



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

December 3, 2018

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD
COMMANDING GENERAL, U.S. ARMY CORPS OF ENGINEERS
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY
DEPUTY ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
OPERATIONS)

SUBJECT: Transmittal of the Independent Auditor's Report on the Army Military
Construction Funds Sub-Allotted to the U.S. Army Corps of Engineers-
Military Programs' Financial Statements and Related Notes for FY 2018
(Project No. D2018-D000FI-0086.000, Report No. DODIG-2019-007)

We contracted with the independent public accounting firm of KPMG, LLP, to audit the Army Military Construction (MILCON) funds sub-allotted to the U.S. Army Corps of Engineers (USACE)-Military Programs' Financial Statements and related notes as of September 30, 2018, and to report on internal control over financial reporting and compliance with laws and regulations. The contract required KPMG 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 KPMG's Independent Auditor's Report is attached.

KPMG's audit resulted in an unmodified opinion. KPMG concluded that the Army MILCON funds sub-allotted to the USACE-Military Programs' Financial Statements and related notes as of September 30, 2018, are presented fairly, in all material respects, in conformity with Generally Accepted Accounting Principles.

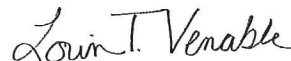
¹ In June 2018, the Government Accountability Office issued an updated Financial Audit Manual. KPMG updated its audit procedures to be in accordance with the updates issued in the Government Accountability Office/Council of the Inspectors General on Integrity and Efficiency, "Financial Audit Manual,"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

KPMG's report discusses three material weaknesses related to the USACE-Military Programs' internal controls over financial reporting. Specifically, KPMG found material weaknesses related to Deficiencies in Non-Transactional Based Controls; Deficiencies in Property, Plant, and Equipment Controls; and Deficiencies in Entity-Level Controls. KPMG's report also discusses two instances of noncompliance with applicable laws and regulations.

In connection with the contract, we reviewed KPMG's report and related documentation and discussed the audit results with KPMG 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 Army MILCON funds sub-allotted to the USACE-Military Programs' FY 2018 Financial Statements and related notes, conclusions about the effectiveness of internal control, conclusions on whether the USACE's financial systems substantially complied with the "Federal Financial Management Improvement Act of 1996," or conclusions on whether USACE complied with laws and regulations.

KPMG is responsible for the attached report, dated December 3, 2018, and the conclusions expressed in the report. However, our review disclosed no instances in which KPMG did not comply, in all material respects, with GAGAS.

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



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

Attachment:
As stated



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Commanding General, Chief of Engineers,
United States Army Corps of Engineers; and,
United States Department of Defense Inspector General:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Army Corps of Engineers – Military Programs Army Military Construction Funds Sub-Allotted (Army Military Construction Funds Sub-Allotted), specifically appropriation 2050, which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the 2018 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Army Military Construction Funds Sub-Allotted as of September 30, 2018, and its net costs, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

The accompanying consolidated balance sheet of the Army Military Construction Funds Sub-Allotted as of September 30, 2017, and the related consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that U.S. generally accepted accounting principles require to be presented to supplement the basic consolidated financial statements. Such missing information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2018, we considered the Army Military Construction Funds' Sub-Allotted internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Army Military Construction Funds' Sub-Allotted internal control. Accordingly, we do not express an opinion on the effectiveness of the Army Military Construction Funds' Sub-Allotted internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in Exhibits I and II, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

Army Military Construction Funds Sub-Allotted management did not report the material weaknesses *Deficiencies in Non-Transactional Based Controls, Deficiencies in Property, Plant, and Equipment Controls, and Deficiencies in Entity Level Controls* in its Statement of Assurance, included as part of the consolidated financial statements.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Exhibit II as item D to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Army Military Construction Funds' Sub-Allotted consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01, and which are described in Exhibit III as item E.

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in Exhibit III as item F, in which the United States Army Corps of Engineers financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Army Military Construction Funds' Sub-Allotted Responses to Findings

The Army Military Construction Funds' Sub-Allotted responses to the findings identified in our audit are described in Exhibits I, II, and III. The Army Military Construction Funds' Sub-Allotted responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Army Military Construction Funds' Sub-Allotted internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
December 3, 2018

**United States Army Corps of Engineers – Military Programs
Army Military Construction Funds Sub-Allotted**

**Material Weaknesses
September 30, 2018**

A. Deficiencies in Non-Transactional Based Controls

Effective controls are ones that are properly designed and implemented and operating effectively, in order to prevent, or detect and correct, material misstatements in the financial statements.

The deficiencies noted during the performance of our FY 2018 procedures in the areas of journal vouchers, financial reporting, and accounts payable, were not related to the processing of transactions; rather, they were related to deficiencies that either occurred at the back end of the financial reporting process, or during the estimation of a liability, which are both separate from deficiencies occurring at the transaction level. The deficiencies we identified in these controls could lead to a material misstatement in the consolidated financial statements and related notes.

Preparation and Related Review and Approval of Journal Vouchers

The United States Army Corps of Engineers (USACE) – Military Programs Army Military Construction Funds Sub-Allotted (Army Military Construction Funds Sub-Allotted), specifically appropriation 2050, control over the review of Defense Department Reporting System (DDRS) manual journal vouchers was not properly designed to prevent the improper recording of DDRS journal vouchers in the financial statements. Specifically, we noted Army Military Construction Funds Sub-Allotted DDRS journal vouchers recorded to reclassify expense balances between Federal and non-Federal attributes for the Department wide financial statement consolidation did not contain sufficient detail to support the amounts recorded.

The Army Military Construction Funds Sub-Allotted control over the review of Structured Query Language (SQL) scripts was not designed properly as script transactions in the Corps of Engineers Financial Management System II (CEFMS II) General Journal Transaction Register and Journal Voucher Transaction Register are not formally reviewed by management in the CFO/Civil Reports Division. As these types of scripts do not require pre-defined posting logic models, they are subject to manual error.

Financial Reporting

The Army Military Construction Funds Sub-Allotted did not have financial reporting processes and controls in place for the entire fiscal year. Management did not have overall reporting responsibility for Army Military Construction Funds Sub-Allotted balances until the fourth quarter of FY 2018. Specifically, Army Military Construction Funds Sub-Allotted did not have DDRS access to upload the CEFMS II trial balance for Army Military Construction Funds Sub-Allotted into DDRS. Management also did not have rights to record DDRS adjustments for these sub-allotted funds. The DDRS provides the basis for management's financial statements. Furthermore, Army Military Construction Funds Sub-Allotted management did not document their processes as they relate to financial reporting, to include documentation of roles and responsibilities as they relate to financial reporting.

The Army Military Construction Funds' Sub-Allotted controls over service organizations providing financial reporting related services were not properly designed and implemented. Specifically, management did not design and implement controls to identify and perform timely reviews of all relevant service organization reports.

The Army Military Construction Funds' Sub-Allotted control over the review of the financial statements and related notes was not operating effectively to certify that the financial statements were complete, accurate, and properly presented in accordance with generally accepted accounting standards as of year-end.

Accounts Payable Estimate

The Army Military Construction Funds Sub-Allotted estimates a portion of the year-end accounts payable balance. The Army Military Construction Funds Sub-Allotted did not fully develop their accounts payable estimation methodology and related controls until the fourth quarter of FY 2018. A retrospective review analysis performed over the prior year transactions to determine the current year estimate is an important management control and key input into the current year estimate. The Army Military Construction Funds' Sub-Allotted controls over the design and review of the Accounts Payable estimation process were not fully effective as they related to the completeness of the retrospective review analysis.

Furthermore, Army Military Construction Funds Sub-Allotted failed to design and implement controls over the completeness and accuracy of data generated via system queries used to record accounts payable balances or as inputs into their accounts payable estimation methodology.

The criteria are as follows:

- Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government*
- Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- Federal Accounting Standards Advisory Board (FASAB), *Statement of Federal Financial Accounting Standards 1: Accounting for Selected Assets and Liabilities*

Recommendations

We recommend the USACE – Military Programs management:

1. Strengthen and develop policies and procedures to enhance the internal controls over the completeness, existence, accuracy, rights and obligations, and presentation of journal vouchers and to identify and correct variances between federal expenses recorded in the DDRS trial balance and the trading partner activity associated with these expenses in a timely manner.
2. Develop, document, and implement policies and procedures to ensure script transactions posted in the CEFMS General Journal Transaction Register and Journal Voucher Transaction Register are adequately reviewed and approved, including verifying that they are recorded in accordance with the Treasury Financial Manual.
3. Begin communicating with the service provider earlier to gain DDRS access and rights for the reporting of future military construction sub-allotted funds.
4. Design and implement internal controls associated with the identification and evaluation of service organization reports.
5. Formalize and document their financial reporting processes and controls over military construction funds in the form of a cycle memorandum to include roles and responsibilities over financial reporting.
6. Perform a more timely and detailed analysis, to include assumptions used and lookback analysis, over its accounts payable accrual estimation methodology and monitor the methodology on an ongoing basis.
7. Design and implement controls over the completeness and accuracy of data generated via system queries used to record accounts payable balances or as inputs into their accounts payable estimation methodology.

Management Response

USACE concurs with the findings and will take corrective action to cure the material weakness.

B. Deficiencies in Property, Plant, and Equipment Controls

Construction in Progress (CIP)

As a designated construction agent for the Department of Defense (DoD), Army Military Construction Funds Sub-Allotted receives sub-allotted funds from the U.S. Army (Army) to construct assets on Army's behalf. As such, CIP is a significant balance reported on the Army Military Construction Funds Sub-Allotted financial statements. During our FY 2018 audit, we identified deficiencies related to the design, implementation, and operating effectiveness of controls related to CIP that could potentially lead to material misstatements in the consolidated financial statements and related notes.

Management did not have proper controls to prevent, or detect and correct, misstatements on a timely basis. When Army Military Construction Funds Sub-Allotted completes construction of an asset, a Department of Defense (DD) Form 1354 is executed which details the cost of the asset. This form is used to transfer out the completed asset. Our procedures over CIP transfers identified transfers out that were not recorded in accordance with established policy.

Furthermore, Army Military Construction Funds Sub-Allotted did not properly execute DD Form 1354s on a consistent basis as: (1) the amounts disclosed on the DD Form 1354 did not always agree to actual costs as recorded in the financial management system; and (2) transfers were not always communicated to Army via a DD 1354 prior to the asset being transferred out.

The Army Military Construction Funds Sub-Allotted controls related to the CIP quarterly review and the monthly New Work Item report review were not properly designed and implemented as the reviews and controls were not performed consistently across all districts. Furthermore, the reports were not adequately reviewed to prevent, or detect and correct, misstatements on a timely basis.

The Army Military Construction Funds Sub-Allotted control over the review of ENG93 forms (pay estimates used as vendor invoices) was not operating effectively as forms were not consistently signed and authorized by a Project Manager (PM). Additionally, there were instances where forms were created and authorized by the same Army Military Construction Funds Sub-Allotted employee signifying that proper segregations of duties were not in place.

Lease Agreements

Army Military Construction Funds Sub-Allotted enters into lease agreements at the request of DoD entities. Leased assets are then sublet to the requesting DoD entity to recover the Army Military Construction Funds' Sub-Allotted lease costs. During our FY 2018 audit, we identified deficiencies related to the design, implementation, and operating effectiveness of controls related to lease agreements that could potentially lead to material misstatements in the consolidated financial statements and related notes.

Management failed to design, implement, and ensure controls were operating effectively over the accounting for lease agreements. Our procedures identified lease agreements that were incorrectly excluded from data supporting the notes to the consolidated financial statements and a lack of controls operating effectively over management's classification of leases as operating versus capital and appropriately designed and implemented over the review of the presentation of leases in the notes to the consolidated financial statements.

The criteria are as follows:

- GAO, *Standards for Internal Control in the Federal Government*
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*
- FASAB, *Statement of Federal Financial Accounting Standards 6: Accounting for Property, Plant, and Equipment*

Recommendations

We recommend the USACE – Military Programs management design and implement or validate existing controls are operating effectively to:

1. Strengthen and enforce existing controls and policies to ensure that forms (DD 1354s and ENG93s) are properly executed and authorized.
2. Ensure quarterly CIP and monthly New Work item reviews are performed consistently across all districts and reports are adequately reviewed.
3. Enforce current policies which require CIP costs for completed assets to be transferred in the fiscal year they are completed.
4. Validate the reliability of lease data used to support financial management and reporting activities.
5. Ensure the proper classification of leases as operating or capital in the financial statements.
6. Enable the fair presentation of lessee and lessor disclosures in the notes to the consolidated financial statements.

Management Response

USACE concurs with the findings and will take corrective action to cure the material weakness.

C. Deficiencies in Entity Level Controls

Army Military Construction Funds Sub-Allotted needs to improve its entity level controls. Specifically:

Control Environment

- Management did not adequately nor timely develop policies to establish and implement internal controls across its financial reporting, accounts payable, and leases control environments.

Monitoring

- Management needs to improve monitoring activities to monitor and evaluate the property, plant, and equipment control environment.

The criterion is the GAO's, *Standards for Internal Control in the Federal Government*.

Recommendations

We recommend the USACE – Military Programs management:

1. Continue to develop and implement internal control procedures across the financial reporting, including service organizations, accounts payable, and lease environments.
2. Improve monitoring activities to monitor and evaluate the property, plant, and equipment control environment.

Management Response

USACE concurs with the findings and will take corrective action to cure the material weakness.

**United States Army Corps of Engineers – Military Programs
Army Military Construction Funds Sub-Allotted**

**Significant Deficiency
September 30, 2018**

D. Financial Management Systems

The United States Army Corps of Engineers (USACE) – Military Programs Army Military Construction Funds Sub-Allotted (Army Military Construction Funds Sub-Allotted), specifically appropriation 2050, has not implemented adequate information technology controls to protect its financial management system, as required by the Office of Management and Budget (OMB) Circular Number (No.) A-130, Managing Information as a Strategic Resource. These conditions could affect the Army Military Construction Funds Sub-Allotted ability to prevent and detect erroneous or unauthorized changes to financial information, control electronic access to sensitive information, protect its information resources and ensure the completeness and accuracy of information produced without effective complementary manual reconciliation controls. Specifically, we identified the following:

Access Control Weaknesses

The Army Military Construction Funds Sub-Allotted should strengthen access controls at the operating system and database level, as management had not consistently implemented a routine process for reviewing server level logs for activity deemed sensitive or suspicious. This condition resulted in instances where Army Military Construction Funds Sub-Allotted did not properly perform audit log reviews for database and operating system audit logs. By not implementing appropriate reviews of audit logging, there is an increased risk that financial data could be modified inappropriately without management's awareness, which could have an adverse impact on the availability and integrity of the data.

Army Military Construction Funds Sub-Allotted had not implemented an effective process to remove system user access once the user has transferred or separated. Without establishing a timeframe for the removal of system access when an individual transfers/separates and by not following existing processes for the communication of employee separations and disablement/removal of the related system accounts, the risk exists that a separated person with malicious intent, or another person with knowledge of the separated person's logon credentials, may be able to use the account. This may affect the accuracy, integrity, and availability of the system and its data.

The criteria are as follows:

- Army Regulation 25-2, *Information Assurance*
- National Institute of Standards and Technology Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations*, Revision 4

Recommendations

We recommend the USACE – Military Programs management:

1. Continue their efforts to appropriately implement the audit logging process to timely respond to potential instances of inappropriate activity.
2. Establish a process from USACE Headquarters which is applied at all districts for timely removal of user access once transferred or separated.
3. Consider information they rely upon in the performance of internal controls and whether they have appropriate system configuration and/or manual reconciliation controls designed and implemented over the completeness and accuracy of the information.

Management Response

USACE concurs with the findings and will take corrective action to cure the Significant Deficiency.

**United States Army Corps of Engineers – Military Programs
Army Military Construction Funds Sub-Allotted**

**Summary of Noncompliance
September 30, 2018**

E. Federal Managers Financial Integrity Act of 1982 (FMFIA)

The Office of Management and Budget (OMB) Circular Number (No.) A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, requires agencies and Federal managers to (1) establish Enterprise Risk Management in management practices; (2) establish and operate an effective system of internal control; (3) assess internal control; (4) correct internal control deficiencies; and (5) report on internal controls.

We noted the United States Army Corps of Engineers (USACE) – Military Programs Army Military Construction Funds Sub-Allotted (Army Military Construction Funds Sub-Allotted), specifically appropriation 2050, has not established effective systems, processes, policies and procedures to implement effective internal controls nor has management completely and adequately documented all its controls and processes.

Although management developed test plans to remediate control deficiencies previously identified through their annual FMFIA testing, they did not design formalized strategies for all material processes including Financial Reporting. Additionally, the plans in place were not properly implemented and tested further hindering Army Military Construction Funds' Sub-Allotted ability to properly remediate their previously identified control deficiencies.

Furthermore, management failed to comply with Section 2 of OMB Circular No. A-123, which requires a final Risk Profile be completed by June 3, 2018. Additionally, the Risk Profile completed did not include all required components prescribed in the Circular.

Lastly, Army Military Construction Funds Sub-Allotted has not conformed accounting systems to properly comply with FMFIA Sections 2 and 4 and OMB No. A-123 Appendix D.

The criteria are as follows:

- FMFIA of 1982
- Government Accountability Office's Standards for Internal Control in the Federal Government
- OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Recommendations

We recommend the USACE – Military Programs management:

1. Develop more thorough plans to correct internal control deficiencies and proactively monitor that such plans are properly implemented in order to remediate previously identified findings.
2. Complete a Risk Profile by the deadline prescribed in OMB Circular No. A-123 and include all required components.
3. Document all financial and control processes in the form of cycle memorandums.
4. Correct posting logic deficiencies and system limitations that require manual adjustments and reclassification and overall result in FFMI non-compliance.

Management Response

USACE concurs with the findings and will take corrective action to cure the non-compliance item.

F. Federal Financial Management Improvement Act (FFMIA) of 1996

Section 803(a) of FFMIA, requires that agency Federal financial management systems comply with (1) Federal accounting standards, (2) Federal system requirements, and (3) the United States Standard General Ledger (USSGL) at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability. We noted that the Army Military Construction Funds Sub-Allotted did not comply with the three requirements of FFMIA as effective internal controls over financial reporting and financial systems were not in place during the fiscal year. Adjustments were required for transactions recorded within the main system of accounting for compliance with the USSGL. Further, the Army Military Construction Funds Sub-Allotted main system of accounting is not capable of producing financial statements that are compliant with OMB Circular No. A-136, *Financial Reporting Requirements*.

The criteria are as follows:

- FFMIA of 1996
- OMB Circular No. A-123 Appendix D, *Compliance with the Federal Financial Management Improvement Act*

Recommendations

We recommend the USACE – Military Programs management improve its processes to comply with FFMIA by updating its financial management systems to comply with the Federal financial management system requirements, Federal accounting principles, and comply with USSGL requirements.

Management Response

USACE concurs with the findings and will take corrective action to cure the non-compliance item.

United States Army Corps of Engineers - Military Programs
Army Military Construction Funds Sub-allotted
CONSOLIDATED BALANCE SHEET
As of September 30, 2018 and 2017
(\$ in thousands)

	<u>2018</u>	<u>(unaudited)</u> <u>2017</u>
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 3,525,619	\$ 3,861,113
Accounts Receivable (Note 3)	476,898	290,169
Total Intragovernmental Assets	\$ 4,002,517	\$ 4,151,282
Accounts Receivable, Net (Note 3)	4,002	3,111
General Property, Plant and Equipment, Net (Note 4)	1,864,681	1,755,814
TOTAL ASSETS	<u>\$ 5,871,200</u>	<u>\$ 5,910,207</u>
LIABILITIES		
Intragovernmental:		
Accounts Payable	\$ 7,639	\$ 10,357
Total Intragovernmental Liabilities	7,639	10,357
Accounts Payable	586,369	453,035
Other (Note 7)		
Advances from Others	617,803	708,459
Contract Holdbacks	66,037	70,587
TOTAL LIABILITIES	<u>\$ 1,277,848</u>	<u>\$ 1,242,438</u>
NET POSITION		
Unexpended Appropriations - Other Funds	\$ 2,727,240	\$ 2,898,877
Cumulative Results of Operations - Other Funds	1,866,112	1,768,892
TOTAL NET POSITION	<u>\$ 4,593,352</u>	<u>\$ 4,667,769</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 5,871,200</u>	<u>\$ 5,910,207</u>

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

United States Army Corps of Engineers - Military Programs
Army Military Construction Funds Sub-allotted
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the years ended September 30, 2018 and 2017
(\$ in thousands)

	2018	(unaudited) 2017
	<u>2018</u>	<u>2017</u>
Budgetary Resources:		
Unobligated balance from prior year budget authority, net	\$ 3,858,847	\$ 3,878,752
Appropriations (discretionary and mandatory)	981,571	866,494
Spending Authority from offsetting collections (discretionary and mandatory)	5,371,330	4,468,067
Total Budgetary Resources	<u>\$ 10,211,748</u>	<u>\$ 9,213,313</u>
 Memorandum (non-add) entries:		
Net Adjustments to unobligated balances brought forward, Oct 1	(196,604)	176,699
 Status of Budgetary Resources:		
New obligations and upward adjustments (total)	\$ 6,246,731	\$ 5,157,862
Unobligated balance, end of year		
Apportioned, unexpired accounts	3,707,684	3,825,865
Unexpired unobligated balance, end of year	3,707,684	3,825,865
Expired unobligated balance, end of year	257,333	229,586
Unobligated balance, end of year (total)	<u>3,965,017</u>	<u>4,055,451</u>
Total Budgetary Resources	<u>\$ 10,211,748</u>	<u>\$ 9,213,313</u>
 Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	<u>\$ 988,816</u>	<u>\$ 910,585</u>

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

United States Army Corps of Engineers - Military Programs
Army Military Construction Funds Sub-allotted
CONSOLIDATED STATEMENT OF NET COST
For the years ended September 30, 2018 and 2017
(\$ in thousands)

	2018	(unaudited) 2017
	<u> </u>	<u> </u>
Program Costs		
Gross Cost	\$ 4,728,180	\$ 4,733,963
(Less: Earned Revenue)	(4,663,817)	(4,570,946)
Net Cost of Operations	<u>\$ 64,363</u>	<u>163,017</u>

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

United States Army Corps of Engineers - Military Programs
Army Military Construction Funds Sub-allotted
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the years ended September 30, 2018 and 2017
(\$ in thousands)

	<u>2018</u>	<u>(unaudited)</u> <u>2017</u>
UNEXPENDED APPROPRIATIONS		
Beginning Balances	\$ 2,898,877	\$ 3,110,031
Budgetary Financing Sources:		
Appropriations received	981,571	866,494
Other adjustments (+/-)	(187,216)	(177,627)
Appropriations used	(965,992)	(900,021)
Total Budgetary Financing Sources	<u>(171,637)</u>	<u>(211,154)</u>
Unexpended Appropriations	<u>\$ 2,727,240</u>	<u>\$ 2,898,877</u>
 CUMULATIVE RESULTS OF OPERATIONS		
Beginning Balances	\$ 1,768,892	\$ 2,375,370
Budgetary Financing Sources:		
Appropriations used	965,992	900,021
Other Financing Sources:		
Transfers-in/(out) without reimbursement (+/-)	(804,409)	(1,343,482)
Total Financing Sources	<u>161,583</u>	<u>(443,461)</u>
Net Cost of Operations (+/-)	<u>64,363</u>	<u>163,017</u>
Net Change	<u>97,220</u>	<u>(606,478)</u>
Cumulative Results of Operations	<u>\$ 1,866,112</u>	<u>\$ 1,768,892</u>
 Net Position	<u>\$ 4,593,352</u>	<u>\$ 4,667,769</u>

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

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the U.S. Army Corps of Engineers, (USACE) – Military Programs Army Military Construction Funds sub-allotted (Army Military Construction Funds sub-allotted). The financial statements have been prepared from the books and records of Army Military Construction Funds sub-allotted in accordance with the U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by the Office of Management and Budget (OMB) Circular Number (No.) A-136, *Financial Reporting Requirements*. The accompanying financial statements account for all Army resources for which Army Military Construction Funds sub-allotted is responsible.

1.B. Appropriations and Funds

General funds are used for financial transactions funded by Congressional appropriations, including construction. Congress directly appropriates Military Construction Funds (021 2050) to Army and Army subsequently sub-allots a portion of these funds to Army Military Construction Funds sub-allotted. The Corps of Engineers Financial Management System (CEFMS) records and is able to track the sub-allotted funds as appropriation 021 2050.

Sub-allotted funds are supplemented by revenues generated by sales. Army Military Construction Funds sub-allotted recognizes revenue as a result of costs incurred for goods and services provided to other Federal agencies and foreign governments. Full cost pricing is Army Military Construction Funds sub-allotted standard policy for goods and services provided as required by OMB Circular A-25, User Charges.

Army Military Construction Funds sub-allotted records exchange revenue. Exchange revenue is the inflow of resources that Army Military Construction Funds sub-allotted has earned by providing something of value to foreign governments or another federal entity at a price. The main source of exchange revenue is customer orders (reimbursable agreements).

Customer orders are contracts where Army Military Construction Funds sub-allotted provides services under a reimbursable agreement; the related revenue and accounts receivable are recorded simultaneously along with the costs and payables. For nonfederal entities, an advance payment is required and Army Military Construction Funds sub-allotted records advances from other upon receipt of funds. Army Military Construction Funds sub-allotted reduces the advances and recognizes revenue as services are provided.

1.C. Mission of Army Military Construction Funds

USACE – Military Programs, which includes Army Military Construction Funds sub-allotted is a Department of Defense (DoD) construction agent designated by Title 10 USC §2851, subsection (a) and DoD Directive 4270.5 which provides programmatic responsibility and financial accountability. The primary mission is to provide premier engineering, construction, real estate, stability operations, and environmental management products and services for the Army, Air Force, Defense Logistics Agency (DLA), and other assigned U.S. Government agencies and foreign governments. The workforce is spread across the globe, operating in the U.S. as well as 91 foreign countries to provide reimbursable engineering expertise throughout the world. The programs executed in one-year can total greater than \$20 billion and employ 11,100 professionals. We are a premier public engineering organization, responding to our nation's needs in peace and war for the past 237 years. We will continue this tradition within the Corps as One Team, BUILDING STRONG, proudly serving the Armed Forces and the Nation's engineering challenges.

1.D. Basis of Accounting

The accounting structure of Federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred without regard to the receipt or payment of cash. The budgetary accounting principles, on the other hand, 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. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of Federal funds.

Army Military Construction Funds sub-allotted has presented fiscal year 2018 and unaudited fiscal year 2017 financial statements for the Balance Sheet, Statements of Net Cost and Statement of Changes in Net Position, and Combined Statement of Budgetary Resources. The financial statements are presented in accordance with OMB No. A-136 financial statement reporting guidelines.

Unobligated Balance From Prior-years Budget Authority, Net: This budgetary resources line consists of unobligated balance, brought forward as of October 1, as adjusted by current fiscal year activity related to the unobligated balance brought forward—typical items include recoveries of prior years' unpaid obligations, downward adjustments of prior years' paid obligations, transfers of prior-years' balances, and cancellations of annual or multi-year appropriations. The current fiscal year activity that is adjusting the unobligated balance brought forward is shown for informational purposes on the line MEMORANDUM: Net Adjustments to Unobligated Balance, Brought Forward, October 1.

Army Military Construction Funds sub-allotted transactions are recorded on an accrual accounting basis as required by GAAP. Army Military Construction Funds sub-allotted financial management system meets all of the requirements for full accrual accounting.

Army Military Construction Funds sub-allotted is not subject to federal, state or local income taxes. Accordingly, no provision for income taxes is recorded.

1.E. Recognition of Expenses

Army Military Construction Funds sub-allotted recognizes expenses in the period incurred or consumed.

1.F. Accounting for Intragovernmental Activities

Army Military Construction Funds sub-allotted eliminates transactions within Army Military Construction Funds sub-allotted in the consolidated financial statements. Accounting standards require that an entity eliminate intra-entity activity and balances from consolidated financial statements in order to prevent overstatement of the financial statement balances for business with itself. The Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are consolidated. The Statement of Budgetary Resources is prepared on a combined basis and does not include intra departmental eliminations.

1.G. Fund Balance with Treasury (FBWT)

Army Military Construction Funds' monetary financial resources are maintained in U.S. Treasury accounts. The USACE Finance Center (UFC) is the disbursing office of the Army Military Construction Funds sub-allotted and processes Army Military Construction Funds' disbursements. The UFC prepares monthly reports that provide information to the Defense Finance and Accounting Service (DFAS) on checks issued.

1.K. Accounts Receivable

Accounts receivable includes accounts and refunds receivable from other Federal entities or from the public. Army Military Construction Funds sub-allotted bases the allowance for uncollectible accounts receivable due from the public on established percentages per aged category of the cumulative balance of delinquent public receivables. Army Military Construction Funds sub-allotted regards its intragovernmental accounts receivable balance as fully collectable.

1.H. General Property, Plant and Equipment (PP&E)

Statement of Federal Financial Accounting Standard (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, states that for constructed PP&E, the PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E. Army Military Construction Funds sub-allotted manages construction of Army assets and transfers the assets to Army once complete and ready for use.

In addition, Army Military Construction Funds sub-allotted has a small amount of buildings, structures and facilities owned by our Humphreys Engineering Center and our Engineering Research and Development Center which were funded by Army Military Construction Funds.

1.I. Contingencies and Other Liabilities

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, as amended by SFFAS No. 12, *Recognition of Contingent Liabilities Arising from Litigation*, defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. Army Military Construction Funds sub-allotted recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated. Army Military Construction Funds sub-allotted discloses contingent liabilities when conditions for liability recognition do not exist but there is at least a reasonable possibility of incurring a loss or additional losses.

Army Military Construction Funds sub-allotted Army funded risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to contract disputes.

Other Liabilities consist of contract holdbacks, including liquated damages, and advances from others.

1.J. Net Position

Net Position consists of Unexpended Appropriations and Cumulative Results of Operations.

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

Cumulative Results of Operations represent the net difference, since inception of an activity, between expenses and transfers of completed assets, and financing sources (including appropriations).

1.K. Accounts Payable

Accounts payable are the amounts owed, but not yet paid, by Army Military Construction Funds sub-allotted for goods and services received from other entities and progress in contract performance made by other entities.

Note 2.	Fund Balance with Treasury	
(\$ in thousands)	(unaudited)	
As of September 30	2018	2017
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	\$ 3,707,684	\$ 3,825,865
Unavailable	257,333	229,586
Obligated Balance not yet Disbursed	8,382,307	7,998,180
Non-FBWT Budgetary Accounts	(8,821,705)	(8,192,518)
Total	<u>\$ 3,525,619</u>	<u>\$ 3,861,113</u>

Status of Fund Balances

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

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority that has not been set aside to cover outstanding obligations. The unavailable balance consists of expired funds. Obligated Balance not yet Disbursed represents funds that have been obligated for goods and services not received, and those received but not paid.

On a daily basis the UFC prepares a disbursement file for all Military Programs payments, to include Army Military Construction Funds sub-allotted, and forwards the file to the Federal Reserve Bank. The Federal Reserve Bank confirms the file is accurate in total and disburses the funds. The UFC subsequently ensures all disbursements are paid by comparing the total confirmed in the Federal Reserve Bank system to the total of the file.

The UFC is unable to reconcile Army Military Construction Funds sub-allotted FBWT amounts with the U.S. Treasury as Army Military Construction Funds sub-allotted only reconciles a portion of the 021 2050 funds.

At the end of FY 2018, \$187.2 million in Army Military Construction funds cancelled.

Non FBWT Budgetary Accounts reduces FBWT and includes accounts receivable and unfilled customer orders without advance from customers.

Note 3.	Accounts Receivable
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(\$ in thousands)

As of September 30	2018		
	Gross Amount Due	Allowance for Estimated Uncollections	Accounts Receivable, Net
Intragovernmental Receivables	\$ 476,898	N/A	\$ 476,898
Nonfederal Receivables (From the Publi	4,190	(188)	4,002
Total Accounts Receivable	<u>\$ 481,088</u>	<u>(188)</u>	<u>480,900</u>

(unaudited)

As of September 30	2017		
	Gross Amount Due	Allowance for Estimated Uncollections	Accounts Receivable, Net
Intragovernmental Receivables	\$ 290,169	N/A	\$ 290,169
Nonfederal Receivables (From the Publi	3,231	(120)	3,111
Total Accounts Receivable	<u>\$ 293,400</u>	<u>(120)</u>	<u>293,280</u>

Other Information

Nonfederal receivables are appropriation refunds related to contracts in default pending collection of damages from sureties.

Note 4.	General PP&E, Net
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(\$ in thousands)

As of September 30	2018				
	Depreciation/Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/Amortization)	Net Book Value

Major Asset Classes

Building, Structures, and Facilities	S/L	20, 40 or 45	\$ 28,596	\$ (9,325)	\$ 19,271
General Equipment	S/L	Various	221	(221)	-
Construction-in-Progress	N/A	N/A	1,845,410	-	1,845,410
Total General PP&E			\$ 1,874,227	\$ (9,546)	\$ 1,864,681

(unaudited)

As of September 30	2017				
	Depreciation/Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/Amortization)	Net Book Value

Major Asset Classes

Building, Structures, and Facilities	S/L	20, 40 or 45	\$ 28,596	\$ (8,619)	\$ 19,977
General Equipment	S/L	Various	221	(221)	-
Construction-in-Progress	N/A	N/A	1,735,837	-	1,735,837
Total General PP&E			\$ 1,764,654	\$ (8,840)	\$ 1,755,814

N/A = Not Applicable

Other Information

Army Military Construction Funds receives funding through sub-allotment.

Construction-in-Progress (CIP) represents Property, Plant, and Equipment (PP&E) construction cost incurred when constructing capital assets over the capitalization threshold of \$250 thousand for the Army Military Construction Funds sub-allotted. The CIP balance is transferred to Army as a completed capital asset once construction is complete. Army Military Construction Funds sub-allotted has a small amount of buildings, structures and facilities owned by our Humphreys Engineering Center and our Engineering Research and Development Center which were funded by Army Military Construction Funds.

Note 5.	Contingencies
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Legal Contingencies

The Army Military Construction Funds sub-allotted is a party to various legal actions regarding Army Military Construction funded work. The Army Military Construction Funds sub-allotted accrues contingent liabilities for legal actions where USACE's Office of the Chief Counsel considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, the liability may be payable from the U.S. Treasury Judgment Fund. For other cases against Army Military Construction Funds sub-allotted not funded with Army Military Construction funds, Army Military Construction Funds sub-allotted tracks each case and if a judgment is paid to a plaintiff we contact the organization who funded the project to reimburse the U.S. Treasury judgment fund.

Probable Likelihood of an Adverse Outcome

The Army Military Construction Funds sub-allotted is not subject to any potential liabilities related to Army Military Construction funded work where adverse outcomes are probable and therefore did not accrue any contingent liability for legal actions as of September 30, 2018 and 2017 (unaudited).

Reasonably Possible Likelihood of an Adverse Outcome

The Army Military Construction Funds sub-allotted is subject to a potential liability where legal counsel has determined that they are unable to conclude the likelihood of an adverse outcome for one case regarding alleged breach of contract and that the claim is approximately \$0 to \$9.9 million as of September 30, 2018 and 2017 (unaudited). Cases in which legal counsel is unable to make a determination of the outcome are reported as reasonably possible for financial reporting purposes.

Note 6.	Liabilities Not Covered by Budgetary Resources
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(\$ in thousands)	(unaudited)	
As of September 30	2018	2017

Total Nonfederal Liabilities Not Covered by Budgetary Resources, Current	\$	649	\$	649
Total Liabilities Covered by Budgetary Resources		1,277,199		1,241,789
Total Liabilities	\$	1,277,848	\$	1,242,438

Other Information

Total nonfederal liabilities not covered by Budgetary Resources represents liabilities in canceled appropriations that, if paid will be disbursed using current year funds.

Total liabilities covered by Budgetary Resources represents accounts payable, contract holdbacks and advances from others.

Note 7.	Other Liabilities
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(\$ in thousands)		(unaudited)
As of September 30	2018	2017

Nonfederal - Current Liabilities			
Advances from Others	\$	617,803	\$ 708,459
Contract Holdbacks		66,037	70,587
Total Other Liabilities	\$	683,840	\$ 779,046

Other Information

Advances from Others is related to Army Military Construction Funds sub-allotted projects funded by non-federal agencies. A majority of these projects are performed for the Republic of Korea.

Contract holdbacks are situation where a contractor / vendor is either not performing within the scheduled completion of the contract or the quality of their work is not up to standards. When the contractor / vendor get back on track regarding the schedule or fixes subpar work the contract holdback is paid to them.

Note 8.	Disclosures Related to the Statement of Budgetary Resources
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(\$ in thousands)	(unaudited)	
As of September 30	2018	2017
Intragovernmental Budgetary Resources Obligated for Undelivered Orders, Unpaid	\$ 474,701	\$ 487,888
Nonfederal Budgetary Resources Obligated for Undelivered Orders Unpaid	\$ 7,247,486	\$ 7,088,918
Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 7,722,187	\$ 7,576,806

Other Information

There are no legal arrangements that affect the use of unobligated balances of budget authority.

Note 9.	Reconciliation of Net Cost of Operations to Budget	
(\$ in thousands)	(unaudited)	
As of September 30	2018	2017
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
Obligations Incurred	\$ 6,246,731	5,157,862
Less: Spending authority from offsetting collections and recoveries (-)	(5,679,170)	(4,468,067)
Obligations net of Offsetting Collections and Recoveries	567,561	689,795
Less: Offsetting Receipts (-)	-	-
Net Obligations	567,561	689,795
Other Resources:		
Transfers in/(out) without Reimbursement (+/-)	(804,409)	(1,343,482)
Net other Resources used to Finance Activities	(804,409)	(1,343,482)
Total resources used to finance activities	\$ (236,848)	(653,687)
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 (-)	\$ (145,381)	(75,256)
Unfilled Customer Orders	662,588	73,874
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations		
Other (+/-)	685,833	921,382
Total Resources Used to Finance Items not Part of the Net Cost of Operations	\$ 1,203,040	920,000
Total Resources Used to Finance the Net Cost of Operations	\$ 966,192	266,313
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components not Requiring or Generating Resources in Future Period:		
Increase in exchange revenue receivable from the public (-)	(24)	(8)
Other	\$ 596	652
Total Components of Net Cost of Operations that will not Require or Generate Resources in future periods	572	644
Components not Requiring or Generating Resources:		
Depreciation and amortization	\$ 706	\$ 524
Revaluation of assets or liabilities (+/-)	113	177,627
Cost of Capitalization Offset	(903,930)	(282,091)
Other	710	-
Total Components of Net Cost of Operations that will not Require or Generate Resources	(902,401)	(103,940)
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	\$ (901,829)	\$ (103,296)
Net Cost of Operations	\$ 64,363	163,017

Other Information

The Other Resources that do not affect Net Costs of Operations amounts mainly consist of construction in progress (CIP) costs that Army Military Construction Funds sub-allotted have transferred to Army as well as prior year unfilled customer orders with advance-refunds paid.

Note 10.	Leases
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(\$ in thousands)

As of September 30	2018
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Entity as Lessee

Operating Leases, Non-Federal

Future Payment Due for Non-cancellable Operating Leases

Fiscal Year	Buildings	
2019	\$	49,114
2020		47,162
2021		47,063
2022		46,530
2023		44,636
After 5 Years		81,413
Total Future Lease Payments Due	\$	315,918

Entity as Lessor

Operating Leases

Future Receipts Due for Non-cancellable Operating Leases

Fiscal Year	Buildings	
2019	\$	49,114
2020		47,162
2021		47,063
2022		46,530
2023		44,636
After 5 Years		81,413
Total Future Lease Receipts Due	\$	315,918

Other Information

As of September 30, 2018, Army Military Construction Funds sub-allotted has various non-cancelable operating leases mainly for office space and housing. Many of these leases contain clauses to reflect inflation and renewal options. Army Military Construction Funds sub-allotted has no assets under capital lease. Leased and owned space maintained by Army Military Construction Funds sub-allotted is sublet to military or civilian personnel or other Department of Defense agencies at rent charges to recover all cost of that space.