of approximately one percent of the total assets tested, which were selected while performing testwork at Marine Corps installations and bases.

Cause: The Marine Corps' inventory management controls were not operating effectively. Inaccurate reporting of assets within APSRs and ineffective retention policies and procedures for supporting documentation were contributing factors to existence and completeness issues. For example, assets were disposed of or transferred; however, the Marine Corps could not provide supporting documentation that the assets existed.

Effect: Ineffective inventory management controls may result in the loss of accountability for asset custodianship and unsupportable financial reporting over PP&E. Further, management cannot assert that the PP&E balance is fairly stated in accordance with GAAP. Based on the known exceptions from the results of testing, the Marine Corps misstated its PP&E balance. The Marine Corps could not provide sufficient appropriate evidence of the existence and completeness for approximately four percent of tested assets, which may represent potential misstatements to the PP&E balance as of September 30, 2018. Additional information over the dollar impact of the PP&E testing results are presented below in the PP&E valuation discussion.

Recommendations: Kearney recommends that the Marine Corps:

1. Continue its efforts to strengthen the operational effectiveness of inventory management controls to improve the overall accountability of PP&E and the accuracy of APSR data used for financial reporting and asset accountability purposes.
2. Implement the necessary training at all Marine Corps installations to increase the knowledge base and understanding of acceptable supporting documentation for the financial statement audit. Training should include lessons learned from the audit; the use of digital photographs to support existence, physical markings, and documentation retention; and other management-identified root causes.
3. Perform an assessment of available supporting documentation and adjust, to the extent appropriate, the APSR for known existence and completeness exceptions.
4. Disseminate the PP&E existence and completeness audit testing results to all PP&E custodians to promote awareness of the impact that effective inventory management controls have on property accountability.
5. During inventory procedures, verify that all PP&E assets have accurate and complete physical markings.

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

6. Reassess the complete real property portfolio included in the financial statements to determine the date of last inventory for each asset. The Marine Corps should subject all real property assets to inventory management control procedures in accordance with DoD Instructions (DoDI). However, the Marine Corps should increase the frequency of inventories performed.
7. Obtain guidance, in consultation with the OUSD(C), for the implementation of significant accounting policy revisions, specifically modifications to property accountability and reporting requirements.
8. Produce formalized Real Property Accountable Officer (RPAO) inventory schedules on an annual basis and submit them to Marine Corps Installation Command (MCICOM). During quarterly data calls for financial reporting, the status of the annual inventory schedule should be provided to MCICOM to monitor the overall execution of the real property inventory.
9. Incorporate annual floor-to-book inventory requirements into RPAO inventory control plans. All real property assets on a Marine Corps installation, including those reported by non-Marine Corps components, should have readily available supporting documentation to evidence the ownership and user determinations as they pertain to financial reporting and accountability under applicable DoDI.

Further, related to general equipment (i.e., military equipment and garrison property), Kearney recommends that the Marine Corps:

10. Reassess the impact of the OUSD(C) guidance on General Equipment Financial Reporting Responsibilities, dated July 2, 2018, on the complete general equipment asset portfolio.

11. Perform an assessment of the complete general equipment portfolio included in the financial statements as of September 30, 2018 to verify that all general equipment assets are appropriately aligned to a Supply Officer and, thus, included in the quarterly inventory process.
12. Incorporate quarterly floor-to-book inventory requirements for capital assets into the inventory control plans for each Supply Officer.

B. Valuation of PP&E

Condition: The Marine Corps' PP&E valuation as of September 30, 2018 is not in accordance with GAAP in that it does not comply with SFFAS No. 6. Further, the Marine Corps' valuation of PP&E opening balances using alternative valuation methods (i.e., deemed cost) available in accordance with SFFAS No. 50 remains in process as of September 30, 2018, as the Marine Corps continues to perform a detailed review over the asset population and make adjustments, where appropriate.

The Marine Corps' recorded values associated with opening balances were materially misstated because of errors identified during existence testwork, capital property misclassification errors, ownership errors, and errors in the application of deemed cost. These errors resulted in:

- Overstatements of approximately $25 million, net of depreciation, across 16 percent of tested real property sample items. Four percent of sample items without sufficient evidence resulted in a potential overstatement of $34 million, net of depreciation
- Understatements of approximately $54 million, net of depreciation, across 34 percent of tested general equipment (military equipment) valuation sample items
- Overstatements of approximately $149 million, net of depreciation, across 30 percent of tested general equipment (military equipment) existence sample items.

The Marine Corps capitalized assets with estimated values under the capitalization threshold. In addition, the Marine Corps did not accurately calculate deemed costs, which impacted the asset depreciation costs.

Cause: The Marine Corps has ineffective business processes and internal controls to accurately value PP&E in accordance with SFFAS No. 6.

The Marine Corps' errors were caused by the manual process and lack of detailed review over its supporting documentation in applying the estimation methodology to establish the opening balance for military equipment as required by SFFAS No. 50.

Effect: The Marine Corps was unable to accurately and appropriately value its PP&E assets for FY 2018 and withheld its unreserved assertion for SFFAS No. 50. The Marine Corps' PP&E as of September 30, 2018 does not reflect historical cost as required by SFFAS No. 6, and the Marine Corps' opening balances for FY 2018 do not reflect historical cost under alternative valuation techniques as allowable under SFFAS No. 50. The PP&E valuation and associated depreciation may be materially misstated as presented within the Marine Corps' financial statements.

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

1. Verify that all RPAOs are aware of the latest valuation re-baseline and update planned inventory schedules to include real property assets that exceed the capitalization threshold because of the re-baseline.
2. Develop and implement monitoring procedures over system changes to the real property APSR, which may affect the valuation of real property assets. Monthly, the Marine Corps should receive all system changes from Naval Facilities Engineering Command.
3. Require pertinent data fields be populated within the APSR to ensure compliance with SFFAS No. 6.
4. Establish and implement policies for retaining real property asset records, which support real property transactions to move towards compliance with SFFAS No. 6.

Kearney recommends that the Marine Corps continue implementation efforts of SFFAS No. 50 for the opening balance of FY 2018 associated with general equipment, both military equipment and garrison property. Specifically, Kearney recommends that the Marine Corps:

5. Revisit all general equipment assets valued using DoD systems to validate that the correct asset cost and/or placed-in-service date information is documented in the current valuation methodology.
6. Strengthen the deemed cost alternative valuation support in accordance with SFFAS No. 50 and ensure that proper reviews are completed to validate the valuation data is accurate and properly recorded.
7. Disseminate the valuation audit testing results amongst personnel responsible for valuation determinations to promote awareness of the impact that inconsistency and lack of review of the valuation process can have on property valuation.

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

Deficiencies in two related areas define this material weakness:

A. Populations and Transactional Data
B. Valuation for OM&S.

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

FASAB's SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*, amends existing OM&S accounting standards to allow a reporting entity, under specific conditions, to apply alternative valuation methods (i.e., deemed cost) in establishing opening balances for OM&S. Prior to FY 2018, the Marine Corps attempted to use deemed cost, allowable under SFFAS No. 48, to value its OM&S inventory opening balance. As SFFAS No. 48 is applicable to the valuation of opening balances only, all changes to the Marine Corps' OM&S portfolio due to current-year transactions are subject to the valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property.*

The alternative valuation methods available under SFFAS No. 48 may be applied in the first reporting period in which the reporting entity makes an unreserved assertion that its financial statements are presented fairly in accordance with GAAP. In FY 2018, the Marine Corps management did not make an unreserved assertion for SFFAS No. 48, allowing the alternative valuation methods available under SFFAS No. 48 to continue in future periods until the Marine Corps' internal controls are in place to adequately account for OM&S going forward in accordance with SFFAS No. 3.

A. Populations and Transactional Data

Condition: The Marine Corps was unable to provide current-year ammunition transactional data (i.e., production receipts, issuances, transfers) for its reported \$8.8 billion of ammunition in the opening FY 2018 balance of OM&S, which composed 80 percent of the agency's opening OM&S balance.

The Marine Corps was unable to provide a supportable, complete, and reconciled listing for OM&S balances or supportable, reconciled transactional information (e.g., issues, receipts, losses, gains) to the on-hand quantities generated from APSRs for temporary storage projects and set assembly items, demonstrated by a baseline wall-to-wall inventory. The Marine Corps reported that \$1.7 billion of temporary storage projects and set assembly items (\$302.5 million and \$1.4 billion, respectively) composed 15 percent of the Marine Corps' FY 2018 OM&S opening balance.

The Marine Corps does not reconcile its system records to its third-party service organizations' APSRs for Marine Corps-owned OM&S ammunition and non-ammunition held in the custody of its external service organizations.

Cause: The Marine Corps' Ordnance Information System – Marine Corps (OIS-MC) does not have the reporting capability to produce timely ammunition production receipts and issuance expenditures (transactional activity) that can be reconciled to the reported quarterly ammunition quantities, nor to its service organization systems. OIS-MC can produce historical transaction information; however, the transactional data must be manually reconciled to quarterly reported activity of ammunition. Such quarterly reconciliations of transactional data have not been part of the Marine Corps' programmatic and operational needs to date and were not performed. While upgrade efforts to OIS-MC's One Network are underway to develop the capability to produce transactional data populations, delays in implementation and validation of One Network patches occurred in FY 2018.

The Marine Corps' inability to provide a supportable, complete, and reconciled listing for OM&S temporary storage project and set assembly balances or supportable, reconciled transactional data were due to previous APSR limitations. The Marine Corps communicated to us that the temporary storage projects and set assembly APSR, Defense Property Accountability System – Warehouse Management System (DPAS-WM), development began in FY 2011 and was fielded and implemented in FY 2015. However, a decision was made to implement DPAS-WM prior to the system functionality being confirmed as ready. Due to this decision, DPAS-WM has limited inventory capabilities, along with missing management reports. In addition, inaccurate inventory data was used in the DPAS-WM implementation, which continues to cause current data inaccuracies for the Marine Corps' OM&S. In FY 2018, the Marine Corps confirmed completion of the system migration from DPAS-WM to GCSS-MC as the APSR for OM&S temporary storage projects and set assembly items. However, data inaccuracies will remain in GCSS-MC from the legacy system as the Marine Corps continues its data cleansing remediation efforts.

The Marine Corps has not completed a substantiated wall-to-wall inventory for OM&S held at Marine Corps remote storage activities. OM&S held at remote storage activities are not supported by an executed and validated physical inventory control program.

The Marine Corps also has not designed, completed, and implemented business processes with an effective system of internal control to properly account for OM&S inventory held in the custody of third-party service organizations. Further, the Marine Corps and its third-party service organizations lack integrated systems and consistent, suitable data elements to perform fully functioning and recurring reconciliation processes for OM&S ammunition inventory.

Effect: The Marine Corps' inability to produce reconciling transactional data for ammunition impedes its ability to reconcile ammunition quantities observed during a point in time to opening and year-end balances. As a result of the Marine Corps' inability to provide supportable, complete, and reconciled quarterly data for OM&S temporary storage projects and set assembly items, along with fully functioning inventory procedures, the Marine Corps could not demonstrate the fair presentation of OM&S in accordance with GAAP.

Without complete, effective business processes, properly designed systems, and associated internal controls in place at the Marine Corps' remote storage activities for physical inventory of assets, as well as the Marine Corps' accountable property held by third-party service organizations, the Marine Corps cannot accurately maintain its system records. In turn, quarterly system data provided by the Marine Corps' remote storage activities for the purposes of financial reporting is not accurate and cannot be relied upon.

Recommendations: Kearney recommends that the Marine Corps:

1. Finalize upgrade efforts to OIS-MC One Network and test the capability to retrieve ammunition lot data from field-level ammunition APSRs, resulting in transactional details for ammunition production receipts and issuance expenditures.
2. Continue OIS-MC upgrade validation testing to ensure OIS-MC is properly interfacing with third-party provider APSRs.
3. Formalize quarterly transactional reconciliation procedures of ammunition receipts, issues, transfers, and disposals within OIS-MC to the reported ammunition quantities from ammunition custodians, including third-party service organizations. Quarterly transactional activity should be reconciled to quarterly OM&S inventory quantities by a unique identifier. The quarterly reconciliation should be certified with a signature of appropriate personnel to evidence review and approval.
4. Continue audit remediation efforts to establish a complete and recurring effective inventory control program. The Marine Corps should consider a higher frequency of inventory procedures at remote storage activities (e.g., monthly and quarterly inventory procedures) than what is required under governing directives until which time the inventory results achieve a sufficient inventory accuracy rate.
5. Continue the quarterly on-site assessments of audit readiness at the Marine Corps' remote storage activities performed by the Marine Corps' Enterprise Ground Equipment Manager Internal Controls and Audit Readiness Team. Detailed assessments and reporting should be provided for the status of the Marine Corps' remote storage activities remediation efforts based on certified CAPs.
6. Continue efforts to verify the accuracy of the data imported into GCSS-MC and over the OM&S activity that continues to occur in real-time. The data cleansing remediation efforts should validate that all required and critical data fields have been accommodated by the transition to GCSS-MC and should be tested appropriately.
7. Formalize quarterly reconciliation procedures of temporary storage projects and set assembly issues, receipts, losses, and gains. Quarterly transactional activity should be reconciled to quarterly asset quantities by National Stock Number (NSN) and serial number. The quarterly reconciliation should be certified with a signature to evidence the completion.
8. Formalize reconciliation procedures of OM&S held by third-party service organizations.
9. Update APSRs to properly reflect the results of any variances noted during the periodic inventory reconciliations provided by third-party custodians, as appropriate.
10. Ensure that MOAs and/or policies are in place for items held by other DoD components to establish the terms for inventory validation. MOAs should include the data required, responsibilities of personnel (e.g., both owner[s] and custodian[s]), validation frequency, and/or other DoD Component-specific needs.

B. Valuation for OM&S

Condition: The Marine Corps' opening balance and current-year valuation of OM&S inventory as of September 30, 2018 is not in accordance with GAAP. The Marine Corps did not value current-year OM&S activity in accordance with SFFAS No. 3, and the Marine Corps' valuation of opening balances of OM&S using alternative valuation methods available in accordance with SFFAS No. 48 remains in process.

Cause: The Marine Corps lacks effective business processes, internal controls, information systems, and reporting mechanisms in place to accurately value OM&S inventory. The Marine Corps' implementation of SFFAS No. 48 over opening balances is hindered by the combination of:

- Incomplete, recurring business processes due to the lack of current policies in place to communicate reporting requirements in accordance with GAAP (e.g., Marine Corps Bulletin 4440, *OM&S Inventory Valuation Methodology*)
- Ineffective inventory management controls, to include reconciliations performed over third-party service organizations that are in custody of Marine Corps-owned inventory
- Information systems that cannot produce transaction-level data to support OM&S inventory quantities and do not have the ability to track and report critical data elements in accordance with SFFAS No. 3
- Incomplete and inconsistent quarterly data call procedures for financial reporting, which are manual in nature due to the lack of system integrations between OM&S inventory APSRs and SABRS. Such data call procedures did not occur in FY 2018.

These issues have prevented the Marine Corps' transition to OM&S valuation under SFFAS No. 3 and are necessary to accurately capture the Marine Corps' OM&S portfolio.

Effect: Based on the Marine Corps' lack of effective business processes, internal controls, information systems, and reporting mechanisms in place to accurately value OM&S, Marine Corps management cannot assert to the material accuracy of OM&S on the balance sheet in accordance with GAAP as of September 30, 2018. Further, because of the incomplete valuation over OM&S inventory, the Marine Corps was not performing OM&S data call procedures for valuation at the installation level.

As a result, OM&S may be materially misstated as presented within the balance sheet, and associated OM&S expenditures resulting from issuances may be misstated as presented on the statement of net cost. The Marine Corps will be unable to make an unreserved assertion until the systems are able to provide accurate data and reliable valuation sufficient to pass audit testing procedures.

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

1. Implement and validate valuation methodologies consistent with requirements set forth in supporting the OM&S opening balances in accordance with SFFAS No. 48. The valuation determination for OM&S inventory items must be clearly traceable, documented, and maintained to support each value.

2. Implement and validate valuation methodologies consistent with requirements set forth in SFFAS No. 3. The valuation determination for OM&S items must be clearly traceable, documented, and maintained to support each value.
3. Update and align its business processes (e.g., policies and procedures, data call procedures) based on the updated valuation methodologies to correct and integrate systemic issues within its information systems (e.g., APSR data reporting capabilities to SABRS) and validate internal controls to align with the Marine Corps' reporting procedures in accordance with GAAP.
4. Establish quarterly cut-off dates set by the Marine Corps to prepare quarterly JVs for recording in DDRS-AFS until systems are corrected and integrated to properly report OM&S in real-time. Further, the Marine Corps should develop and implement a quarterly accrual process to ensure OM&S inventory activity is appropriately valued and presented in quarterly financial reports. The quarterly accrual should be used until which time an appropriate cut-off date can be met by OM&S data call submitters.
5. Design and implement monitoring procedures, to include investigating reconciliation variances, over the inventory management performed by the third-party service organizations.

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

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

DoD agencies, military services, and other Federal agencies use a variety of systems to routinely process collections and disbursements on behalf of and against others' obligations and receivables in a process broadly referred to as "cross-disbursing." Disbursing offices, including those at the Marine Corps, report collections and disbursements to Treasury. Statements of Differences (SoD) arise when amounts reported to Treasury differ from actual disbursements and collections processed by disbursing offices due to timing differences, clerical errors, and unreported transactions. In addition, when transactions cannot be identified to a specific appropriation or reporting entity at the end of a reporting period, these transactions are reported in the disbursing office's associated suspense account for research and resolution.

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

Condition: The combination of internal control deficiencies surrounding the Marine Corps' accounting for and reporting of FBWT represent a material weakness. Deficiencies pertained to existence and completeness of collections and disbursements and related changes to FBWT.

Specifically:

- Non-Marine Corps disbursing offices process collections or disbursements on the Marine Corps' behalf even though such transactions are not able to be immediately matched to valid obligations or receivables in SABRS
- The Marine Corps' financial statements include unsupported transactions that do not match to valid obligations or receivables in SABRS. Although amounts are recorded in summary for financial statement presentation, underlying transaction-level amounts are not recorded in the SABRS GL
- The Marine Corps has not designed or implemented internal control activities to help ensure collections and disbursements (including those processed by other agencies) are accurate and pertain to the Marine Corps.

In addition, the Marine Corps has not implemented internal control activities to help ensure:

- Proper allocation of summarized cross-disbursement amounts citing appropriations shared with the U.S. Navy
- Proper allocation of adjustments to agree recorded amounts to amounts reported at Treasury for appropriations shared with the U.S. Navy
- Proper recording of adjustments to agree recorded amounts to amounts reported at Treasury for non-shared appropriations and verification amounts pertain to the Marine Corps
- Completeness of the Marine Corps' financial statements with respect to Marine Corps and non-Marine Corps disbursing offices' SoDs that may pertain to the Marine Corps
- Completeness of the Marine Corps' financial statements with respect to other agencies' suspense account amounts that may pertain to the Marine Corps.

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

Cause: The Marine Corps has not designed all necessary internal control activities in its policies and procedures, including full consideration of CUECs related to the matters presented in Section I, *Entity-Level Controls*, to address risks to its FBWT. In addition, the Marine Corps has not performed a comprehensive analysis of cross-disbursements to identify non-Marine Corps entities that have a higher likelihood of recording the Marine Corps' transactions in suspense accounts or having SoDs that pertain to the Marine Corps. Accordingly, the Marine Corps has not expanded its processes to include monitoring of SoDs and suspense activity for all entities that process collections and disbursements on its behalf. Additionally, the Marine Corps has not sufficiently coordinated with offices that disburse on its behalf to obtain detailed cross-disbursement records in the accounting period in which they were processed. Lastly, consistent with Section II, *Ability to Provide Complete, Timely, and Sufficient Evidence*, the Marine Corps has not implemented effective documentation archival and retrieval processes to respond to requests in a timely manner.

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

- As of March 31, 2018, $50.3 million in net disbursements remained unresolved in SABRS. As of September 30, 2018, approximately $11.4 million was unresolved in SABRS
- The Marine Corps is unable to determine if SoDs for Marine Corps and non-Marine Corps entities and balances or portions of balances within other agencies' suspense accounts represent unrecorded transactions in the Marine Corps' accounting records. SoDs as of March 31, 2018 totaled approximately $1.7 billion. SoDs represent the risk of unreported transactions and generally cannot be immediately identified to specific reporting entities, including to what extent differences pertain to the Marine Corps
- The Marine Corps recorded net disbursements and collections of approximately $67 million in summary but only recorded about $38 million in detail for June 2018. Therefore, the Marine Corps lacks assurance that these summary transactions registered in DCAS and included in its financial statements pertain to the Marine Corps and are properly supported
- The Marine Corps' recording of collections and disbursements in summary amounts represents noncompliance with FFMIA and prevents proper reconciliation
- The Marine Corps has an increased risk of Antideficiency Act (ADA) violations because its system allows disbursements without first matching to an authorized obligation and SABRS does not contain a complete record of collections and disbursements at the document level. This also represents noncompliance with FFMIA.

Recommendations: Kearney recommends that the Marine Corps:

1. Perform comprehensive risk assessments of cross-disbursements to identify disbursing offices that have a higher risk of including Marine Corps transactions in SoDs or suspense accounts and work towards timely resolution.
2. Perform root cause analysis to determine why SoDs exist and perform corrective actions to prevent or reduce amounts within SoDs at the end of reporting periods.
3. Design and implement monitoring controls to determine whether amounts included in net disbursement JVs pertain to the Marine Corps and are properly recorded for both shared and non-shared appropriations.
4. Coordinate with the OUSD(C) to develop or update SOPs, reporting timelines, and required data elements to be provided by disbursing offices for cross-disbursements.
5. Improve its document archival and retrieval system to respond to requests in a timely manner.

VIII. Business Process Controls (*Repeat Condition*)

Background: Marine Corps commands execute daily transactions across the enterprise for a variety of payroll and non-payroll business processes. Business process controls allow the Marine Corps to obtain the goods, services, and personnel it needs to achieve its mission and help ensure transactions are recorded timely, accurately, and completely in SABRS and the various source systems that feed SABRS in accordance with GAAP. Certain transactions involve the development of transaction-level estimates.

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

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

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

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

- Establishment of inter-service support agreements before accepting reimbursable work orders or recognize spending authority from offsetting collections with an authorized funding document
- Recording of earned revenue and collections in the correct accounting period or making correct adjusting entries related to revenue
- Liquidation of AR upon collecting payments
- Recognition of revenues from certain programs.

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

- Recording the same invoices multiple times
- Untimely recording of expenses for goods or services incurred in a prior period

- Undocumented receipt and acceptance of goods and services
- Insufficient obligation of funds prior to the disbursement of Marine Corps funds.

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

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

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

- New obligations and upward adjustments were either unsupported, lacked complete documentation, or the documentation provided was otherwise insufficient to support the recorded amounts
- Documentation related to new obligations did not always denote the authorizing official approving the obligation and whether he/she was authorized to bind the Marine Corps
- The Marine Corps is unable to provide a comprehensive, reliable list of contracts awaiting administrative contract close-out, such as contracts for which all requirements have been met but not reviewed for deobligation of excess funding
- Administrative reclassifications of obligations are accounted for as recoveries of unpaid prior-year obligations and new obligations incurred, even though no such accounting events have occurred
- The Marine Corps places MILSTRIP supply orders using systems including GCSS-MC and Defense Medical Logistics Standard Support (DMLSS). DMLSS automatically

obligates price adjustments in SABRS without Marine Corps approval. GCSS-MC registers price changes without Marine Corps approval, but it does not automatically record an adjustment in SABRS, leading to "negative unliquidated obligations" when liquidating the obligation
- Documentation was insufficient to demonstrate certification controls over outlays.

The Marine Corps established a variety of processes for transportation-related business events, including processes for troop and related cargo movements, as well as household goods shipments for Marines' permanent changes of station. However, these processes do not have adequate transaction-level controls that support timely, accurate, and sufficiently supported recording of accounting entries. Related to these processes, the Marine Corps did not provide sufficient evidential matter to substantiate its estimates.

Cause: An overall weak control environment, as demonstrated by insufficiently designed and implemented policies and procedures caused these control deficiencies. Moreover, Marine Corps management delegates discretion at the command level in defining, maintaining, implementing, and evidencing key control activities; therefore, certain commands may not be implementing control activities consistently. For example, certain commands record estimated transactions to meet required obligation metrics dictated by Headquarters Marine Corps' (HQMC) closeout guidance.

Other factors contributing to the control deficiencies include an absence of approvals for transactions manually recorded directly into SABRS, system interface issues, business processes involving reclassifications of transactions that improperly trigger inaccurate accounting entries, insufficient MOUs and support agreements with other agencies, deficient system controls, the inability to link certain transactions through a common data element, and recording of bulk transactions. Additionally, the Marine Corps does not consistently document or maintain information regarding its accounting estimates, including the methods of measurement, the assumptions and data used to calculate the estimates, and analysis to demonstrate the validity of its estimates.

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

By recording expense transactions in SABRS after the liquidation has occurred, the Marine Corps may understate both expenses and AP in the period incurred and overstate the accounts in subsequent periods. To correct the abnormal AP balance caused by non-intragovernmental liquidations posting prior to expenses, the Marine Corps uses a non-standard business process and records monthly liquidations greater than expenses (LGTE) JVs in SABRS without individual verification that the expenses are valid. The LGTE JVs for September 30, 2018 and 2017 totaled approximately $373 million and $795 million, respectively. The automated LGTE JV process increases the risk that liquidations recorded as expenses may not actually represent expenses. In August 2018, the Marine Corps suspended recording LGTE JVs for intragovernmental transactions in SABRS.

The Marine Corps' first and second quarter financial statements included approximately $133 million and $114 million of unsupported reclassification adjustments, respectively. In addition, approximately $231 million of the Marine Corps' recorded recoveries of unpaid prior-year obligations in the first and second quarters were not true recoveries; rather, they were often the result of the incorrect use of certain GL accounts to record administrative reclassifications of obligated amounts.

Failure to record all exchanges or refunds in SABRS increases the risk of incomplete presentation of economic events on the financial statements. Exchanges or refunds that are recorded but do not comply with the prescribed USSGL posting logic and OMB Circular A-11, *Preparation Submission, and Execution of the Budget*, treatment may result in understated obligations, net outlays, and spending authority from offsetting collections in the current FY.

Certain matters reported in this section represent noncompliance with the USSGL. In addition, certain findings hinder management's ability to exercise control over budgetary resources and increase the risk of the Marine Corps violating the ADA.

Recommendations: Kearney recommends that the Marine Corps:

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

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

4. Review and develop MOUs with all applicable service organizations, such that open orders affected by price adjustments must be re-authorized, adjusted, or cancelled by the Marine Corps prior to delivery or liquidation.
5. Develop system controls to prohibit liquidations in excess of approved obligations within the MILSTRIP supply systems.
6. Conduct a complete review of all aged open orders and de-obligate all orders that no longer are valid and will not require future payment.
7. Perform a detailed analysis to identify specific processes giving rise to the LGTE JVs and the root causes that necessitate these JVs that are recorded without individual verification that the expenses are valid. Based on the LGTE JV analysis, the Marine Corps should develop procedures to align the recording of expenses and payables with

the receipt and acceptance of goods and services, rather than the recording of liquidations in SABRS.

8. Ensure that, for all non-payroll business processes, expenses are recorded in the proper period as they are incurred, and receipt and acceptance documentation is completed in a timely manner, including for troop movements. The Marine Corps should maintain documentation to validate its expenses.
9. Implement policies and procedures for reconciling trading partner data at the transaction level based on the transactions and source documentation provided by trading partners. Once reconciliations are complete, the Marine Corps should coordinate with trading partners to adjust balances, as necessary, to reflect the actual amounts incurred and owed to trading partners based on the provision of goods and/or the receipt of services.
10. Develop a reconciliation process to ensure the charges being incurred on behalf of the Marine Corps by others are accurate and complete and that charges pertain to the Marine Corps.
11. For each material accounting estimate:
    a. Review the applicable GAAP requirements for each transaction class utilizing an estimation method and determine whether its existing estimation methods appropriately apply to the related GAAP requirements around those transaction classes.
    b. Document the method of measurement, the assumptions used in deriving the estimate, and the source(s) of data on which the estimate is based, as applicable.
    c. Design and implement internal control activities to compare prior-period accounting estimates with subsequent results to assess the adequacy of the estimation methodology over time.
    d. Explain the use of estimates within the notes and disclosures in its AFR in accordance with GAAP and OMB Circular A-136.
12. Assign agreement managers responsibility for administering authorized support agreements and develop a mechanism to help ensure agreement managers are involved with the acceptance of reimbursable work orders.

IX. Information Systems (*Repeat Condition*)

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

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

- Security Management
  - Inconsistent implementation of risk assessment policies and procedures for key financial management applications, databases, and/or operating systems
  - Incomplete system security plans/security plans for key financial management systems, databases, and/or operating systems
  - Incomplete, inconsistent, and/or not fully implemented policies and procedures for monitoring third-party service organizations
  - Inconsistent implementation of policies and procedures for ensuring complete and update-to-date POA&Ms
  - Undocumented, incomplete, and/or not fully implemented policies and procedures for incident response for key financial management systems
  - Untimely periodic review and update of cybersecurity policies and procedures
  - Undocumented policies and procedures for continuous monitoring of security controls
- Access controls and segregation of duties
  - Incomplete and/or not fully implemented policies and procedures for managing and monitoring access to key financial management applications, databases, and/or operating systems, including third-party systems
  - Undocumented, incomplete, and/or not fully implemented policies and procedures for the proper segregation of duties within applications, databases, and/or operating systems
  - Inconsistent implementation of user account recertification to verify the propriety of access
  - Undocumented, incomplete, and/or inconsistent logging and monitoring of activity for all key financial management systems
- Configuration management
  - Incomplete and/or inaccurately documented baseline configuration inventory of hardware, software, and firmware
  - Undocumented, incomplete, inconsistent, and/or unmaintained requirements and documentation of configuration changes or certain systems
  - Unsupported and/or incomplete listings of system changes and supporting documentation for system changes
- Continuity planning
  - No offsite storage of backups for key financial management systems
  - Incomplete, outdated, unimplemented, and/or untested continuity planning and disaster recovery policies and procedures for key financial management systems
  - Undocumented, incomplete, outdated, and/or untested continuity planning and disaster recover policies and procedures for key financial management system owned and/or hosted and/or operated by third parties

- Interfaces
  - Inaccurate, incomplete, and/or unimplemented policies and procedures for monitoring and reconciling interfaces for key financial management systems
  - Undocumented, incomplete, and/or unimplemented SLAs for interfaces of key financial management systems
  - Incomplete and/or unimplemented controls to prevent processing of duplicate interface files for the core financial management system.

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

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

Recommendations: In addition to the related recommendations provided in Section I, *Entity-Level Controls*, Section II, *Ability to Provide Complete, Timely, and Sufficient Evidence*, and Section IV, *Integrated Financial Management Systems*, Kearney recommends that the Marine Corps:

1. Continue to transition all Marine Corps' systems to the NIST RMF, which provides a process that integrates security and risk management activities into the system development lifecycle.
2. Update policies, procedures, and manuals to include organization, mission/business process, and information system roles and responsibilities for RMF activities.
3. Assess information system risk at the organization and mission/business process tiers, in addition to the current assessments at the information system tier, in accordance with NIST SP 800-30, including consideration of service organizations/external entities.
4. Implement security controls to address information system risks using the risk assessments and the Marine Corps' risk tolerance in accordance with NIST.
5. Continue to develop, update, and implement policies, procedures, and manuals to comply with NIST SP 800-53.

* * * * *

APPENDIX A: STATUS OF PRIOR-YEAR FINDINGS

In the *Independent Auditor's Report on Internal Control over Financial Reporting* included with the audit report on the United States Marine Corps' (Marine Corps) fiscal year (FY) 2017 financial statements, several issues noted were related to internal control over financial reporting. The status of the FY 2017 internal control findings is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2017 Status	FY 2018 Status
Entity-Level Controls	Material Weakness	Material Weakness
Ability to Provide Complete, Timely, and Sufficient Evidence	Material Weakness	Material Weakness
Financial Reporting and Analysis	Material Weakness	Material Weakness
Integrated Financial Management Systems	Material Weakness	Material Weakness
Property, Plant, and Equipment (PP&E)	Material Weakness	Material Weakness
Operating Materials and Supplies (OM&S)	Material Weakness	Material Weakness
Fund Balance with Treasury (FBWT)	Material Weakness	Material Weakness
Business Process Controls	Material Weakness	Material Weakness
Information Systems	Material Weakness	Material Weakness

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

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

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the United States Marine Corps (Marine Corps) as of and for the year ended September 30, 2018, and we have issued our report thereon dated November 7, 2018. Our report disclaims an opinion on such financial statements because we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. The Marine Corps also asserted to departures from generally accepted accounting principles.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marine Corps' financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the financial statements and provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the Marine Corps. Providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests, exclusive of those referred to in the FFMIA, disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-01 and are described in the accompanying Schedule of Findings.

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

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

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Marine Corps' Response to Findings

The Marine Corps' response to the findings identified in our engagement is described in a separate memorandum attached to this report. The Marine Corps' response was not subjected to the auditing procedures applied in our engagement to audit the financial statements; accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an engagement to perform an audit in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-01 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 7, 2018

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Schedule of Findings

Noncompliance and Other Matters

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

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

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

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

- The Marine Corps has not finalized the identification and documentation of its financial reporting objectives, performed a comprehensive financial reporting risk assessment, evaluated its control environment, centrally designed internal control activities, communicated standard internal control directives to all stakeholders, or finalized the implementation of monitoring procedures to ensure internal controls remain effective over time
- The Marine Corps is in the process of implementing a Risk Management Framework for its information system environment on a system-by-system basis. The Marine Corps has not fully implemented comprehensive risk management for the information technology (IT) control environment. This includes an incomplete multi-tier risk management approach to consider risks at the organization, business process, and information system levels. The Marine Corps assesses risk on a system-by-system basis, but it does not assess system risk for the IT control environment at the organization and business process levels, including consideration of non-Marine Corps systems that may affect financial reporting and operations
- The Marine Corps did not sufficiently develop or implement a corrective action process to aid in responding to prior-year financial audit findings. The Marine Corps did not assess prior-year Notifications of Findings and Recommendations, in the aggregate, prior to developing its corrective action plans (CAP). Instead, the Marine Corps developed CAPs for individual findings without an assessment of related findings with common root causes. As of June 30, 2018, over 70 CAPs did not contain documented approval by the appropriate Senior Accountable Official and over 20 CAPs did not sufficiently address the causes and/or recommendations outlined in the prior-year findings.

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

The Federal Information Security Modernization Act of 2014 (FISMA) requires agencies to provide information security controls commensurate with the risk and potential harm of not having those controls in place. The National Institute of Standards and Technology (NIST) publishes standards and guidelines for Federal entities to implement for non-national security systems. Deviations from NIST standards and guidelines represent departures from FISMA requirements. During our audit, we noted several deviations from NIST standards and guidelines that contributed to an overall material weakness related to information systems, as described in Section IX, *Information Systems*, in our *Report on Internal Control over Financial Reporting*. These deviations represent the Marine Corps' noncompliance with FISMA. As noted in its Assurance Statement, the Marine Corps disclosed an instance of noncompliance with FISMA that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-01. By not complying with FISMA, the Marine Corps' security controls may adversely affect the confidentiality, integrity, and availability of information and information systems. See Section IX, *Information Systems*, in the accompanying *Report on Internal Control over Financial Reporting* for additional details.

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

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

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

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

Federal Financial Management Systems Requirements

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

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

Federal Accounting Standards

FFMIA requires that agency management systems maintain data to support financial reporting in accordance with accounting principles generally accepted in the United States of America (GAAP). As identified through our audit procedures and as noted by the Marine Corps in Note 1, *Significant Accounting Policies*, the Marine Corps disclosed several instances where it departed from GAAP. The Marine Corps asserted to the following departures from GAAP:

- Accrual accounting requirements per Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities*, and SFFAS No. 5, *Accounting for Liabilities of The Federal Government*
- Recognition and valuation requirements set forth in SFFAS No. 3, *Accounting for Inventory and Related Property*
- Reporting requirements associated with presenting the statements of net cost by major program per SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, as amended
- Contingent legal liability requirements set forth in SFFAS No. 5 and SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*
- Recognition and valuation requirements set forth in SFFAS No. 6, *Accounting for Property, Plant, and Equipment*
- Recognition and accounting requirements associated with capital and operating leases and environmental liabilities set forth in SFFAS No. 5 and SFFAS No. 6
- Revenue recognition requirements set forth in SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*
- Accumulation and capitalization of internal use software in accordance with SFFAS No. 10, *Accounting for Internal Use Software*
- Accounting and reporting requirements associated with restatements per SFFAS No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, and OMB Circular A-136, *Financial Reporting Requirements*
- Reporting and valuation requirements set forth in SFFAS No. 29, *Heritage Assets and Stewardship Land*, and disclosure requirements set forth in SFFAS No. 42, *Deferred*

Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards No. 6, No. 14, No. 29, and No. 32
- Incomplete reporting entity in accordance with SFFAS No. 47, *Reporting Entity*.

In addition, the Marine Corps did not fully comply with the financial reporting requirements prescribed by OMB Circular A-136, as discussed in our *Report on Internal Control over Financial Reporting*, Section III, *Financial Reporting and Analysis*, and as disclosed by the Marine Corps in Note 1.

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

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

- The Marine Corps' core accounting system, as currently implemented, is not fully compliant with USSGL. Specifically, the core accounting system does not:
  - Accumulate or transmit complete and accurate attribute data to support financial reporting requirements. For example, the Marine Corps did not produce accounts payable and receivable listings by vendor and debtor, respectively
  - Align fully its posting logic to the USSGL account transactions within the TFM Supplement, including refund scenarios in which the original purchase occurred in the prior year
  - Possess General Ledger Account Numbers which match standard USSGL accounts correctly in all instances and require a crosswalk for reporting
- Transactions related to Property, Plant, and Equipment and Operating Materials and Supplies capital expenditures were not recorded to the proper asset accounts within the core accounting system; instead, they were recorded as operating expenses. The Marine Corps was unable to separately identify capitalized expenses from non-capital expenses to appropriately account for expenditures in accordance with SFFAS No. 6 and SFFAS No. 3. For additional details, see Section IV.D, *Integration between Accountable Property Systems of Record and Standard Accounting, Budget, and Reporting System (SABRS)*, in our *Report on Internal Control over Financial Reporting*
- The Marine Corps' financial statements included summarized amounts that could not be supported at the transaction level for:
  - Collections and disbursements that were processed by non-Marine Corps disbursing offices
  - Unsupported journal vouchers (JV) to align the Marine Corps' accounting records with balances reported by its trading partners and to correct abnormal accounts payable balances
  - Transportation transactions for household goods and cargo movements

- The Marine Corps' financial statements included amounts that did not distribute to specific organizational components or match to specific obligations or receivables in the core accounting system.

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

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

During October 2018, the Marine Corps notified the President, Congress, and GAO of one violation of 31 U.S.C. § 1301(a) as to purpose and one violation of 31 U.S.C. § 1341 as to funds availability. The reported violations involved the use of procurement funds to construct a facility under the $750 thousand military construction threshold. Procurement funds were not available for this purpose; rather, the Marine Corps should have funded the construction of the facility using the Marine Corps' operations and maintenance funds.

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

* * * * *

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

IN REPLY REFER TO:
7500
ADC P&R
NOV 0 9 2018

From: Fiscal Director of the Marine Corps
To: Engagement Partner, Kearney and Company, P.C.

Subj: MANAGEMENT COMMENTS TO THE INDEPENDENT AUDITOR'S REPORT ON THE UNITED STATES MARINE CORPS FULL FINANCIAL STATEMENT AUDIT FOR FISCAL YEAR 2018 (CONTRACT NO. GS-00F-031DA)

1. Unless otherwise noted, the Marine Corps concurs with the Independent Auditor's Report on the United States Marine Corps Full Financial Statement Audit (FFS) for Fiscal Year (FY) 2018 and the reports on Internal Control and Compliance with Laws and Regulations.

2. The Marine Corps acknowledges the material weaknesses identified in the Report on Internal Control. We will continue efforts to implement better business processes, improve financial reporting, and modernize financial management systems. In FY18 we made progress with root cause analysis and improved performance in the areas of audit response and financial reporting. We also completed a major software release for the Global Combat Support System-Marine Corps (GCSS-MC) which is critical for resolving supply chain audit findings.

3. We are readying ourselves to achieve Defense strategic business objectives and the Department of the Navy (DoN) key business reform and audit initiatives which includes transformation in the areas of budget, financial reporting, Inventory & Operating Materials and Supplies (OM&S), real property, and business systems. Specifically, the Marine Corps will strive to make unreserved assertions for OM&S balances, real property, and military equipment by 4th Quarter FY2019.

4. Although the FY2017 and FY2018 audits resulted in a Disclaimer of Opinion, the Marine Corps believes that we are positioned to achieve more in FY2019-FY2020 based upon the valuable information received from the audits. This year 22 Notification of Finding and Recommendations (NFRs) were not reissued from the FY2017 audit; 31 NFRs were successfully remediated, and audit response improved by 6%. Our staff of

Subj: MANAGEMENT COMMENTS TO THE INDEPENDENT AUDITOR'S REPORT ON THE UNITED STATES MARINE CORPS FULL FINANCIAL STATEMENT AUDIT FOR FISCAL YEAR 2017 (CONTRACT NO. GS-00F-031DA)

dedicated Marines, civilians, and contractors successfully delivered approximately 1,840 PBCs, 11,117 samples, and over 2,300 answers to follow-up questions. We assisted the auditors in conducting 26 site visits and made progress with existence and completeness testing of Marine Corps assets. Although there is still much work to do, we remain committed to strengthening the internal control environment and partnering with the DoN and the Office of the Under Secretary of Defense Comptroller (OUSD/C) to advance DoD-wide issues with OM&S-Ammunition, Fund Balance with Treasury (FBWT) reconciliations, and contract management.

5. The Marine Corps has a commitment to the American taxpayer to be good stewards for the resources entrusted to us to support warfighter readiness. We will continue to implement corrective actions to improve financial processes, systems, internal controls, and accountability of equipment as we work toward a clean audit opinion.

Caral E. Spangler

CARAL E. SPANGLER

Copy to:
ASN (FM&C)
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ADC R

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Principal Financial Statements

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

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

United States Marine Corps

CONSOLIDATED BALANCE SHEETS

As of September 30, 2018 and 2017
(Amounts in thousands)

	Unaudited 2018	Unaudited 2017
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 10,523,730	$ 9,420,817
Accounts Receivable (Note 4)	38,769	38,985
Total Intragovernmental Assets	10,562,499	9,459,802
Cash and Other Monetary Assets (Note 6)	6,220	5,219
Accounts Receivable, Net (Note 4)	12,866	13,532
Inventory and Related Property, Net (Note 7)	12,163,916	10,959,693
General Property, Plant, and Equipment, Net (Note 8)	20,529,100	16,786,957
Other Assets (Note 5)	51,481	81,035
TOTAL ASSETS	$ 43,326,082	$ 37,306,238
STEWARDSHIP PROPERTY, PLANT & EQUIPMENT (Note 8)		
LIABILITIES (Note 9)		
Intragovernmental:		
Accounts Payable	$ 198,522	$ 198,568
Other Liabilities (Note 11 & 12)	230,162	66,842
Total Intragovernmental Liabilities	428,684	265,410
Accounts Payable	706,584	634,511
Military Retirement and Other Federal Employment Benefits (Note 13)	194,654	186,041
Environmental and Disposal Liabilities (Note 10)	234,001	212,064
Other Liabilities (Note 11 & 12)	1,493,173	992,356
TOTAL LIABILITIES	3,057,096	2,290,382
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
NET POSITION		
Unexpended Appropriations - Other Funds	8,490,929	8,292,587
Cumulative Results of Operations - Dedicated Collections (Note 16)	1,270	1,212
Cumulative Results of Operations - Other Funds	31,776,787	26,722,057
TOTAL NET POSITION	40,268,986	35,015,856
TOTAL LIABILITIES AND NET POSITION	$ 43,326,082	$ 37,306,238

The accompanying notes are an integral part of these statements.

United States Marine Corps

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2018 and 2017

(Amounts in thousands)

	Unaudited 2018	Unaudited 2017
Program Costs		
Military Personnel	$ 13,952,723	$ 13,495,068
Operations, Readiness & Support	8,342,178	7,116,644
Procurement	2,715,863	2,356,243
Research, Development, Test & Evaluation	613,861	655,927
Gross Costs	25,624,625	23,623,882
(Less: Earned Revenue)	(325,717)	(399,085)
Net Cost of Operations	$ 25,298,908	$ 23,224,797

The accompanying notes are an integral part of these statements.

United States Marine Corps

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For The Years Ended September 30, 2018 and 2017

(Amounts in thousands)

	Unaudited 2018	Unaudited 2017
UNEXPENDED APPROPRIATIONS:		
Beginning Balances	$ 8,292,587	$ 8,048,558
Budgetary Financing Sources:		
Appropriations received	25,516,292	24,134,310
Appropriations transferred-in/out	(76,741)	(13,918)
Other adjustments (+/-)	(534,262)	(562,320)
Appropriations used	(24,706,947)	(23,314,043)
Total Budgetary Financing Sources	198,342	244,029
Total Unexpended Appropriations	8,490,929	8,292,587
CUMULATIVE RESULTS OF OPERATIONS:		
Beginning balances (Includes Funds from Dedicated Collections of $1,212 in FY 2018 and $1,229 in FY 2017 - See Note 16)	26,723,269	28,917,356
Budgetary Financing Sources:		
Other adjustments (+/-)	(9,935)	(827)
Appropriation used	24,706,947	23,314,043
Nonexchange revenue	105	124
Transfers-in/out without reimbursement	(5)	(27)
Other Financing Sources (Nonexchange):		
Transfers-in/out without reimbursement (+/-)	381,564	138,203
Imputed financing from costs absorbed by others	92,704	62,555
Other (+/-)	5,182,316	(2,483,361)
Total Financing Sources (Includes Funds from Dedicated Collections of $105 in FY 2018 and $124 in FY 2017 - See Note 16)	30,353,696	21,030,710
Net Cost of Operations (+/-) (Includes Funds from Dedicated Collections of $47 in FY 2018 and $141 in FY 2017 - See Note 16)	25,298,908	23,224,797
Net Change	5,054,788	(2,194,087)
Cumulative Results of Operations (Includes Funds from Dedicated Collections of $1,270 in FY 2018 and $1,212 in FY 2017 - See Note 16)	31,778,057	26,723,269
Net Position	$ 40,268,986	$ 35,015,856

The accompanying notes are an integral part of these statements.

United States Marine Corps

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2018 and 2017

(Amounts in thousands)

		Unaudited 2018		Unaudited 2017
Budgetary Resources:				
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$	2,187,853	$	2,093,139
Appropriations (discretionary and mandatory)		25,522,164		24,120,488
Spending Authority from offsetting collections (discretionary and mandatory)		318,005		445,829
Total Budgetary Resources	$	28,028,022	$	26,659,456
Net adjustments to unobligated balance brought forward, Oct 1		337,074		240,145
Status of Budgetary Resources:				
New obligations and upward adjustments (total) (Note 14)	$	26,520,740	$	24,726,163
Unobligated balance, end of year				
Apportioned, unexpired accounts		618,695		707,390
Unapportioned, unexpired accounts		12,150		-
Unexpired unobligated balance, end of year		630,845		707,390
Expired unobligated balance, end of year		876,437		1,225,903
Unobligated balance, end of year (total)		1,507,282		1,933,293
Total Budgetary Resources	$	28,028,022	$	26,659,456
Outlays, net:				
Outlays, net (total) (discretionary and mandatory)	$	23,800,225	$	23,249,538
Distributed offsetting receipts (-)		(3,280)		6,467
Agency Outlays, net (discretionary and mandatory)	$	23,796,945	$	23,256,005

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

Note 1. Significant Accounting Policies

1.A. Basis of Presentation

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

Though the USMC produces financial statements as a stand-alone entity, the USMC remains a component of the U.S. Department of the Navy (DON). These financial statements have been prepared from the books and records of the USMC in accordance with U.S. GAAP, promulgated by the FASAB, except as described in Note 1.D., *Basis of Accounting*. The accompanying financial statements account for all resources for which the USMC is responsible, excluding the USMC working capital fund (WCF) activities and account balances. The USMC WCF is separately consolidated into the DON WCF financial statements and footnote disclosures.

1.B. Reporting Entity

As a component reporting entity of the DON, the USMC's financial data ultimately gets consolidated into the financial statements and footnotes of the DON. The USMC does not have any sub-components but consolidates allocation transfer activity into its financial statements and footnotes.

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

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

The USMC reports a GAAP departure in its reporting entity definition at Note 1.D., *Basis of Accounting*, due to the omission of certain USMC appropriations.

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

1.C. Appropriations and Funds

To support its core mission, the USMC is funded through non-shared appropriations (USMC only) and appropriations shared with the DON. The USMC receives General Fund appropriations for active duty military and reserve personnel; operations and maintenance; procurement; and research, development, test, and evaluation (RDT&E). The USMC, as a designated reporting entity within the DoD, maintains accountability for its budgetary resources.

The USMC also reports certain special and deposit funds as discussed in Note 2, *Non-Entity Assets*, Note 16, *Funds from Dedicated Collections*, and Note 17, *Fiduciary Activities*. The USMC conducts certain types of fiduciary activities; fiduciary assets are not assets of the USMC and are not recognized on the balance sheet.

The USMC delegates a portion of its funds, known as allocation transfers, for its programs and operations to other federal entities to execute on USMC's behalf. A separate fund account (allocation account) is created in the U.S. Department of the Treasury (Treasury) as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Generally, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) are reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. The USMC allocates funds, as the parent, to the Department of Transportation (DOT), Federal Highway Administration. The USMC receives allocation transfers as the child from the DON for certain operations that are excluded from the USMC's financial statements. This activity is reported back to the DON for inclusion within the DON's financial statements.

1.D. Basis of Accounting

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

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

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

Operating Materiel and Supplies. The USMC's Accountable Property Systems of Record (APSRs) are not currently configured to support Operating Materiel and Supplies (OM&S) operations in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, *Accounting for Inventory and Related Property*. This condition applies to all relevant OM&S subsets and business processes, to include set assemblies, temporary storage projects, consumables and repairables, and ammunition. Specifically, the USMC does not (1) consistently apply the consumption method to its accounting of OM&S; and (2) fully implement valuation processes that comply with SFFAS No. 3. In addition to APSR concerns, the USMC needs to: (1) identify and properly record excess, obsolete, and unserviceable (EOU) OM&S; (2) conduct extensive wall-to-wall inventory counts of its OM&S; (3) rectify existing reconciliation issues between the USMC and the U.S. Army to account for the USMC ammunition currently in the Army's custody; and, (4) record long lead time ammunition production items as OM&S in development. OM&S beginning balances have not been established and the USMC's management has not yet made its unreserved assertion in accordance with SFFAS No. 48, *Opening Balances for Inventory, Operating Materials and Supplies, and Stockpile Materials*.

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

General Property, Plant, and Equipment. The USMC has efforts ongoing to address difficulties in determining the completeness and accuracy of reported balances and providing support for all asset costs. Specifically, improvements are needed in (1) the recurring performance of wall-to-wall inventory counts; (2) the recurring performance of impairment assessments; (3) identification of the full universe of its internal use software (IUS) and software in-development costs; (4) accounting for General Equipment (GE) Construction in Progress (CIP) properly at the transaction level; (5) identification of the full scope of government furnished property provided to contractors; (6) recording and reporting receipt and acceptance of goods timely; and (7) the identification and recordation of indirect, integration, and transportation costs to record full costs in accordance with SFFAS No. 6, *Accounting for Property, Plant, and Equipment*, and/or SFFAS No. 10, *Accounting for Internal Use Software*. As the USMC does not yet have SFFAS No. 6 and SFFAS No. 10 compliant go-forward processes, supportable General Property, Plant, and Equipment (GPP&E) beginning balances have not been established, and USMC management has not yet made its unreserved assertion in accordance with SFFAS No. 50, *Establishing Opening Balances for General Property, Plant, and Equipment*. In addition, the USMC has not fully established processes to account for and report its heritage assets in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*.

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

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

Environmental and Disposal Liabilities. The USMC does not report environmental and disposal liabilities for relevant GE in accordance with SFFAS No. 5, SFFAS No. 6, and Federal Financial Accounting and Auditing Technical Release No. 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*, as detailed disposal cost data is not readily available or provided by DoD entities responsible for asset disposal. The U.S. Navy centrally manages and executes the Defense Environmental Restoration Program (DERP) and Base Realignment and Closure (BRAC) portions of the environmental liability at the DON level. Therefore, the USMC does not report DERP and BRAC environmental liabilities.

Definition of Reporting Entity. The USMC's current reporting entity definition and the USMC financial statements exclude financial activity associated with appropriations 17X1001, *Medicare-Eligible Retiree Health Fund Contribution, Marine Corps*, and 17X1003, *Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps*. The USMC has coordinated with the DON to transition financial reporting of these two appropriations to the Marine Corps beginning in Fiscal Year (FY) 2019. The DON continued to record and report activity related to these two appropriations on its financial statements through FY 2018.

Prior Period Adjustments. The USMC identified correcting adjustments in the current year that should have been recorded in prior years. At the direction of the Office of the Secretary of Defense (OSD), the USMC records these error corrections from prior periods as Other Gains and Losses.

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

Legal Contingencies. The USMC has not assessed the likelihood of an unfavorable outcome and estimated the potential loss for all claims and legal matters in accordance with SFFAS No. 5 and SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*.

Presentation and Disclosure. The USMC's Statement of Net Cost (SNC) is presented by major appropriation instead of by major programs aligned to the USMC's strategic goals as required by OMB Circular No. A-136 and the Government Performance and Results Act. In addition, business process and system issues preclude the USMC from accumulating and reporting costs in accordance with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*. The Defense Departmental Reporting System is not currently capable of program-level cost reporting. In addition, the USMC is not in full compliance with OMB Circular No. A-136 because the following required footnotes and disclosures are not prepared due to a lack of readily available data and/or a process to compile them:

- Cost of Stewardship PP&E;
- Stewardship PP&E through Transfer, Donation or Devise;
- Exchange Revenue; and
- Contractual Commitments/arrangements that may require future financial obligations.
- Required Supplementary Information-garrison property deferred maintenance

1.E. Revenues and Other Financing Sources

The USMC receives the majority of the funding needed to perform its mission through appropriations. These appropriations may be used within statutory limits for operating and capital expenditures. In addition to appropriations, other financing sources include exchange revenues. Exchange revenues are those that derive from transactions in which the government provides value to the public or another government entity at a price. The USMC's Statement of Changes in Net Position (SCNP) includes a line item for non-exchange revenue related to the sale of fishing and hunting permits to the general public for use on USMC installations (see Note 16, *Funds from Dedicated Collections)*. While these revenues represent exchange transactions, due to existing system mapping, they are classified on the SCNP as non-exchange revenues.

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

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

1.F. Recognition of Expenses

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

1.G. Accounting for Intragovernmental Activities

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

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

The Treasury Financial Manual (TFM) Part 2 – Chapter 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*, provides guidance for reporting and reconciling intragovernmental balances. Accounting standards require an entity to eliminate intra-entity activity and balances from consolidated financial statements to prevent overstatement for business with itself. In addition, in an effort to more efficiently identify intragovernmental transactions by customer, the USMC has implemented the DoD's trading partner requirements to capture trading partner data. Generally, seller entities within the DoD provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, DFAS adjusts the USMC's buyer-side records to agree with the DoD seller-side balances which are then eliminated at the DON and/or DoD reporting level. The USMC has incorporated intragovernmental purchases into its accrual process that recognizes intragovernmental work performed but not invoiced by the seller.

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

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

FBWT includes amounts for collection and disbursement transactions that are recorded in suspense accounts as a result of missing or mismatched lines of accounting or other discrepancies. These suspense accounts are shared with the DON and the transactions recorded therein are researched and properly reclassified pending disposition from the responsible financial managers. See Note 3, *Fund Balance with Treasury*.

1.I. Cash and Other Monetary Assets

Cash and other monetary assets consist of cash held by disbursing officers. Disbursing officers are located at all of the USMC's installations and forward operating areas. Cash is classified as non-entity and is restricted. See Note 6, *Cash and Other Monetary Assets*.

1.J. Accounts Receivable, Net

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable, net of the allowance for estimated uncollectible amounts. Allowances for uncollectible accounts due from the public are based upon analysis of outstanding aged receivables and an allowance percentage derived from collection experience. In accordance with the TFM Part 2 – Chapter 4700, the DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies (intragovernmental receivables) as receivables from other federal agencies are considered to be inherently collectible. Claims on intragovernmental receivables are resolved between the agencies in accordance with the Intragovernmental Business Rules published in the TFM. See Note 4, *Accounts Receivable, Net*.

1.K. Inventory and Related Property, Net

The USMC does not hold inventory for resale; rather, the USMC has related property known as OM&S. The USMC values OM&S through a combination of standard catalog price and latest acquisition cost using a process that approximates the consumption method of accounting. Certain OM&S acquisitions are accounted for under the purchase method, such as fuels, oils, lubricants, medical supplies, clothing and textiles, food rations, construction materials, and spare/repair parts when those items are determined to have been acquired by the end user. The USMC discloses OM&S based upon the type and condition of the asset. OM&S is disclosed as “held for use”, “held for future use”, “held for repair”, or “excess, obsolete, or unserviceable.” OM&S “held for use” consists of items that are consumed during the normal course of USMC operations. OM&S “held for future use” consists of items not normally used in the course of USMC operations but have more than a remote chance of being needed in the future. OM&S “held for repair” consists of damaged material on hand that is more economical to repair than to dispose. EOU OM&S consists of scrap material or items that cannot be economically repaired and are awaiting disposal. The USMC recognizes EOU OM&S at a net realizable value of zero.

The USMC is in the process of establishing supportable beginning balances in conformance with SFFAS No. 48; however, beginning balances have not yet been asserted as disclosed in the GAAP departures in Note 1.D., *Basis of Accounting*. See Note 7, *Inventory and Related Property, Net*.

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

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

Systems required to account for the USMC’s GPP&E at historical cost on a go-forward basis in accordance with SFFAS No. 6 and SFFAS No. 10 are not yet fully in place. Therefore, the USMC is not making an unreserved assertion in accordance with SFFAS No. 50 with respect to this balance sheet line item or any of the property components thereof, and reported a GAAP departure in Note 1.D., *Basis of Accounting*.

Real property, which constitutes a significant amount of the GPP&E line item balance, has a capitalization threshold of $250 thousand, as does IUS. In accordance with SFFAS No. 50 and the Office of the Deputy Chief Financial Officer policy, the USMC elected to use deflated plant replacement value (D-PRV) to value real property assets, inclusive of capital improvements, to establish beginning balances; however, as noted, beginning real property balances have not been asserted in accordance with the standard. D-PRV is based on cost factors such as averages of contractual cost data from the prior three years, commercially available cost data, and models using general price information.

The DON accumulates and reports real property CIP on the DON’s consolidated financial statements. The DON receives Military Construction funds and executes these funds to further the mission of the DON consolidated entity. When a building or other structure is complete, the DON transfers the finished product to the USMC, at which point the USMC will record the asset and report it on the USMC's financial statements. The USMC is responsible for sustainment, utilization, and operational control until the asset is disposed.

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

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

In fiscal years 2018 and 2017, the GE CIP balance was estimated based on total execution net of progress payments made and end items received and accepted as reported by the Mechanization of Contract Administration Services system by or on behalf of the USMC.

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

The USMC maintains Stewardship Property, Plant, and Equipment (PP&E) that reflects its rich history and aims to preserve assets and property of historical significance. The USMC has the responsibility for the maintenance and accountability of heritage assets, and stewardship land. The USMC's reporting of Stewardship PP&E is not fully GAAP compliant as specified in Note 1.D., *Basis of Accounting*. See Note 8, *General Property, Plant, and Equipment, Net*.

1.M. Advances and Prepayments

USMC payments made in advance of the receipt of goods and services are recorded as advances and prepayments at the time of prepayment and recognized as expenditures/operating expenses when the related goods and services are received. The USMC makes advanced payments to Marines for payroll and permanent change of station. The USMC records these advances on the balance sheet as non-federal other assets. The USMC advances and prepayments that are subject to refund are subsequently transferred to accounts receivable. See Note 5, *Other Assets*.

Public entities with which the USMC does business are required to provide advance payment for goods and services, and for rent and lease payments for usage of space on the USMC's installations and facilities. See "Advances from Others" in Note 11, *Other Liabilities*.

1.N. Contingencies and Other Liabilities

SFFAS No. 5, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The USMC recognizes contingent liabilities when past events occur, a future loss is probable, and the loss amount can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses. As disclosed in Note 1.D., *Basis of Accounting*, the USMC does not report contractual commitments that may require future financial obligations.

The USMC's contingent liabilities may arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship, and vehicle accidents; property or environmental damage; and contracts. See Note 12, *Commitments and Contingencies*.

Other liabilities, funded and those not covered by budgetary resources (unfunded), consist of amounts owed to the Department of Labor (DOL) for valid claims paid under the Federal Employee's Compensation Act (FECA) for the USMC's employees who are injured on the job, beneficiaries of employees whose cause of death relates to injury or occupational disease, or employees who have fallen ill with work-related or occupational disease. The USMC records an unfunded liability for unemployment benefits based on estimates provided by the DOL. The DOL administers the FECA program and seeks reimbursement for claims paid on behalf of the USMC, and the unemployment insurance program, which charges back amounts paid on behalf of the USMC. See Notes 9 and 11, *Liabilities Not Covered by Budgetary Resources*, and *Other Liabilities*, respectively, for additional disclosures regarding these programs.

1.O. Accrued Leave

The USMC reports accrued unfunded liabilities for military leave and annual leave for civilians. Leave is accrued as it is earned and reduced when it is taken. Annual leave is accrued each pay period based on an employee's time of service. Per the federal leave policy established by the Office of Personnel Management (OPM), full-time employees with less than three years of service accrue four hours of annual leave each pay period; full-time employees with at least three years of service but less than 15 years of service accrue six hours of annual leave each pay period; and full-time employees with more than 15 years of service or more accrue eight hours of annual leave each pay period. The liabilities are recorded based on current pay rates. While employees accumulate sick leave each pay period, sick leave for civilians is expensed as taken. See Note 11, *Other Liabilities*.

1.P. Net Position

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

1.Q. Treaties for Use of Foreign Bases

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

1.R. Military Retirement and Other Federal Employment Benefits

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

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

For financial reporting purposes, the DOL develops the actuarial liability for civilian workers' compensation benefits under the requirements of the FECA and provides it to the USMC at the end of each fiscal year. See Note 13, *Military Retirement and Other Federal Employment Benefits*.

Note 2. Non-Entity Assets

As of September 30 *(Amounts in thousands)*	Unaudited **2018**	Unaudited **2017**
Intragovernmental Assets		
Fund Balance with Treasury	$ 41,921	$ 37,411
Total Intragovernmental Assets	41,921	37,411
Nonfederal Assets		
Cash and Other Monetary Assets	6,220	5,219
Accounts Receivable	109	101
Total Nonfederal Assets	6,329	5,320
Total Non-Entity Assets	48,250	42,731
Total Entity Assets	43,277,832	37,263,507
Total Assets	$ 43,326,082	$ 37,306,238

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

Non-entity FBWT represents amounts held in USMC deposit fund accounts. The deposit fund accounts contain funds collected from various sources and are held until disbursed in accordance with its defined purpose. Deposit funds include withholdings from Marines' and civilians' pay (e.g., state and local taxes, allotments, and garnishments held), security deposits, returned electronic fund transfer payments, and retirement contributions toward the Thrift Savings Plan (TSP) provided by Marines, civilians, and the USMC.

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

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

Note 3. Fund Balance with Treasury

FBWT represents funds held within the Department of the Treasury from which the USMC can draw upon to pay for its ongoing operations. The USMC's FBWT primarily consists of non-shared general funds appropriated through congressional legislative actions where the USMC is directly appropriated funding for the purposes of general operations, military personnel, reserve personnel, and procurement. The USMC also receives general funds from appropriations shared with the DON. The DON is appropriated the funding and then allocates funding to the USMC for research, development, testing, and evaluation; procurement of ammunition; military family housing operations; and other procurement funds as necessary.

The USMC's FBWT also includes amounts held in deposit funds (see Note 2, *Non-Entity Assets*), funding transfers as approved by OMB, clearing accounts, special revenue funds (see Note 16, *Funds from Dedicated*

Collections), and funding sub-allocated to the DOT for which the USMC is the parent in the parent/child funding relationship.

The USMC reconciles and adjusts its FBWT recorded in the general ledger so that the balances reported in its financial statements agree to the FBWT amounts on record with the Treasury. Adjustments, if any, are made to account for suspense accounts, deposit funds, and parent/child funding; temporary timing differences between amounts disbursed by Treasury, but not yet recorded into the USMC's general ledger; and misclassified transactions.

In thousands, the USMC returned $544,198 ($511,013 non-shared and $33,185 shared) of funds to Treasury due to unused funds in expired appropriations.

Status of Fund Balance with Treasury

As of September 30 *(Amounts in thousands)*	Unaudited 2018	Unaudited 2017
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 618,695	$ 707,391
Unavailable	888,587	1,225,902
Obligated Balance not yet Disbursed	9,036,651	7,499,590
Non-budgetary FBWT	79,754	72,068
Non-FBWT Budgetary Accounts	(99,957)	(84,134)
Total	$ 10,523,730	$ 9,420,817

The Status of FBWT schedule reconciles the budgetary resources available to fund the USMC's activities to the USMC's FBWT balance as presented on the face of the balance sheet. Budgetary resources are classified as unobligated available, unobligated unavailable, and obligated but not yet disbursed. Unobligated available balances represent budgetary resources that are available to the USMC for new obligations to fund current operations. There are no restrictions on unobligated available balances. Unobligated unavailable balances represent budgetary resources under expired budget authority that are not available to fund new obligations, but can generally be used for upward adjustments to existing obligations. It also includes unapportioned unobligated balances that are not available for use until apportioned. The obligated balance not yet disbursed represents funds that have been obligated to obtain goods and services in support of USMC operations; the balance includes goods and services not yet received, and goods and services received but for which payment has not yet been made.

Non-budgetary FBWT includes accounts without budgetary authority, such as deposit funds (see Note 2, *Non-Entity Assets*) and clearing accounts. Clearing accounts include amounts paid and collected by disbursing officers held in suspense by the Treasury, undistributed intragovernmental payments, and amounts in suspense due to lost or cancelled Treasury checks.

The Non-FBWT Budgetary Accounts amount represents reconciling adjustments to the status of budgetary resources for which there is no FBWT impact. The amounts include budget authority made available to the USMC for the fulfillment of reimbursable customer orders, but where FBWT is not impacted until a cash collection is received from the customer.

Note 4. Accounts Receivable, Net

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

As of September 30 *(Amounts in thousands)*	Unaudited 2017 Gross Amount Due	Unaudited 2017 Allowance For Estimated Uncollectibles	Unaudited 2017 Accounts Receivable, Net
Intragovernmental Receivables	$ 38,985	$ -	$ 38,985
Nonfederal Receivables (From the Public)	16,136	(2,604)	13,532
Total Accounts Receivable	$ 55,121	$ (2,604)	$ 52,517

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

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

Note 5. Other Assets

As of September 30 *(Amounts in thousands)*	Unaudited 2018	Unaudited 2017
Nonfederal Other Assets		
Outstanding Contract Financing Payments	$ -	$ 70,246
Advances and Prepayments	15,728	8,742
Other Assets (With the Public)	35,753	2,047
Total Nonfederal Other Assets	51,481	81,035
Total Other Assets	$ 51,481	$ 81,035

Nonfederal Other Assets – Outstanding Contract Financing Payments
This line item represents progress payments on Mechanization of Contract Administration Services (MOCAS) contracts. In FY 2018, these progress payments have been reclassified to GPP&E CIP or expensed.

Nonfederal Other Assets – Advances and Prepayments
This line item represents payments the USMC made to servicemen and women in advance for payroll and travel.

Nonfederal Other Assets – Other Assets (With the Public)
In accordance with FASAB Technical Release 14, *Implementation Guidance on the Accounting and Disposal of General Property, Plant & Equipment*, this line item consists of real property permanently removed from service but not yet disposed. The increase in the balance year over year is due to an increase of GPP&E assets removed from service awaiting disposal.

Note 6. Cash and Other Monetary Assets

As of September 30 (Amounts in thousands)	Unaudited 2018	Unaudited 2017
Cash	$ 6,220	$ 5,209
Foreign Currency	-	10
Total Cash and Foreign Currency	$ 6,220	$ 5,219

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

Note 7. Inventory and Related Property, Net

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

As of September 30 (Amounts in thousands)	Unaudited 2017			
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	Valuation Method
OM&S Categories				
Held for Use	$ 9,749,974	$ -	$ 9,749,974	SP/LAC
Held in Reserve for Future Use	281,751	-	281,751	SP/LAC
Held for Repair	927,968	-	927,968	SP/LAC
In Development	-	-	-	SP/LAC
Excess, Obsolete, and Unserviceable	10,644	(10,644)	-	NRV
Total OM&S	$ 10,970,337	$ (10,644)	$ 10,959,693	

Legend for Valuation Methods:
SP = Standard Catalog Price LAC = Latest Acquisition Cost NRV = Net Realizable Value

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

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

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

Correction of Prior Period Accounting Errors
During FY 2018, journal entries with a net total of $1,299,297 thousand were recorded affecting the OM&S balance sheet account resulting from the identification of accounting errors related to both current and prior fiscal years. These adjustments were necessary to record the impact of corrective actions taken and were recorded in current year gains/losses accounts and not as prior period adjustments.

Impact of Hurricane Florence
OM&S located at Camp Lejeune, North Carolina, and Marine Corps Air Station (MCAS) Cherry Point, North Carolina may have been damaged as a result of Hurricane Florence, which impacted the area in September of 2018. The extent of damage is still under assessment by the USMC.

Note 8. General Property, Plant, and Equipment, Net

	Unaudited 2018				
As of September 30 *(Amounts in thousands)*	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	30, 35, or 45	$ 18,955,466	$ (7,363,734)	$ 11,591,732
Software	S/L	2-5 or 10	1,036	-	1,036
General Equipment	S/L	Various	20,832,534	(12,153,209)	8,679,325
Construction-in-Progress	N/A	N/A	257,007	-	257,007
Total General PP&E			$ 40,046,043	$ (19,516,943)	$ 20,529,100

As of September 30 *(Amounts in thousands)*	Unaudited 2017 Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Buildings, Structures, and Facilities	S/L	30, 35, or 45	$ 17,910,799	$ (6,921,001)	$ 10,989,798
Software	S/L	2-5 or 10	750	-	750
General Equipment	S/L	Various	21,012,953	(15,255,695)	5,757,258
Construction-in-Progress	N/A	N/A	39,151	-	39,151
Total General PP&E			$ 38,963,653	$ (22,176,696)	$ 16,786,957

Legend for Valuation Methods:
S/L = Straight Line N/A = Not Applicable

Land and Land Rights

In compliance with the requirements of SFFAS No. 50, the USMC continues to expense future land and land rights, and discloses the total acres held at the beginning of the reporting period, the number of acres purchased or disposed of during the reporting period, and the number of acres held at the end of the reporting period. The acreage adjustments made to the property records have been disclosed under the 'Change in Acreage' column of the table below. These adjustments include changes to land acreage from re-measurement using more advanced measurement technologies.

Land Acreage as of September 30, 2018 *(Unaudited)*

Beginning Balance	Additions	Change in Acreage	Deletions	Ending Balance
2,424,239.58	44,304.469	19,180.703	-7,769.959	2,479,954.79

Real Property

Real property comprises the majority of the USMC's net GPP&E balance. In accordance with Title 10 of the United States Code (U.S.C.), the construction of buildings, structures and facilities is performed by the DON's NAVFAC. NAVFAC has full command and control over construction operations, but the USMC has limited input when the facilities being constructed are for the USMC. The USMC recognizes a real property asset when a facility is constructed by NAVFAC and provided to the USMC to inhabit and utilize. Therefore, real property CIP is not recognized by the USMC as incurred, unless the USMC funds the real property CIP through its Operations and Maintenance (O&M) appropriations. Title of the real property remains with NAVFAC throughout the life of the asset, but the USMC is responsible for those costs needed to repair and maintain the real property. Capital improvement plans are submitted to NAVFAC for approval and NAVFAC ultimately decides when a project will occur based on Department-level requirements. For some locations, the Army Corps of Engineers may construct capital improvements and/or buildings and structures. Such capital improvements are funded with DON's Military Construction appropriation funds. However, the USMC may use O&M funding for buildings, structures, and capital improvements less than $750,000.

The USMC conducted an extensive analysis to identify the placed in service date (PISD) for all capital real property assets. In some cases, the key supporting documentation did not exist to support the PISD, therefore the PISD was estimated using alternate sources such as cornerstones, plaques, as-built drawings, earliest known asset site plots, maintenance records, or documented similar assets. In addition, the USMC applies the guidance set forth in the Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) Memoranda titled *Financial Reporting Policy for Real Property Estimated Useful Lives, Land Valuation, and Accounting for Real Property Outside of the United States* in estimating the service life of its real property assets.

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

The Software line item in the schedule above consists of software in-development costs. The USMC reports a GAAP departure in its accounting for IUS as disclosed in Note 1.D., *Basis of Accounting*.

General Equipment
GE includes all property not classified as real property, IUS, or land, but GE balances exclude aircraft, which is not recorded by the USMC, with the exception of unmanned aircraft. Aircraft are recorded and reported by the DON on its financial statements in accordance with FASAB TB 2017-2. The DON's NAVAIR has responsibility for the construction, repair, maintenance, and disposal of all aircraft. GE consists of Garrison Property and Military Equipment (ME). Garrison Property includes items such as office equipment and material handling equipment. ME includes items such as weapon systems, components of weapon systems, and support equipment that is owned by the USMC for use in the performance of military missions and training.

GE useful life information is denoted "various" in the schedule above. This is due to the USMC applying different estimated service lives to different asset types based upon internal analysis. Service lives can range from 2 to 33 years depending upon the asset. Construction costs of capital GE are capitalized as CIP. Upon completion of the project, the costs are transferred to the GE account. The GE net book value increased in the current year due to a reduction in accumulated depreciation from continued remediation efforts over recorded balances. The CIP increased due to process improvements made to recognize CIP amounts to include the reclassification of MOCAS contract financing payments for long-term construction projects.

Restrictions on the Use or Convertibility of General PP&E, Net
For the USMC sites within and outside of the continental U.S., there are no known restrictions on the use or convertibility of GPP&E.

Impaired GPP&E
Remediation activities are ongoing to identify the full population of impaired assets and design impairment tests that will facilitate GAAP accounting moving forward. As disclosed in Note 1.D., *Basis of Accounting*, impairment losses are not recorded, the full nature of impairment may not be documented, and the financial statement classification of the impairment loss is not currently reported on the USMC financial statements.

Corrections of Prior Period Accounting Errors
During FY 2018, journal entries were recorded affecting the GE and real property portion of GPP&E resulting from the identification of accounting errors from both current and prior fiscal years. These adjustments were in the net amounts of $3,472,398 thousand for GE and $664,965 thousand for real property. The adjustments were necessary to record the impact of corrective actions taken and were recorded in current year Other Gains and Losses and not as prior period adjustments. The USMC reports a departure from GAAP for this accounting treatment in Note 1.D., *Basis of Accounting*.

Impact of Hurricane Florence
The USMC has GPP&E, heritage assets, and stewardship land located at Camp Lejeune, North Carolina, and MCAS Cherry Point, North Carolina. In September of 2018, Hurricane Florence caused damage to property at

these two USMC installations. The USMC is still in the process of assessing the total impact of the damage to its property and the costs for any repairs. Any necessary adjustments to property records and the costs of repairing and/or disposing USMC property will be recognized in future periods as either expenses or capital improvements in accordance with SFFAS No. 6.

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

Heritage Assets
The USMC focuses on the preservation of its heritage assets. Heritage assets consist of buildings, structures, and museum collections. The USMC's heritage assets as of September 30, 2018 consist of the following:

Heritage Assets as of September 30, 2018 *(Unaudited)*

Categories	Measure Quantity	Beginning Quantity	Additions	Deletions	Ending Balance
Building and Structures	Each	79	-	-	79
Archeological Sites	Each	34	-	-	34
Museum Collection Items (Objects, Not Including Fine Art)	Each	62,675	2,717	1,770	63,622
Museum Collection Items (Objects, Fine Art)	Each	10,008	172	34	10,146

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

The overall mission of the USMC is to provide trained and equipped forces to combatant commanders in support of the President's National Security Strategy. In that mission the USMC, with minor exceptions, uses buildings and stewardship land in its daily activities and includes the buildings on the balance sheet as multi-use heritage assets (capitalized and depreciated). The USMC does not have the data available to disclose the physical quantity of multi-use heritage assets. These assets are used in current operations and reported within the GPP&E balance. Initiatives are ongoing to identify and account for the full population of multi-use heritage assets separate from the financial statement balances in order to make the appropriate disclosure. The USMC reports a GAAP departure in not reporting physical quantity of multi-use heritage assets as disclosed in Note 1.D., *Basis of Accounting*.

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

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

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

Acquisition and Withdrawal Process
Heritage assets are primarily acquired through donations from individuals and organizations. Museum collection items are acquired through donation, purchases (seldom occurrences), and transfer. Asset withdrawals from the heritage asset population arise from the USMC deaccession process. This occurs when museum curators in-charge of a given collection develops a written report detailing why the asset is subject to deaccession. The

deaccession report is presented to the USMC collections committees for a vote, after which it is signed off by the Director and the object is withdrawn. The USMC then documents the transfer or disposal and the accessioned or deaccessioned objects are updated in the heritage asset database. The USMC does not appraise or assign value to incoming donations but makes a general assessment of value for the purposes of gift acceptance at the appropriate level.

Stewardship Land

The USMC's stewardship land consists mainly of mission essential land acquired by transfer, donation, or devise. The USMC's stewardship land as of September 30, 2018 is as follows:

Stewardship Land Units as of September 30, 2018 *(Unaudited)*

Facility Code	Facility Title	Beginning Balance	Additions	Deletions	Ending Balance
9120	Withdrawn Public Land	1,254	19	-	1,273
Total – Stewardship Lands					1,273

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

<u>Deferred Maintenance and Repair</u>

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

Leases

The USMC currently does not account for leases in accordance with SFFAS No. 5 and SFFAS No. 6. The universe of leases were identified but the scoring criteria, required to determine capital versus operating leases, is not available for the lease universe. Refer to GAAP departure disclosure in Note 1.D., *Basis of Accounting*.

Note 9. Liabilities Not Covered by Budgetary Resources

As of September 30 *(Amounts in thousands)*	Unaudited 2018	Unaudited 2017
Intragovernmental Liabilities		
Other	$ 47,727	$ 51,029
Total Intragovernmental Liabilities	47,727	51,029
Nonfederal Liabilities		
Accounts Payable	600	6,857
Military Retirement and Other Federal Employment Benefits	192,368	184,718
Environmental and Disposal Liabilities	234,001	212,064
Other Liabilities	754,540	749,421
Total Nonfederal Liabilities	1,181,509	1,153,060
Total Liabilities Not Covered by Budgetary Resources	1,229,236	1,204,089
Total Liabilities Covered by Budgetary Resources	1,827,860	1,086,293
Total Liabilities Not Requiring Budgetary Resources	-	-
Total Liabilities	$ 3,057,096	$ 2,290,382

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

Intragovernmental Liabilities – Other
This line item represents liabilities for workers' compensation under the FECA, which is separate from the actuarial liability (See Note 11, *Other Liabilities*, for a detailed description of the USMC's FECA liabilities). This line item also consists of unfunded liabilities related to unemployment compensation. Unemployment benefits to unemployed DoD and civilian personnel and ex-service members are paid by the DOL from the Federal Employee Compensation Account within the Unemployment Trust Fund. The DOL prepares a chargeback estimate and allocation of accrued benefits for existing claims, which is recognized by DoD as an unfunded liability. After the benefits are paid, the DOL will prepare a chargeback billing for these benefit costs to be reimbursed by the DoD. At the time the liabilities become billed and due, the liabilities move from unfunded to funded, and then are reimbursed to the DOL.

Nonfederal Liabilities – Accounts Payable
These amounts are related to valid claims associated with cancelled appropriations. Refer to Note 12, *Commitments and Contingencies*.

Nonfederal Liabilities – Military Retirement and Other Federal Employment Benefits
This line consists of employee actuarial liabilities associated with the FECA. Refer to Note 13, *Military Retirement and Other Federal Employment Benefits*, for additional details and disclosures.

Nonfederal Liabilities – Environmental and Disposal Liabilities
This line represents estimates related to future events that will be budgeted for when the assets generating environmental and disposal liabilities are removed from service and cleaned up in future years. Refer to Note 10, *Environmental and Disposal Liabilities*, for additional details and disclosures.

Nonfederal Liabilities – Other Liabilities
This line includes civilian and military unfunded leave and legal contingent liabilities. Unfunded military and civilian leave liability represents accrued, earned leave that will be funded in future-year appropriations.

Total Liabilities Covered by Budgetary Resources
This line represents all funded liabilities. The increase in $741,567 thousand from FY 2017 is due to accrued funded payroll and benefits for military personnel and the corresponding payroll taxes payable liabilities. See Note 11, *Other Liabilities*.

Note 10. Environmental and Disposal Liabilities

As of September 30 (Amounts in thousands)	Unaudited 2018	Unaudited 2017
Environmental Liabilities--Nonfederal		
Other Accrued Environmental Liabilities—Non-BRAC		
Environmental Corrective Action	$ -	$ 108
Environmental Closure Requirements	158,751	130,211
Asbestos	74,842	81,103
Non-Military Equipment	408	642
Total Environmental Liabilities	$ 234,001	$ 212,064

Applicable Laws and Regulations for Cleanup Requirements
Laws and regulations that impact the USMC's environmental cleanup requirements include the Comprehensive Environmental Response, Compensation, and Liability Act; the Resource Conservation and Recovery Act (RCRA) of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984; the Clean Water Act (CWA) of 1977; the Federal Water Pollution Control Act, the Safe Drinking Water Act (SDWA), and the Clean Air Act (CAA) of 1970. These regulatory requirements attributed to the USMC's FY 2018 Other Environmental Liabilities (OEL) balance as follows: RCRA (60.2%), CAA (26.1%), SDWA (0.3%), CWA (13%), and Other (0.4%).

Description of the Types of Environmental Liabilities and Disposal Liabilities
OEL can stem from solid waste management unit cleanup; landfill closure; removal, replacement, retro fill, and/or disposal of polychlorinated biphenyl transformers; and underground storage tank remedial investigation and closure. The USMC collects estimated environmental liability costs, via the NAVFAC OEL Program, for units at active USMC installations that are not a part of either the DERP or BRAC Program. OEL estimates are developed from field data collected by knowledgeable persons at USMC installations. OEL does not include environmental liabilities associated with weapons systems and/or radiological operational units. DERP and BRAC environmental liabilities are reported on the DON's financial statements, as the DON is funded to remediate the environmental issues and executes each respective program. The USMC has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The USMC is unable to provide a reasonable estimate at this time because the extent of restoration required is not known.

Method for Assigning Estimated Total Cleanup Costs to Current Operating Periods
The USMC expensed cleanup costs for non-asbestos properties placed in service prior to October 1, 1997. For asbestos abatement, the USMC expensed the cleanup costs for properties placed in service prior to October 1, 2012. For the properties that were placed in service subsequently, the USMC expenses associated environmental costs using two methods: (1) physical capacity for operating landfills or (2) life expectancy (in years) for non-

landfill assets. The USMC expenses the full environmental cost for Stewardship PP&E at the time the asset is placed in service.

Method for Estimating Other Environmental Liabilities – Non-DERP/Non-BRAC
OEL estimates are based on the following:

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

Reporting of asbestos OEL has been rolled out incrementally on a region-by-region basis over the past four years. After asbestos survey and field data are available at the time of demolition, independently validated engineering cost model estimates are used to estimate the facility environmental liability. When uncertainty exists about the extent of environmental damage or appropriate remediation measures, the estimate includes a range of contingent liability costs.

The USMC's tangible PP&E contain non-friable asbestos. At this time, USMC-developed estimates for non-friable asbestos abatement costs total $74,842 thousand. The USMC only reports non-friable asbestos, as friable asbestos is immediately remediated when discovered.

Unrecognized Cleanup Costs
The unrecognized portion of cleanup costs is the unamortized portion of closure assets, asbestos, and un-utilized landfill capacity. As of September 30, 2018 and 2017, there were $72,000 thousand and $80,500 thousand of unrecognized OEL, respectively.

Environmental Liabilities for Weapons Systems
The USMC's weapons systems utilize compounds, chemicals, and other hazardous materials for which environmental liabilities and the associated cleanup costs should be estimated and reported. The USMC acknowledges that estimates for these cleanup costs are currently not being reported in compliance with GAAP, as described in Note 1.D., *Basis of Accounting*.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes due to Inflation, Deflation, Technology, or Applicable Laws and Regulations
Environmental liabilities can change over time because of changes in laws, regulations, technological advances, inflation, and changes to disposal plans. Costs for existing OEL estimates related to real property were escalated by 2% inflation in FY 2018 per the *DoD Unified Facilities Criteria Pricing Guide*. Regulatory changes did not affect OEL in FY 2018. The USMC OEL totaled $234,001 thousand as of September 30, 2018. This is an increase of $21,937 thousand over the prior year and is mostly due to the increase in the number of assets included in the OEL estimate as part of the continued implementation of the 2015 OSD Guidance Memo, *Strategy for Environmental & Disposal Liabilities Audit Readiness*.

Note 11. Other Liabilities

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

As of September 30 *(Amounts in thousands)*	Unaudited 2017 Current Liability	Noncurrent Liability	Total
Intragovernmental			
Disbursing Officer Cash	$ 5,228	$ -	$ 5,228
FECA Reimbursement to the Department of Labor	17,070	20,366	37,436
Custodial Liabilities	91	-	91
Employer Contribution and Payroll Taxes Payable	10,488	-	10,488
Other Liabilities	13,599	-	13,599
Total Intragovernmental Other Liabilities	46,476	20,366	66,842
Nonfederal			
Accrued Funded Payroll and Benefits	65,475	-	65,475
Advances from Others	1,982	-	1,982
Deposit Funds and Suspense Accounts	72,067	-	72,067
Accrued Unfunded Annual Leave	732,832	-	732,832
Contract Holdbacks	58	3,835	3,893
Employer Contribution and Payroll Taxes Payable	29,271	-	29,271
Contingent Liabilities	589	86,247	86,836
Total Nonfederal Other Liabilities	902,274	90,082	992,356
Total Other Liabilities	$ 948,750	$ 110,448	$ 1,059,198

<u>Disbursing Officers Cash</u>

The amount reported represents the corresponding liability for various forms of non-entity cash held by the USMC disbursing officers such as: cash on hand, cash on deposit at designated depositories, negotiable instruments, and foreign currencies. The balance also includes the liability for disbursing officer recognized accounts receivable (see Note 2, *Non-Entity Assets*, and Note 6, *Cash and Other Monetary Assets*).

FECA Reimbursement to the Department of Labor
The FECA provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred work-related occupational diseases, and beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the DOL and consists of two parts; the first pays valid claims and subsequently seeks reimbursement from the USMC for these paid claims. The USMC reimburses DOL for the amount of the actual claims as funds are appropriated for this purpose. There is generally a two to three year lag between payment by the DOL and reimbursement by the USMC. The amount above represents the liability for workers compensation that is remitted to the DOL as required per the FECA. The second part of the FECA program consists of the actuarial liability calculated by the DOL. See Note 13, *Military and Other Federal Employment Benefits*, for more information regarding the actuarial liability.

Intragovernmental Other Liabilities
The amount reported consists of unemployment compensation liabilities and the liability for education benefits earned by military and civilian employees but not yet paid by the USMC.

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

Deposit Funds and Suspense Accounts
The amount reported represents the corresponding liability for receipts held temporarily in non-fiduciary deposit funds for distribution to another fund or entity or held as an agent for others to be paid at the direction of the owner.

Accrued Funded Payroll and Benefits, and Employer Contribution and Payroll Taxes Payable
The significant increase in the accrued funded payroll balance from FY 2017 is due to two weeks of pay and benefits for USMC military and civilian personnel being accrued but not paid until the first week of FY 2019, which, as a result, increased the balance for employer contribution and payroll taxes payable.

Contingent Liabilities
USMC reports a GAAP departure in Note 1.D., *Basis of Accounting*, with respect to assessing pending litigation. The amount reported in FY 2017 includes outstanding contract financing payments owed to the vendor as progress payments for cost incurred related to existing contracts in MOCAS, and $16,000 thousand in estimated legal liabilities. In FY 2018, outstanding contract financing payments are recorded in accounts payable.

Note 12. Commitments and Contingencies

Legal Contingencies
The USMC is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests which may ultimately result in settlements or decisions adverse to the federal government. These proceedings and actions arise in the normal course of operations and their ultimate disposition is unknown.

The DON's Office of General Counsel (OGC) reviews litigation and claims threatened or asserted involving the USMC to which lawyers devote substantial attention in the form of legal consultation or representation.

The USMC accrues contingent liabilities for legal actions where the DON OGC considers an adverse decision probable and the amount of loss measurable. In the event of an adverse judgment against the government, some of the liabilities may be payable from the U.S. Treasury's Judgment Fund. Also, adverse judgments may be payable from USMC resources, either directly or by reimbursement to the Judgment Fund. The USMC reports contingent liabilities in Note 11, *Other Liabilities*. The USMC reports a departure from GAAP in its accounting for contingent liabilities in Note 1.D., *Basis of Accounting*.

Obligations Related to Canceled Appropriations
The USMC recognizes a $600 thousand estimated liability and future-funded expenses for obligations related to canceled appropriations for which the USMC still has a contractual commitment to pay vendors for goods provided and services rendered, at such time when the vendor invoices are received. This liability is reported within the Accounts Payable balance.

Note 13. Military Retirement and Other Federal Employment Benefits

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

As of September 30 *(Amounts in thousands)*	Unaudited 2017 Liabilities	Unaudited 2017 (Less: Assets Available to Pay Benefits)	Unaudited 2017 Unfunded Liabilities
Other Benefits			
FECA	$ 184,718	$ -	$ 184,718
Other	1,323	(1,323)	-
Total Military Retirement and Other Federal Employment Benefits:	$ 186,041	$ (1,323)	$ 184,718

Federal Employees Compensation Act
The FECA liability consists of two components. The first component is based on actual claims paid by DOL but not yet reimbursed by the USMC; this portion of the liability is included in Note 11, *Other Liabilities*.

The second component is the actuarial liability (the $192,368 thousand identified in this footnote) that is estimated for future benefit payments stemming from past events. This liability includes death, disability, medical, and miscellaneous costs. The DOL determines this component annually, as of September 30, using a method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The USMC recognizes an unfunded liability to the public for these estimated future payments. The liability is allocated between the USMC and Navy WCF-Marine Corps based on the number of civilian employees funded in each entity.

Other Benefits, Other
This amount consists primarily of voluntary separation incentive pay (VSIP) for former civilian employees. Due to a systems mapping issue, the amounts are reported in other benefits as opposed to a VSIP line item in the footnote schedule above. VSIP Authority, also known as "buyout" authority, is authorized by OPM and enables agencies that are downsizing or restructuring to offer employees lump-sum payments of up to $25,000 as an incentive to voluntarily separate.

Note 14. General Disclosures Related to the Statement of Budgetary Resources

Undelivered Orders at the End of the Period (Unaudited)

As of September 30 *(Amounts in thousands)*		2018
Intragovernmental Budgetary Resources Obligated for Undelivered Orders:		
Unpaid	$	151,316
Total Intragovernmental		151,316
Nonfederal Budgetary Resources Obligated for Undelivered Orders:		
Unpaid		7,141,858
Prepaid/Advanced		15,728
Total Nonfederal		7,157,586
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	$	7,308,902

Budgetary Resources Obligated for Undelivered Orders at the End of the Period for FY 2017 is $6,575,390 thousand.

Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable Obligations (Unaudited)

The USMC's new obligations and upward adjustments are categorized by apportionment type, and direct or reimbursable obligations. Category A represents amounts apportioned quarterly, and Category B represents amounts apportioned by program, project, or activity.

Year Ended September 30, 2018 *(Amounts in thousands)*		Category A		Category B		Total
New Obligations and Upward Adjustments – Direct	$	22,863,359	$	3,260,471	$	26,123,830
New Obligations and Upward Adjustments – Reimbursable		-		396,910		396,910
Total New Obligations and Upward Adjustments	**$**	**22,863,359**	**$**	**3,657,381**	**$**	**26,520,740**

Year Ended September 30, 2017 *(Amounts in thousands)*		Category A		Category B		Total
New Obligations and Upward Adjustments – Direct	$	22,002,593	$	2,340,344	$	24,342,937
New Obligations and Upward Adjustments – Reimbursable		-		383,226		383,226
Total New Obligations and Upward Adjustments	**$**	**22,002,593**	**$**	**2,723,570**	**$**	**24,726,163**

Legal Arrangements Affecting the Use of Unobligated Balances (Unaudited)

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

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

(Amounts in millions)	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (9/30/17)	$26,660	$24,726	$6	$23,250
Shared Appropriations with DON included in the SBR but excluded from USMC direct appropriations presented in the President's Budget	(1,044)	(824)	(6)	(984)
Unobligated Balance Brought Forward from prior year included in the SBR but not included in the President's Budget	(1,411)	-	-	-
Other	(198)	-	-	(2)
Budget of the U.S. Government	$24,007	$23,902	-	$22,264

The U.S. Government Budget amounts used in the reconciliation above represents the FY 2017 balances. The U.S. Government Budget amounts for FY 2018 will be available at a later date at *https://www.whitehouse.gov/omb/budget/*.

Note 15. Reconciliation of Net Cost of Operations to Budget

As of September 30 *(Amounts in thousands)*	Unaudited **2018**	Unaudited **2017**
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations incurred	$ 26,520,740	$ 24,726,163
Less: Spending authority from offsetting collections and recoveries (-)	(1,199,276)	(1,249,119)
Obligations net of offsetting collections and recoveries	25,321,464	23,477,044
Less: Offsetting receipts (-)	(3,280)	6,467
Net obligations	25,318,184	23,483,511
Other Resources:		
Transfers in/out without reimbursement (+/-)	381,564	138,203
Imputed financing from costs absorbed by others	92,704	62,555
Other (+/-)	5,182,316	(2,483,361)
Net other resources used to finance activities	5,656,584	(2,282,603)
Total resources used to finance activities	30,974,768	21,200,908
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 (-)	(733,512)	(310,137)
Unfilled Customer Orders	6,174	14,031
Resources that fund expenses recognized in prior Periods (-)	(1,102,876)	(178,752)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	3,280	(6,467)
Resources that finance the acquisition of assets (-)	(250,316)	(1,128,325)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Less: Other (+/-)	(5,565,030)	2,342,447
Total resources used to finance items not part of the Net Cost of Operations	(7,642,280)	732,797
Total resources used to finance the Net Cost of Operations	23,332,488	21,933,705
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Period:		

As of September 30 *(Amounts in thousands)*	Unaudited **2018**	Unaudited **2017**
Increase in annual leave liability	824,862	7,512
Increase in environmental and disposal liability	293,413	22,860
Other (+/-)	9,748	4,032
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	1,128,023	34,404
Components not Requiring or Generating Resources:		
Depreciation and amortization	856,202	1,255,428
Revaluation of assets or liabilities (+/-)	6,298	2,300
Other (+/-)		
Operating Materiel and Supplies Used	434	(526)
Other	(24,537)	(514)
Total Components of Net Cost of Operations that will not Require or Generate Resources	838,397	1,256,688
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	1,966,420	1,291,092
Net Cost of Operations	$ 25,298,908	$ 23,224,797

This reconciliation shows the relationship between the net obligations derived from the SBR and net costs of operations derived from the SNC by identifying key items that affect one statement, but not the other.

In the "Resources Used to Finance Activities" section, line item, "Other Resources: Other" is primarily comprised of the year to date changes in GE and OM&S, including ammunition.

In the "Resources Used to Finance Items not Part of the Net Cost of Operations" section, line item, "Other, resources or adjustments to net obligated resources that do not affect Net Cost of Operations: Other" is comprised of GE, real property, and OM&S, including ammunition. It also includes unfilled customer orders with advances, transfers in/out without reimbursement.

Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

The note schedule line, "Components Requiring or Generating Resources in Future Period: Other," is comprised of adjustments to beginning balances and cancelled payables.

The note schedule line, "Components not Requiring or Generating Resources: Other, Other" is comprised of adjustments made to the allowance for bad debt expense related to public accounts receivable.

Note 16. Funds from Dedicated Collections

BALANCE SHEET	Unaudited 2018		
As of September 30 *(Amounts in thousands)*	Other Funds	Eliminations	Consolidated Total
ASSETS			
Fund Balance with Treasury	$ 1,332	$ -	$ 1,332
Total Assets	1,332	-	1,332
LIABILITIES and NET POSITION			
Accounts Payable and Other Liabilities	$ 62	$ -	$ 62
Total Liabilities	62	-	62
Cumulative Results of Operations	1,270	-	1,270
Total Liabilities and Net Position	$ 1,332	$ -	$ 1,332

STATEMENT OF NET COST	Unaudited 2018		
For the period ended September 30 *(Amounts in thousands)*	Other Funds	Eliminations	Consolidated Total
Program Costs	$ 47	$ -	$ 47
Less Earned Revenue	-	-	-
Net Program Costs	47	-	47
Less Earned Revenues Not Attributable to Programs	-	-	-
Net Cost of Operations	$ 47	$ -	$ 47

STATEMENT OF CHANGES IN NET POSITION	Unaudited 2018		
For the period ended September 30 *(Amounts in thousands)*	Other Funds	Eliminations	Consolidated Total
Net Position Beginning of the Period	$ 1,212	$ -	$ 1,212
Net Cost of Operations	47	-	47
Budgetary Financing Sources	105	-	105
Change in Net Position	58	-	58
Net Position End of Period	$ 1,270	$ -	$ 1,270

BALANCE SHEET	Unaudited 2017		
As of September 30 *(Amounts in thousands)*	Other Funds	Eliminations	Consolidated Total
ASSETS			
Fund Balance with Treasury	$ 1,277	$ -	$ 1,277
Total Assets	$ 1,277	$ -	$ 1,277
LIABILITIES and NET POSITION			
Accounts Payable and Other Liabilities	$ 65	$ -	$ 65
Total Liabilities	65	-	65
Cumulative Results of Operations	1,212	-	1,212
Total Liabilities and Net Position	$ 1,277	$ -	$ 1,277

STATEMENT OF NET COST	Unaudited 2017		
For the period ended September 30 *(Amounts in thousands)*	Other Funds	Eliminations	Consolidated Total
Program Costs	$ 141	$ -	$ 141
Less Earned Revenue	-	-	-
Net Program Costs	141	-	141
Less Earned Revenues Not Attributable to Programs	-	-	-
Net Cost of Operations	$ 141	$ -	$ 141

STATEMENT OF CHANGES IN NET POSITION	Unaudited 2017		
For the period ended September 30 *(Amounts in thousands)*	Other Funds	Eliminations	Consolidated Total
Net Position Beginning of the Period	$ 1,229	$ -	$ 1,229
Net Cost of Operations	141	-	141
Budgetary Financing Sources	124	-	124
Change in Net Position	(17)	-	(17)
Net Position End of Period	$ 1,212	$ -	$ 1,212

Funds from dedicated collections are financed by specifically identified revenues and other financing sources and are provided to the government by non-federal sources. The funds from dedicated collections are required by statute to be used for designated activities, benefits, or purposes that must be accounted for separately from the government's general revenues. The USMC's dedicated collections are generated from the Wildlife Conservation, Military Installations fund and are included within the Other Funds in the footnote schedule, above.

Wildlife Conservation, Military Installations, 16 U.S.C. § 670
This fund provides for the development and conservation of fish and wildlife and recreational facilities on military installations. Revenues come from user fees that are charged to individuals in exchange for fishing and hunting permits. The permits allow for hunting and fishing to take place on certain USMC installations. These programs are carried out through cooperative plans agreed upon by the local representatives of the Secretary of Defense, the Secretary of the Interior, and the appropriate agency of the state in which the installation is located.

Note 17. Fiduciary Activities

Schedule of Fiduciary Activity

For the period ended September 30 *(Amounts in thousands)*	Unaudited **2018**	Unaudited **2017**
Fiduciary net assets, beginning of year	$ 3,763	$ 42,193
Contributions	5,031	(1,091)
Investment earnings	326	289
Distributions to and on behalf of beneficiaries	(6,556)	(37,628)
Increase/(Decrease) in fiduciary net assets	(1,199)	(38,430)
Fiduciary net assets, end of period	$ 2,564	$ 3,763

Schedule of Fiduciary Net Assets

For the period ended September 30 *(Amounts in thousands)*	Unaudited **2018**	Unaudited **2017**
FIDUCIARY ASSETS		
Cash and cash equivalents	$ 2,564	$ 3,763
FIDUCIARY LIABILITIES		
Less: Liabilities	-	-
TOTAL FIDUCIARY NET ASSETS	$ 2,564	$ 3,763

SFFAS No. 31, *Accounting for Fiduciary Activities*, defines "fiduciary activities" as, "those Federal Governmental activities that relate to the collection or receipt, and the subsequent management, protection, accounting, investment and disposition of cash or other assets in which non-federal individuals or entities ("non-federal parties") have an ownership that the Federal Government must uphold."

The USMC has confirmed and reconciled its fiduciary activity which consists of the Savings Deposit Program (SDP). The SDP was authorized by 10 U.S.C. § 1035, which authorized the USMC to collect payroll withholdings on behalf of Marines serving in a designated combat zone, or in direct support of a combat zone, and deposit those funds into a savings deposit account with the Treasury. The program allows every eligible Marine to deposit up to $10,000 of pay into the SDP where it earns 10% interest per annum, compounded quarterly. Any member serving in an area that has been designated a combat zone, or is in direct support of a combat zone, is eligible to participate in the SDP after the member has served in that assignment for at least 30 consecutive days or at least one day for each of three consecutive months.

The TSP was previously reported as a fiduciary activity in the prior year; however, in the current year it was determined that the USMC is not the fiduciary fund holder of this activity and has reclassified TSP as a non-fiduciary deposit fund activity. The FY 2018 fiduciary assets balance of $2,564 thousand excludes TSP, while the FY 2017 amount of $3,763 thousand includes TSP balances. Although the USMC has recognized the TSP as a non-fiduciary activity and has confirmed its SDP balances as its only fiduciary activity, the correction has not yet occurred at the Treasury level. Therefore, the amounts of fiduciary activity reported by USMC will not reconcile to fiduciary activity on record with the Treasury. The TSP is managed and administered by the Federal Retirement Thrift Investment Board (FRTIB). The USMC withholds amounts from civilian and Marine's payroll, provides an employer contribution, and holds these funds in a deposit fund account until transferred to the FRTIB. As such, the USMC is regarded as a pass-through entity of the FRTIB, who is the actual fiduciary fund holder. See Note 2, *Non-Entity Assets* for additional information on non-fiduciary deposit funds.

Required Supplementary Stewardship Information

Unaudited, see accompanying Independent Auditors' Report.

Investment in future weaponry and technologies is vital for the USMC's mission. RDT&E is a major appropriation stream received by USMC. RDT&E finances efforts performed by both contractors and government installations to develop equipment, materiel, and computer application software. Funding covers items such as government and civilian salaries, equipment, components, materials, and weapons. RDT&E is a multi-year appropriation that remains available for obligation for a period of two fiscal years. As federal spending is tightened, USMC is required to do more with less. Consequently, funding levels for RDT&E have decreased since FY 2014.

Advanced Component Development and Prototypes (ADC&P) and System Development and Demonstration (SDD) investment programs cover efforts used to fully develop and acquire integrated weapon systems. These two programs perform efforts necessary to further mature a technology or conduct engineering and manufacturing development tasks. RDT&E Management Support investment program funds efforts to sustain or modernize the installations or operations required for general RDT&E. Work areas covered in RDT&E Management Support investment program include test ranges, military construction, maintenance support of laboratories, studies and analyses, and operations and maintenance of test aircraft and ships. The Operational Systems Development investment program is used to designate research and development efforts for systems that have already been approved for production or those that have already been fielded.

Expenses for USMC R&D Investment Activities *(Amounts in thousands)*							
RDT&E Investment Programs		**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
1	ACD&P	$154,833	$123,701	$130,933	$239,703	$161,612	$810,782
2	SDD	8,101	8,924	2,282	4,028	42,943	66,278
3	RDT&E Management Support	40,410	45,371	32,069	36,709	32,602	187,161
4	Operational Systems Development	462,584	414,712	436,725	380,275	308,726	2,003,022
Total		**$665,928**	**$592,708**	**$602,009**	**$660,715**	**$545,883**	**$3,067,243**

Table 1. Expenses for USMC R&D Investment Activities

Advanced Component Development and Prototypes. ACD&P work seeks to evaluate integrated technologies, representative modes, or prototype systems in a high fidelity and realistic operating environment. System-specific efforts are undertaken that help expedite technology transition from the laboratory to operational use. Emphasis is on proving component and subsystem maturity prior to integration in major and complex systems and may involve risk reduction initiatives.

In FY 2018, two primary programs were in progress to include the Anti-Armor Weapon System-Heavy, the follow-on to the Shoulder Launcher Multi-Purpose Assault Weapon, and the Joint Non-Lethal Weapons (JNLW). The JNLW program funds Joint Service research, development, test, and evaluation of non-lethal weapons, devices, munitions and technologies which provide a non-lethal capability to minimize significant injuries as well as undesired damage to property and the environment. The FY 2018 JNLW activities include counter-personnel and counter-materiel capability investment areas focused on directed energy (lasers, millimeter wave and high power microwave), multi-sensory suppression/incapacitation initiatives (acoustics, optical, electro-muscular incapacitation), and other emergent technologies transitioning from coordinated JNLW program Science and Technology program element initiatives. Investments also focus on joint and allied experimentation, exercise, demonstration and assessment of advanced component and prototype initiatives in order to assist transition of suitable and effective capabilities to both joint and allied operational applications.

System Development and Demonstration. SDD programs are conducting engineering and manufacturing development tasks aimed at meeting validated requirements prior to full-rate production. Prototype performance is near or at planned operational system levels in these cases.

The most significant projects funded under this program are the Amphibious Combat Vehicle (ACV) 1.1, the Joint Light Tactical Vehicle (JLTV) program, the Marine Corps Enterprise IT Services, the Marine Corps Recruiting Information Support Systems, Safety, and Cyber Operations Technology Development. JLTV is a joint program between the U.S. Army and the U.S. Marine Corps, of which the U.S. Army is the lead service. JLTV is a Family of Vehicles (FoV) capable of performing multiple mission roles designed to provide protected, sustained, and networked mobility for personnel and payloads across the full range of military operations. JLTV objectives include increased performance, protection, and payload over the current legacy High Mobility Multipurpose Wheeled Vehicle fleet, minimizing ownership costs by maximizing commonality, fuel efficiency and reliability. The commonality of components, maintenance procedures, training, etc., among vehicles is expected to be inherent in FoV solutions across mission variants to minimize total ownership cost. Unique service requirements have been minimized.

RDT&E Management Support. RDT&E Management Support endeavors are aimed at the sustainment and/or modernization of the installations or operations required for general research, development, test, and evaluation. Test ranges, military construction, maintenance support of laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the RDT&E program are funded in this budget activity. Costs of laboratory personnel, either in-house or contractor operated, are assigned to projects, as appropriate.

Four projects of focus in FY 2018 were the Family of Incident Response Systems, Marine Corps Operational Test & Evaluation Activity, Center for Naval Analyses, and Marine Corps Studies and Analysis. The Marine Corps Requirements Oversight Council established the Marine Corps Studies and Analysis Operations Analysis Directorate (OAD) as the sole operations research, analytic support, and studies management program for the Marine Corps Study System. The OAD provides senior military leadership with a comprehensive understanding of operations and advanced analytic and statistical support. OAD’s major focus is achieving greater efficiency, productivity, and innovation through operations research methodologies such as: statistical analysis, multi-objective decision methods, optimization, cost analysis, and a wide range of computer-based models and combat simulations.

Operational System Development. Operation System Development includes efforts to upgrade systems that have been fielded or have received approval for full rate production and anticipate production funding in the current or subsequent fiscal year. Program control is exercised by review of individual projects. Programs in this category involve systems that have received approval for Low Rate Initial Production.

In FY 2018, there were multiple programs funded: the Ground/Air Task Oriented Radar (G/ATOR) is a multi-role, ground-based, expeditionary radar that replaces five legacy radar systems for the Marine Air Ground Task Forces (MAGTFs). It satisfies the Marine Air Command and Control System (G/ATOR Block 1) and the Ground Counter Fire/Counter Battery (G/ATOR Block 2) capabilities. The G/ATOR will provide mobile, multi-functional, three-dimensional surveillance of air breathing targets, detection of cruise missiles, and the cueing of air defense weapons to allow Naval forces to project and sustain power deep inland. This program also includes the Assault Amphibious Vehicle (AAV) program. It provides life-cycle support to ensure cost-effective combat readiness for the AAV family of vehicles. This is accomplished through engineering changes resulting from continuous review of sub-systems to maintain system supportability and safety, reduce total ownership costs, improve fleet readiness, address obsolescence issues, and improve vehicle survivability and performance.

Required Supplementary Information

Unaudited, see accompanying Independent Auditors' Report.

Real Property Deferred Maintenance and Repairs

Real Property Deferred Maintenance *(Amounts in thousands)*						
	Fiscal Year Ended September 30, 2018			Fiscal Year Ended September 30, 2017		
Property Type	1. Plant Replacement Value	2. Required Work (deferred maintenance)	3. Percentage	1. Plant Replacement Value	2. Required Work (deferred maintenance)	3. Percentage
1. Category 1: Buildings, Structures, and Utilities (Enduring Facilities)	$68,587,149	$10,278,252	14.99%	$61,997,018	$9,434,682	15.22%
2. Category 2: Buildings, Structures, and Utilities (Heritage Assets)	$4,398,692	$1,039,882	23.64%	$4,088,585	$914,685	22.37%
3. Category 3: Buildings, Structures, and Utilities (Excess Facilities or Planned for Replacement)	$60,748	$-	-	$105,277	$-	-

Description of Property Type categories:

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

Maintenance and repairs that were not performed when they should have been or were scheduled and delayed for a future period are considered deferred maintenance and repairs (DM&R). The primary factors considered in determining acceptable condition standards align to restoring a real property facility, system, or component to such a condition that it may effectively be used for its designated functional purpose. Anything less is considered DM&R. DM&R for the USMC is not restricted to capitalized real property. Prioritization of maintenance needs are assigned based on the asset impact to mission critical functions, health and safety, and quality of life.

Real property on USMC bases is consistent with all property typically found in cities and counties with the addition of assets which support USMC's military mission. This property is comprised of fixed assets to include buildings, capitalized additions, alterations, improvements, and rehabilitations; as well as, other structures and facilities. USMC owns and operates diverse assets such as aviation runways, aprons, taxiways, and roads. Also included are communication stations, Air Navigation Facilities, piers, wharves, academic instruction buildings and operational trainers and all manner of direct and indirect weapons ranges. USMC has significant numbers of general administrative buildings to include large and small unit headquarters, aircraft, tank and automotive maintenance facilities, barracks, dining facilities, armories, ammunition storage facilities, and all manner of utilities elected distribution, water, sewer, communications, bridges and dams.

The maintenance and repair (M&R) needs of these assets are identified primarily through the condition assessment process which is conducted on a recurring basis depending on the asset type. The method used to assess Marine Corps facilities conditions is two-fold. All buildings, paving, bridges, dams, and rail assets are inspected using the Sustainment Management Systems methodology developed by the U.S. Army Corps of

Engineers Civil Engineering Research Laboratory which provides a facilities condition index (FCI) for these assets. Other assets are assessed via local facilities inspections to address the adequacy of the facilities to meet its intended purpose. Assets inspected using both methods take the FCI to determine the asset's Quality rating (Q-rating) as follows: FCI of 100%-90% Q1 (Good); 90%-80% Q2 (Fair); 80%-60% Q3 (Poor); and less than 60% Q4 (Failing).

USMC follows the Office of the Secretary of Defense Installation Strategic Plan goal of having facilities at a Q2 level on average as an acceptable rating. This represents an average level of 20% of plant replacement value (PRV) as an acceptable level of deferred maintenance. The table above shows that deferred maintenance is valued at approximately 14.99% and 23.64% of PRV for categories 1 and 2, respectively. Category 3 is zero because the USMC does not hold deferred maintenance backlogs on facilities to be demolished.

General Equipment Deferred Maintenance and Repairs

USMC's GE consists of equipment used to execute battlefield missions, referred to as ME, and property to support operations of installations and its tenant activities, referred to as Garrison Property. The USMC does not report deferred maintenance for garrison property and discloses a departure from GAAP in Note 1.D., *Basis of Accounting*. ME is broken down into the categories of Communications – Electronics, Engineer, General Supply, Motor Transport, and Ordnance. Ordnance ME are generally weapons systems and are distinguished from ammunition reported as OM&S.

USMC M&R procedures involve preventive and corrective maintenance. Preventive maintenance, checks, and services (PMCS) are performed periodically (e.g., weekly, bi-weekly, monthly) to preserve the useful life of GE. PMCS are mandatory routine maintenance procedures for all GE. Maintenance managers at all levels rank and prioritize maintenance based on mission, condition of the equipment, and available resources (e.g., parts, mechanic/technician, time, facilities, etc.). Consistent with the *Marine Corps Integrated Maintenance Management System Field Procedures* manual, maintaining the useful life of an asset is in the interest of the USMC. DM&R activity is tracked and reported for capitalized (including fully depreciated assets) and expensed GE.

General Equipment – Military Equipment Deferred Maintenance and Repairs

For each category of ME, there is a corresponding technical manual that specifies how maintenance procedures are performed if an asset is non-mission capable/requires significant maintenance to continue in operations (referred to as deadline) or requires minor maintenance (referred to as degraded). When routine M&R procedures (both preventive and corrective maintenance) of ME will not be performed, the ME will be assigned to the Deferred Maintenance Program.

(Amounts in thousands)

Military Equipment DM&R Category	Fiscal Year Ended 2018	Fiscal Year Ended 2017
Communications – Electronics *(e.g., radios, satellites, radar)*	$11,884	$12,938
Engineer *(e.g., generators, bulldozers, earth movers)*	17,457	9,428
General Supply *(e.g., tents, water cans, fuel cans)*	2,622	120
Motor Transport *(e.g., ground-wheeled vehicles)*	86,329	367,914
Ordnance *(e.g., tanks, howitzers)*	21,387	19,183
Total	**$139,679**	**$409,583**

The "Field-Level Maintenance Management Policy" states that Commanders define their deferred maintenance program and are classified as either Administrative Deadline Programs (ADL) or Administrative Storage Programs (ASP). The ADL and ASP classifications are different methods for deferring maintenance based on the amount of estimated time before the repairs are completed. ME identified in the ADL or ASP program will be included in the DM&R estimate. Assignment to the ADL or ASP is at the commander's discretion based on the current operational conditions. For example, more equipment may be assigned in ADL or ASP during peacetime compared to active combat campaigns. If corrective maintenance cannot be performed (e.g., lack of resources, mission prioritization), units may "evacuate" (transfer) the asset to the Intermediate Maintenance Activity (IMA) located at the installation. If the IMA is unable to perform the required maintenance, the asset will be "evacuated" to Depot-level Maintenance with the Marine Corps Logistics Command in either Albany, GA or Barstow, CA, and enrolled within the Enterprise Life Cycle Maintenance Program (ELMP). Completion of ELMP maintenance can be delayed due (but not limited) to funding, personnel and parts availability constraints.

As of September 30, 2018, the Marine Corps Operating Forces identified 3,347 capital ME in ASP and ADL and 174 ME in ELMP. To estimate the total deferred maintenance costs associated with the ADL and ASP for FY 2018, the Marine Corps System Command provided estimated total annual labor hours and estimated total annual cost of parts and supplies for ME. The costs associated with PMCS, which are performed by enlisted Marines, are deferred by enrolling ME in ASP and ADL.

For the fiscal-year ending 2018, the significant change in estimate for Motor Transport DM&R compared to the estimate at fiscal year-end 2017 is attributed to a revised labor hour formula provided by the program manager. The formula is applied prospectively and will be used consistently in future reporting periods.

United States Marine Corps

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the period ended September 30, 2018

(Unaudited)

Amounts in thousands	Research, Development, Test & Evaluation	Procurement	Military Personnel	Operations, Readiness & Support	2018 Combined
Budgetary Resources:					
Unobligated balance from prior year budget authority, net	$103,856	$891,888	$554,388	$637,721	$2,187,853
Appropriations (discretionary and mandatory)	726,839	2,334,652	13,979,581	8,481,092	25,522,164
Spending Authority from offsetting collections (discretionary and mandatory)	2,460	5,576	34,109	275,860	318,005
Total Budgetary Resources	$833,155	$3,232,116	$14,568,078	$9,394,673	$28,028,022
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$684,047	$2,658,655	$14,127,218	$9,050,820	$26,520,740
Unobligated balance, end of year:					
Apportioned, unexpired accounts	131,461	424,065	32,948	30,221	618,695
Unapportioned, unexpired accounts	-	12,150	-	-	12,150
Unexpired unobligated balance, end of year	131,461	436,215	32,948	30,221	630,845
Expired unobligated balance, end of year	17,647	137,246	407,912	313,632	876,437
Unobligated balance, end of year (total)	149,108	573,461	440,860	343,853	1,507,282
Total Budgetary Resources	$833,155	$3,232,116	$14,568,078	$9,394,673	$28,028,022
Budget Authority and Outlays, Net:					
Outlays, net (total) (discretionary and mandatory)	$593,695	$2,009,631	$13,228,198	$7,968,701	$23,800,225
Distributed offsetting receipts (-)	-	-	-	(3,280)	(3,280)
Agency Outlays, net (discretionary and mandatory)	$593,695	$2,009,631	$13,228,198	$7,965,421	$23,796,945

SECTION 3: OTHER INFORMATION

Management Challenges

Statement from the USMC Inspector General

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

IN REPLY REFER TO:
5200
IGMC
26 Sep 18

From: Deputy Naval Inspector General for Marine Corps Matters/Inspector General of the Marine Corps (IGMC)
To: Commandant of the Marine Corps (RFA)

Subj: UNITED STATES MARINE CORPS AGENCY FINANCIAL REPORT STATEMENT 4TH QUARTER FISCAL YEAR 2018

Ref: MARINE CORPS BULLETIN 7000

1. The IGMC Inspections Program has not identified any serious management and performance challenges facing the service.

2. For questions regarding this statement, please contact CWO4 Miguel A. Acosta at (703) 604-4660, miguel.a.acosta@usmc.mil or LtCol Erick Min at (703) 604-4519, erick.min@usmc.mil.

C. E. SHELTON
Deputy

Summary of Financial Statement Audit and Management Assurances

The information in Tables 1 and 2 represent the results of previous independent audits and internal assessments conducted as part of the United States Marine Corps' (hereafter referred to as the USMC or Marine Corps) Management Internal Control Program. Table 1 reflects the material weaknesses identified in the Reports of Independent Certified Public Accountants issued by Grant Thornton in September, 2014 and Kearney and Company in November, 2017. Consolidated material weaknesses in Table 1 represent those identified in fiscal year (FY) 2014 that have been consolidated with the findings from FY 2017. The material weaknesses included in the Federal Manager's Financial Improvement Act (FMFIA) Table 2 § 2 in the beginning balance column were in existence although excluded from the USMC FY 2017 Agency Financial Report and are therefore presented as "beginning balances." Although the material weaknesses overall are not resolved, progress has been made to resolve specific findings associated with the material weaknesses.

Table 1. Summary of Financial Audit

Audit Opinion: *Disclaimer*					
Restatement: No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Lack of Marine Corps oversight over the Defense Finance and Accounting Service (consolidated with Financial Reporting and Analysis)	1	-	-	1	-
Inadequate management review and oversight of Marine Corps' financial reporting (consolidated with Financial Reporting and Analysis)	1	-	-	1	-
Improper application of federal accounting standards and guidelines (consolidated with Financial Reporting and Analysis)	1	-	-	1	-
Invalid authorization of obligations (consolidated with Business Process Controls)	1	-	-	1	-
Inability to maintain adequate documentation (consolidated with Ability to Provide Complete, Timely, and Sufficient Evidence)	1	-	-	1	-
Inadequate A-123 Internal Control Program (consolidated with Entity Level Controls)	1	-	-	1	-
Entity Level Controls	-	1	-	-	1
Ability to Provide Complete, Timely, and Sufficient Evidence	-	1	-	-	1
Financial Reporting and Analysis	-	1	-	-	1
Integrated Financial Management Systems	-	1	-	-	1
Accounting for Property, Plant, and Equipment	-	1	-	-	1
Accounting for Operating Materiel and Supplies	-	1	-	-	1
Fund Balance with Treasury Controls	-	1	-	-	1
Business Process Controls	-	1	-	-	1
Information Systems	-	1	-	-	1
Total Material Weaknesses	6	9	-	6	9

Table 2. Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Modified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Offline Requisitions	1	-	-	-	-	1
Building Partner Capacity (BPC) - Cases use of the Foreign Military Sales Line of Accounting	1	-	-	-	-	1
Reimbursable Work Orders (RWO) Missing Support Agreement and Receipt and Acceptance Supporting Documentation	1	-	-	-	-	1
Real Property Accountability	1	-	-	-	-	1
General Property Accountability	1	-	-	-	-	1
Entity Level Controls	-	1	-	-	-	1
Ability to Provide Complete, Timely, and Sufficient Evidence	-	1	-	-	-	1
Financial Reporting and Analysis	-	1	-	-	-	1
Accounting for Property, Plant, and Equipment	-	1	-	-	-	1
Accounting for Operating Materiel and Supplies	-	1	-	-	-	1
Fund Balance with Treasury Controls	-	1	-	-	-	1
Business Process Controls	-	1	-	-	-	1
Total Material Weaknesses	5	7	-	-	-	12

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Protection/Physical Security Enhancements for Recruiting Facilities	1	-	-	-	-	1
Physical/Installation security requirements	1	-	-	-	-	1
Operating Materiel and Supplies (OM&S) Physical Inventory and Reporting	1	-	-	1	-	-
Military Equipment Serial Number	1	-	-	1	-	-
Discrepancies between Accountable Property Systems of Record and Distribution Standard System	1	-	-	1	-	-
Internal Controls over Military Equipment	1	-	-	1	-	-
Small Arms Transfer	1	-	-	-	-	1
Total Material Weaknesses	7	-	-	4	-	3

Compliance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Modified; Federal Systems comply, except for instances of non-compliance					
Non-Compliance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Global Combat Support System – Marine Corps	1	-	-	-	-	1
Marine Corps Certification and Accreditation Process	1	-	-	-	-	1
Standard Accounting, Budgeting, and Reporting System	1	-	-	-	-	1
Financial Reporting for OM&S Held at Marine Corps Logistics Command	1	-	-	1	-	-
Integrated Financial Management Systems	-	1	-	-	-	1
Information Systems	-	1	-	-	-	1
Total non-compliances	4	2	-	1	-	5

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

Payment Integrity

The *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA, Public Law (P.L.) 112-248) amends the *Improper Payment Information Act of 2002* (IPIA, P.L. 107-300) and the *Improper Payment Elimination and Recovery Act of 2010* (IPERA, P.L. 111-204). IPERIA provides guidance on monitoring and reporting improper payments, and requires agencies to continue their review of programs and activities annually to identify those susceptible to significant improper payments. IPERIA also updates the definition of what is considered a “significant improper payment.” Significant improper payments is defined as gross annual improper payments in a program exceeding 1.5% and $10 million of total program funding, or $100 million in improper payments regardless of the improper payment percentage. The USMC provides the improper payment reporting details in accordance with IPERIA, Office of Management and Budget (OMB) Circular No. A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, and OMB Circular No. A-136, *Financial Reporting Requirements*.

USMC’s improper payment information is captured at the combined Department of Defense (DoD) level at https://paymentaccuracy.gov/. The website contains: (1) current and historical rates and amounts of improper payments; (2) an understanding of why improper payments occur; and (3) an indication as to what agencies are doing to reduce and recover improper payments. The disclosures made in this section are as of September 30, 2018.

Payment Reporting

For the Marine Corps Windows Integrated Automated Travel System (WinIATS) and the Marine Corps Defense Travel System (DTS), a risk assessment was performed during FY 2018 and determined that these travel-related programs are susceptible to significant improper payments at or above the thresholds established by OMB. Typically, the risk assessment is performed each fiscal year by the Defense Finance and Accounting Service (DFAS).

Improper Payment Root Cause Categories

The table below summarizes the Marine Corps' improper payment outlays in FY 2018.

(Amounts in millions)

Program or Activity	FY 2018 YTD Outlays	FY 2018 Estimated Improper Payments	FY 2018 YTD Improper Payments %
WinIATS	$151.32	$6.50	4.3%
DTS	$395.74	$6.88	1.7%

WinIATS Root Causes

WinIATS improper payments are primarily the result of oversight by the certifying official. The errors identified can be reported as administrative errors, or errors that may result in an actual loss of funds to the government. Specifically, WinIATS improper payments are attributable to monetary errors that may result in an actual loss of funds. Specific examples include:

Monetary errors that may result in an actual loss of funds

- Advances not collected: Failure to properly deduct the advance from the travel reimbursement; and
- Incorrect Airfare Reimbursement: Incorrect limitation of airfare amount.

DTS Root Causes

DTS improper payments are primarily the result of voucher input errors by USMC personnel. In addition, approving officials' failure to identify errors prior to authorizing reimbursement contributed to improper payments. Moreover, the errors identified can be reported as administrative errors or errors that may result in an actual loss of funds to the government. The administrative errors include missing or invalid receipts (as defined in the Joint Travel Regulations (JTR)) or omission of required elements (e.g., dates and/or signatures). Specific examples include:

Administrative errors

- Receipts: Failure to attach receipts to the travel voucher, invalid or incorrect receipts, and illegible receipts; and
- Vouchers: Incomplete Voucher/data missing/information does not match voucher.

Monetary errors that may result in an actual loss of funds

- Meals & Flat Rate Per Diem: Failure to properly pay flat rate per diem (partial per diem) once a member is on a temporary tour of duty (TDY) for 31 or more days; and
- Lodging: The attached receipt for lodging does not reflect the same amount claimed on the travel voucher.

Corrective Actions

The Marine Corps corrective action plan to reduce improper payments caused by the agency administrative or process error and other reasons includes the following efforts:

- Conducted training in areas of deficiencies (e.g., required documentation needed for proper payment, proper computation of entitlements);
- Coordination/training with DFAS on error definition;
- Publish pre-validation requirement prior to making travel payments; and
- Develop system enhancements to minimize human error.

Barriers

Based on the statutory threshold, the Marine Corps Disbursing/Finance Offices do not have any regulatory barriers that would limit any corrective actions in reducing improper payments.

Accountability

In order to reduce and recapture improper payments, the Marine Corps Disbursing/Finance Offices, certifying officials, and travel clerks are required to scrutinize payment requests prior to approving the disbursement of funds. The Marine Corps monitors field office performance via monthly reports and annual Marine Corps Administrative Analysis Team (MCAAT) inspections ensuring the effectiveness of internal controls.

Recapture of Improper Payment Reporting

The Marine Corps concluded that the cost of executing a separate payment recapture audit program outweighs the benefits of finding and recovering erroneous payments by the Disbursing/Finance Offices themselves, which is the current practice. The staff resources needed to conduct such a program, sustain the contract, and oversee such a recapture program would be significant and provide minimal to no benefit to the government.

Information Systems, Controls, and Other Infrastructure

DTS capabilities have recently been enhanced to require receipts for specific expenses. As a result, DTS improper payments for the Marine Corps have been reduced to 1.74% for FY 2018, well within the FY 2018 DoD goal of 6.0%. The Marine Corps has an adequate system of internal controls to assist in minimizing/reducing improper payments such as the MCAAT audit analysis and each Disbursing/Finance Offices' Internal Control reviews designed to detect and prevent improper payments. The Marine Corps improper payments percentage may be further reduced by ensuring:

- All advances are appropriately deducted from the final reimbursement amount;
- Certifying officials are properly trained in JTR and service policies; and
- All travel claims contain the proper substantiating documents for a proper payment.

The following table summarizes USMC risk assessments within each internal control standard.

Internal Control Standards	WinIATS	DTS
Control Environment	4	4
Risk Assessment	4	4
Control Activities	4	4
Information and Communication	4	4
Monitoring	4	4

Definitions:
1 = Controls are not in place to prevent improper payments.
2 = Minimal controls are in place to prevent improper payments.
3 = Controls are in place to prevent improper payments, but there is room for improvement.
4 = Sufficient controls are in place to prevent improper payments.

Sampling and Estimation

DFAS uses statistically valid sampling methods designed to meet or exceed OMB's requirements of a 90 percent confidence level and a margin of error of ±2.5 percent. By using these methods, DFAS and the Marine Corps are able to identify valid sample sizes and project improper payment percentages for the improper payment program.

The Marine Corps' sampling plan is a stratified simple random sample with variable design, stratified by dollar, and utilizes the Neyman Allocation method for appropriate allocation of sample sizes for each dollar stratum. The sampling plan defines the populations of wide-range dollar payment amounts from which the quarterly samples are randomly selected and reviewed. The sampling plan exceeds OMB's statistical probability and precision standards. Improper payment estimates are calculated from the errors found during quarterly reviews for travel payments. The estimation process gives both an estimate and confidence interval for the error rate and the dollar amount of improper payments. The Navy Office of Financial Operations assisted in the development of the sampling plan.

Risk Assessments

The risk assessment for disbursements of Travel Pay uses established criteria contained in the OMB Circular No. A-123, Appendix C. DFAS monitors changes in programs associated with OMB-mandated criteria (e.g., a large increase in annual outlays, regulatory changes, or newly-established programs) to identify unfavorable trends and allow for early implementation of corrective actions.

Fraud Reduction Report

The Fraud Reduction and Data Analytics Act (FRDA) of 2015 mandates that agencies take steps to improve internal controls and procedures to assess and mitigate fraud risks. Each agency is required to report its progress in implementing: (1) the financial and administrative controls; (2) the fraud risk principle in the Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* (i.e., Green Book); and (3) management of fraud risk in accordance with OMB Circular A-123. In response to FRDA, GAO issued the *Framework for Managing Fraud Risks in Federal Programs* (GAO-15-593SP) in July 2015, based on leading practices for mitigating fraud risks and enhancing program integrity. The objective of fraud risk management is to proactively facilitate a program's mission by continuously and strategically mitigating the likelihood and impact of fraud. Whether an act is in fact fraud is a determination made through the judicial or other adjudicative system, and is beyond management's professional responsibility for assessing risk.

The USMC is still in the early stages of implementing fraud reduction efforts; however, in FY 2018 compliance-based reviews of current financial operations across the USMC were performed. In FY 2019 the USMC will complete a Fraud Risk Profile, which was derived from the GAO's *Framework for Managing Fraud Risks in Federal Programs*, for all business processes reviewed during OMB Circular A-123 assessments to effectively prevent, detect, and respond to potential fraud.

Reduce the Footprint

The USMC, under the Department of the Navy (DON), has adopted the principles of the published *National Strategy for the Efficient Use of Real Property (2015-2020), Reducing the Federal Portfolio through Improved Space Utilization, Consolidation and Disposal* as well as the requirement to freeze and reduce the footprint (RTF). The DON combines the United States Navy and the USMC under the civilian oversight and leadership provided by the Secretary of the Navy for goals, objectives, compliance, and reporting purposes when responding to the Secretary of Defense (SECDEF). The DON produces a consolidated Navy and USMC Plan, titled *Real Property Efficiency Plan, Reduce the Footprint Policy Implementation* to the SECDEF, to support the published *Department of Defense Real Property Efficiency Plan, Reduce the Footprint Policy Implementation* submitted to the OMB.

The USMC strategy is to maintain the minimal number of real property facilities required to adequately support the mission. The USMC utilizes a planning process and governance structure that identifies current and future uses for land and facilities, as well as to identify under-utilized and excess facilities capacity on installations.

The correct size and location of assets to support operational mission requirements results from the planning process. Inventory is assessed regularly by installation staff for operational capabilities and building condition, with the worst assessed buildings targeted for renovation, reclassification/reuse, or divestiture at the earliest opportunity. Where facility assets exceed the Basic Facility Requirement, efforts are made to consolidate and reduce facility inventory while ensuring mission integrity. In collaboration with tenants, efforts exist to evaluate current and potential sites and spaces to achieve the adequate overall footprint. When buildings outlive their intended purpose and cannot be feasibly or inexpensively renovated, or are excess to the force, they are evaluated for options to leverage the value to the greatest extent possible, including demolition or disposal. Reuse and repurposing of an existing facility or leasing is usually preferred over construction of a new facility; however, replacement of inefficient buildings with more compact development has proven to be costly. Additionally, land acquisitions are achieved through a DoD waiver process that scrutinizes needs for additional lands.

In pursuit of ensuring the most efficient use of real property inventory, the USMC's Campaign Plan and Infrastructure Reset Strategy from FY 2017, endorsed by the Commandant of the Marine Corps (CMC), initiated an eleven-year effort to reduce infrastructure costs to sustainable levels, demolish burdening and non-useful facilities, and take advantage of consolidation opportunities and new or reenergized authorities. The CMC pledged to support a long-term leadership commitment to promote collaborative efforts across the Marine Corps for innovative approaches that increases space utilization, optimizes infrastructure footprint, and maximizes efficiency in delivering installation real property and services while adapting easily to evolving requirements and operational changes for an expeditionary force.

Complex challenges arise during management of DoD real property that can rapidly change mission parameters and drive force structure changes quickly, impacting infrastructure development and recapitalization.
For example, a mission change is driving the current mandated Okinawa Consolidation Plan in reducing infrastructure requirements while Guam is increasing its infrastructure. In addition, weapon system changes and upgrades often necessitate the construction of new or expanded support facilities because the existing facilities are not equipped or sized properly to support new platforms such as the F-35 "Lightning II" Joint Strike Fighter or the KC-46 "Pegasus" air refueling aircraft.

Presented below is the square footage of USMC owned and leased real property subject to RTF at fiscal year-end 2017 in comparison to the FY 2015 USMC baseline. The second table is the annual operation and maintenance (O&M) costs subject to RTF, as reported in the most recent Federal Real Property Profile for owned and leased facilities in comparison to the FY 2015 USMC baseline.

Reduce the Footprint Policy Square Footage Baseline Comparison			
	FY 2015 Baseline	FY 2017(CY-1)	Change (FY15 Baseline to FY17)
Square Footage *(SF in thousands)*	32,091*	31,532	(559)

Reporting of O&M Costs – Owned and Direct Lease Buildings			
	FY 2015 Reported Cost	FY 2017(CY-1)	Change (FY15 Baseline to FY17)
Operations and Maintenance Costs** *(in thousands)*	$103,140	$96,922	($6,218)

*The baseline square footage amount was revised to exclude Outside of the Continental United States properties reported in FY 2017.
** The costs are based on an estimate.

Acronyms

Acronym	Description
3-D	Three Dimensional
AAV	Assault Amphibious Vehicle
ACD&P	Advanced Component Development and Prototypes
ACV	Amphibious Combat Vehicle
ADL	Administrative Deadline Programs
APSR	Accountable Property System of Record
ASP	Administrative Storage Programs
BPC	Building Partner Capacity
BRAC	Base Realignment and Closure
CAA	Clean Air Act
CD&I	Combat Development and Integration
CFO	Chief Financial Officers
CIP	Construction in Progress
CMC	Commandant of the Marine Corps
CRO	Cumulative Results of Operations
CWA	Clean Water Act
DATA	Digital Accountability and Transparency Act
DC	Deputy Commandant
DC I	Deputy Commandant, Information
DC I&L	Deputy Commandant, Installations and Logistics
DERP	Defense Environmental Restoration Program
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DM&R	Deferred Maintenance and Repairs
DoD	Department of Defense
DOL	Department of Labor
DON	Department of the Navy
DOT	Department of Transportation
D-PRV	Deflated Plant Replacement Value
DTS	Defense Travel System
ELMP	Enterprise Life Cycle Maintenance Program
EOU	Excess, Obsolete, and Unserviceable
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCI	Facilities Condition Index
FECA	Federal Employees' Compensation Act
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Manager's Financial Integrity Act
FoV	Family of Vehicles

Acronym	Description
FRDA	Fraud Reduction and Data Analytics Act
FRTIB	Federal Retirement Thrift Investment Board
FY	Fiscal Year
G/ATOR	Ground/Air Task Oriented Radar
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GE	General Equipment
GMRA	Government Management Reform Act
GPP&E	General Property, Plant, and Equipment
HQMC	Headquarters, U.S. Marine Corps
I&L	Installations and Logistics
ICOFR	Internal Control Over Financial Reporting
ICOFS	Internal Control Over Financial Systems
ICONO	Internal Controls Over Non-financial Operations
IE Ops	Information Environment Operations
IMA	Intermediate Maintenance Activity
IPERA	Improper Payment Elimination and Recovery Act
IPERIA	Improper Payment Elimination and Recovery Improvement Act
IPIA	Improper Payment Information Act
IT	Information Technology
IUS	Internal Use Software
JLTV	Joint Light Tactical Vehicle
JNLW	Joint Non-Lethal Weapons
JTR	Joint Travel Regulations
LOE	Lines of Effort
M&R	Maintenance and Repair
M&RA	Manpower and Reserve Affairs
MAGTF	Marine Air Ground Task Forces
MARCENT	U.S. Marine Corps Forces, Central Command
MARCORLOGCOM	Marine Corps Logistics Command
MARFORAF	U.S. Marine Corps Forces, Africa
MARFORCOM	U.S. Marine Corps Forces, Command
MARFORCYBER	U.S. Marine Corps Forces, Cyberspace Command
MARFOREUR	U.S. Marine Corps Forces, Europe
MARFORK	U.S. Marine Corps Forces, Korea
MARFORNORTH	U.S. Marine Corps Forces, Northern Command
MARFORPAC	U.S. Marine Corps Forces, Pacific
MARFORRES	U.S. Marine Corps Forces, Reserves
MARFORSOUTH	U.S. Marine Corps Forces, Southern Command

Acronym	Description
MARFORSTRAT	U.S. Marine Corps Forces, Strategic Command
MARSOC	U.S. Marine Corps Forces, Special Operations Command
MARSOF	Marine Special Operations Forces
MCAAT	Marine Corps Administrative Analysis Team
MCAS	Marine Corps Air Station
MCB	Marine Corps Base
MCCDC	Marine Corps Combat Development Command
MCICOM	Marine Corps Installations Command
MCRC	Marine Corps Recruiting Command
MCSC	Marine Corps Systems Command
ME	Military Equipment
MEF	Marine Expeditionary Force
MICP	Managers' Internal Control Program
MOCAS	Mechanization of Contract Administration Services
MRF	Military Retirement Fund
MRP	Materiel Returns Program
N/A	Not Applicable
NATO	North Atlantic Treaty Organization
NAVAIR	Naval Air Systems Command
NAVFAC	Naval Facilities Engineering Command
NDS	National Defense Strategy
NRV	Net Realizable Value
O&M	Operations and Maintenance
OAD	Operations Analysis Directorate
OEL	Other Environmental Liabilities
OGC	Office of General Council
OM&S	Operating Materiels and Supplies
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSD	Office of the Secretary of Defense
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
P&R	Programs and Resources
P.L.	Public Law
PISD	Placed in Service Date
PMCS	Preventive Maintenance, Checks, and Services
PP&E	Property, Plant, and Equipment
PP&O	Plans, Policy, and Operations
PRV	Plant Replacement Value

Acronym	Description
RCRA	Resource Conservation and Recovery Act
RDT&E	Research, Development, Test, and Evaluation
RMF	Risk Management Framework
ROK	Republic of Korea
RTF	Reduce the Footprint
RWO	Reimbursable Work Orders
S/L	Straight Line
SABRS	Standard Accounting Budgeting and Reporting System
SBR	Statement of Budgetary Resources
SCNP	Statement of Changes in Net Position
SDD	System Development and Demonstration
SDP	Savings Deposit Program
SDWA	Safe Drinking Water Act
SECDEF	Secretary of Defense
SECNAV	Secretary of the Navy
SFFAS	Statement of Federal Financial Accounting Standards
SNC	Statement of Net Cost
SOFA	Status of Forces Agreements
SP	Standard Catalog Price
TB	Technical Bulletin
TDY	Temporary Tour of Duty
TFM	Treasury Financial Manual
TSP	Thrift Savings Plan
U.S.C.	United States Code
UNC	United Nations Command
USAFRICOM	U.S. Africa Command
USCENTCOM	U.S. Central Command
USCYBERCOM	U.S. Cyber Command
USEUCOM	U.S. European Command
USFK	U.S. Forces Korea
USMC	United States Marine Corps
USNORTHCOM	U.S. Northern Command
USPACOM	U.S. Pacific Command
USSGL	United States Standard General Ledger
USSOCOM	U.S. Special Operations Command
USSOUTHCOM	U.S. Southern Command
USSTRATCOM	U.S. Strategic Command
VSIP	Voluntary Separation Incentive Pay
WCF	Working Capital Fund
WinIATS	Windows Integrated Automated Travel System

COVER CAPTIONS

1. An F-35B Lighitng II performs deck landing qualifications. (U.S. Marine Corps photo by Cpl. Bernadette Wildes)
2. Posting security at Camp Hansen in Okinawa, Japan. (U.S. Marine Corps photo by Sgt. Ally Beiswanger)
3. A new Amphibious Combat Vehicle. (U.S. Marine Corps photo by Kaitlin Kelly)
4. Marines fire mount MK-19 grenade launchers during an exercise. (U.S. Marine Corps photo by Pfc. Samantha Schwoch)

FOR MORE INFORMATION

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